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

FORM 10-Q

(Mark One)

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2011

OR

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

Commission File Number: 000-19756

PDL BIOPHARMA, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

Large accelerated filer x	Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	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 x

As of July 25, 2011, there were 139,794,559 shares of the Registrant's Common Stock outstanding.

PDL BIOPHARMA, INC.
INDEX

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenues:				
Royalties	$ 122,127	$ 120,343	$ 195,463	$ 182,404
License and other	-	-	10,000	-
Total revenues	122,127	120,343	205,463	182,404
General and administrative expenses	3,776	8,820	9,555	18,230
Operating income	118,351	111,523	195,908	164,174
Loss on retirement or conversion of convertible notes	(766)	(16,327)	(766)	(16,327)
Interest and other income	157	90	332	170
Interest and other expense	(9,780)	(11,560)	(18,934)	(24,087)
Total non-operating expense, net	(10,389)	(27,797)	(19,368)	(40,244)
Income before income taxes	107,962	83,726	176,540	123,930
Income tax expense	37,976	33,588	62,009	47,785
Net income	$ 69,986	$ 50,138	$ 114,531	$ 76,145
Net income per basic share	$ 0.50	$ 0.42	$ 0.82	$ 0.64
Net income per diluted share	$ 0.38	$ 0.30	$ 0.63	$ 0.44
Cash dividends declared per common share	$ -	$ -	$ 0.60	$ 1.00
Shares used to compute net income per basic and diluted share:				
Shares used to compute net income per basic share	139,650	119,536	139,645	119,530
Shares used to compute net income per diluted share	186,060	173,398	186,055	178,821

See accompanying notes.

PDL BIOPHARMA, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	June 30, 2011 (unaudited)	December 31, 2010 (Note 1)
Assets		
Current assets:		
Cash and cash equivalents	$ 168,022	$ 211,574
Short-term investments	30,269	34,658
Receivables from licensees	-	469
Deferred tax assets	10,442	19,902
Foreign currency hedge	-	5,946
Prepaid and other current assets	3,698	12,114
Total current assets	212,431	284,663
Property and equipment, net	51	80
Long-term investments	38,030	1,997
Long-term deferred tax assets	24,861	22,620
Other assets	8,888	7,306
Total assets	$ 284,261	$ 316,666
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	$ 124	$ 2,540
Accrued legal settlement	27,500	65,000
Accrued liabilities	5,634	5,471
Accrued income taxes	12,575	-
Foreign currency hedge	4,270	-
Deferred revenue	1,713	1,713
Dividend payable	41,961	20
Current portion of non-recourse notes payable	123,246	119,247
Total current liabilities	217,023	193,991
Convertible notes payable	314,142	310,428
Non-recourse notes payable	18,454	85,023
Other long-term liabilities	28,149	51,406
Total liabilities	577,768	640,848
Commitments and contingencies (Note 13)		
Stockholders' deficit:		
Preferred stock, par value $0.01 per share, 10,000 shares authorized; no shares issued and outstanding	-	-
Common stock, par value $0.01 per share, 250,000 shares authorized; 139,795 and 139,640 issued and outstanding at June 30, 2011, and December 31, 2010, respectively	1,397	1,396
Additional paid-in capital	(162,015)	(87,373)
Accumulated other comprehensive income	(5,996)	3,219
Accumulated deficit	(126,893)	(241,424)
Total stockholders' deficit	(293,507)	(324,182)
Total liabilities and stockholders' deficit	$ 284,261	$ 316,666

See accompanying notes.

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

	Six Months Ended June 30	
	2011	**2010**
Cash flows from operating activities		
Net income	$ 114,531	$ 76,145
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of convertible notes offering costs	1,302	927
Amortization of non-recourse notes offering costs	2,774	3,725
Other amortization and depreciation expense	669	71
Loss on retirement or conversion of convertible notes	766	16,327
Stock-based compensation expense	124	359
Tax (expense) benefit from stock-based compensation arrangements	(117)	7,185
Net excess tax benefit from stock-based compensation	-	(7,475)
Deferred income taxes	19,423	(3,230)
Changes in assets and liabilities:		
Receivables from licensees	469	900
Prepaid and other current assets	7,207	5,455
Other assets	(5,759)	94
Accounts payable	(2,416)	(193)
Accrued liabilities	1,163	(2,662)
Accrued legal settlement	(37,500)	-
Accrued income taxes	12,575	24,386
Other long-term liabilities	(27,288)	-
Deferred revenue	-	1,613
Net cash provided by operating activities	87,923	123,627
Cash flows from investing activities		
Purchases of investments	(58,359)	(12,402)
Maturities of investments	26,146	-
Purchase of intangible assets	(50)	-
Net cash used in investing activities	(32,263)	(12,402)
Cash flows from financing activities		
Repurchase of convertible notes	(134,464)	(100,386)
Repayment of non-recourse notes	(62,570)	(50,365)
Cash dividend paid	(41,924)	(59,864)
Net proceeds from the issuance of convertible notes	149,643	-
Purchase of call options	(20,765)	-
Proceeds from issue of warrants	10,868	-
Net excess tax benefit from stock-based compensation	-	7,475
Net cash used in financing activities	(99,212)	(203,140)
Net decrease in cash and cash equivalents	(43,552)	(91,915)
Cash and cash equivalents at beginning of the period	211,574	303,227
Cash and cash equivalents at end of the period	$ 168,022	$ 211,312

See accompanying notes.

PDL BIOPHARMA, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011
(Unaudited)

1. Summary of Significant Accounting Policies

Basis of Presentation

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

The accompanying Condensed Consolidated Financial Statements and related financial information should be read in conjunction with the audited Consolidated Financial Statements and the related notes thereto for the year ended December 31, 2010, included in our Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission. The Condensed Consolidated Balance Sheet at December 31, 2010, has been derived from the audited Consolidated Financial Statements at that date.

Principles of Consolidation

The Consolidated Financial Statements include the accounts of PDL and its wholly-owned subsidiaries. All material intercompany balances and transactions are eliminated in consolidation.

Customer Concentration

The following table summarizes revenues from our licensees' products which individually accounted for 10% or more of our total royalty revenues for the three and six months ended June 30, 2011 and 2010:

		Three Months Ended June 30,		Six Months Ended June 30,	
Licensees	**Product Name**	**2011**	**2010**	**2011**	**2010**
Genentech, Inc. (Genentech)	Avastin®	34%	37%	31%	34%
	Herceptin®	35%	32%	33%	34%
	Lucentis®	20%	16%	16%	14%
Elan Corporation, Plc (Elan)	Tysabri®	9%	7%	10%	10%

Foreign Currency Hedging

We hedge certain foreign currency exposures related to our licensees' product sales with foreign currency exchange forward contracts and foreign currency exchange option contracts (collectively, foreign currency exchange contracts). In general, these contracts are intended to offset the underlying foreign currency market risks in our royalty revenues. We do not enter into speculative foreign currency transactions. We have designated the foreign currency exchange contracts as cash flow hedges. At the inception of the hedging relationship and on a quarterly basis, we assess hedge effectiveness. The fair value of the foreign currency exchange contracts is estimated using pricing models with readily observable inputs from actively quoted markets. The aggregate unrealized gain or loss on our foreign currency exchange contracts, net of estimated taxes, on the effective portion of the hedge is recorded in stockholders' deficit as accumulated other comprehensive income. Gains or losses on cash flow hedges are recognized as royalty revenue in the same period that the hedged transaction, royalty revenue, impacts earnings. The hedge effectiveness is dependent upon the amounts of future royalties. If future royalties based on Eurodollar are lower than forecasted, the amount of ineffectiveness would be reported in our Condensed Consolidated Statements of Income.

2. Stock-Based Compensation

Stock-based compensation expense for employees and directors for the three and six months ended June 30, 2011 and 2010, was as follows:

(In thousands)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
General and administrative expenses	$ 74	$ 171	$ 124	$ 359
Income tax effect	(26)	(60)	(43)	(126)
Stock-based compensation expense included in net income	$ 48	$ 111	$ 81	$ 233

During the three months ended June 30, 2011, 43,000 fully vested stock options with an average price of $20.67 expired unexercised. Also in the three months ended June 30, 2011, the company issued 114,807 shares of restricted stock to its employees and members of the board of directors.

3. Net Income per Share

We compute basic net income per share using the weighted-average number of shares of common stock outstanding during the periods presented less the weighted-average number of shares of restricted stock that are subject to repurchase. 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 result from the assumed exercise of stock options, the issuance of restricted stock and the assumed conversion of our 2.00% Convertible Senior Notes due February 15, 2012 (the 2012 Notes), our 2.875% Convertible Senior Notes due February 15, 2015 (the 2015 Notes), and our 2.75% Convertible Subordinated Notes due August 16, 2023 (the 2023 Notes), on a weighted average basis for the period that the notes were outstanding, including both the effect of adding back interest expense and the inclusion of the underlying shares using the if-converted method. As of June 30, 2011, the conversion ratios for each of the 2012 Notes and the 2015 Notes were 147.887 shares per $1,000 principal amount of the notes, or a conversion price of approximately $6.76 per share. The conversion ratio for the 2.75% Convertible Subordinated Notes due August 16, 2023 (the 2023 Notes) was 177.1594 shares per $1,000 principal amount of 2023 Notes, or a conversion price of approximately $5.64 per share. As of September 14, 2010, the 2023 Notes were fully retired or converted. On June 30, 2011, the Company redeemed the entire aggregate principal outstanding of the 2012 Notes, which are now fully retired.

Following is a reconciliation of the numerators and denominators of the basic and diluted net income per share computations for the three and six months ended June 30, 2011 and 2010:

(In thousands, except per share amounts)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Numerator				
Net income	$ 69,986	$ 50,138	$ 114,531	$ 76,145
Add back interest expense for convertible notes, net of estimated tax of $0.7 million for each of the three months ended June 30, 2011 and 2010, and $1.4 million and $1.6 million for the six months ended June 30, 2011 and 2010 (see Note 10)	1,275	1,360	2,549	2,995
Income used to compute net income per diluted share	$ 71,261	$ 51,498	$ 117,080	$ 79,140
Denominator				
Total weighted-average shares used to compute basic income per share	139,650	119,536	139,645	119,530
Effect of dilutive stock options	14	8	13	8
Restricted stock outstanding	26	104	27	96
Assumed conversion of 2012 Notes	19,743	29,256	19,743	29,256
Assumed conversion of 2015 Notes	26,627	-	26,627	-
Assumed conversion of 2023 Notes	-	24,494	-	29,931
Shares used to compute income per diluted share	186,060	173,398	186,055	178,821
Net income per basic share	$ 0.50	$ 0.42	$ 0.82	$ 0.64
Net income per diluted share	$ 0.38	$ 0.30	$ 0.63	$ 0.44

We have excluded 0.2 million of outstanding stock options from our diluted earnings per share calculations for the three months ended June 30, 2011 and 2010, respectively, and we have excluded 0.2 million and 0.4 million of outstanding stock options from our diluted earnings per share for the six months ended June 30, 2011 and 2010, respectively, because the option exercise prices were greater than the average market prices of our common stock during these periods; therefore, the shares were not dilutive.

In May 2011, we issued 3.75% Senior Convertible Notes due 2015 (the May 2015 Notes). Upon conversion, the holders of the May 2015 Notes receive cash for the principal amount of the Notes and PDL common stock to the extent that the conversion value exceeds principal value. For the periods shown above, no stock was issuable upon conversion and, accordingly, the May 2015 Notes have been excluded from determination of net income per diluted share.

Concurrent with the issuance of the May 2015 Notes, the Company entered into privately negotiated purchased call option transactions. The purchased call option transactions cover, subject to customary anti-dilution adjustments, the number of shares of the Company's common stock that underlie the May 2015 Notes and are intended to reduce the dilutive impact of the conversion feature of the May 2015 Notes. Purchased call options are anti-dilutive and have been excluded from the determination of net income per diluted share.

To reduce the hedging costs of the purchased call options, the Company also entered into privately negotiated warrant transactions. The warrant transactions could have a dilutive effect to the extent that the market price per share of the Company's common stock exceeds the applicable strike price of the warrants on any expiration date of the warrants. For the periods shown above, the strike price on the warrants exceeded the market price of the warrants and, accordingly, the warrants have been excluded from the determination of net income per share.

4. Fair Value Measurements

The fair value of our financial instruments are estimates of the amounts that would be received if we were to sell an asset or we paid to transfer a liability in an orderly transaction between market participants at the measurement date or exit price. We apply a three-level valuation hierarchy for fair value measurements. The categorization of assets and liabilities within the valuation hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. Level 1 inputs to the valuation method use unadjusted quoted market prices in active markets for identical assets and liabilities. Level 2 inputs to the valuation method are other observable inputs, including quoted market prices for similar assets and liabilities, quoted prices for identical and similar assets and liabilities in the markets that are not active, or other inputs that are observable or can be corroborated by observable market data. Level 3 inputs to the valuation method, if any, are unobservable inputs based upon management's best estimate of the inputs that market participants would use in pricing the asset or liability at the measurement date, including assumptions about risk. As of June 30, 2011, and December 31, 2010, we had no Level 3 assets or liabilities. We do not estimate the fair value of our royalty assets for financial statement reporting purposes.

The following table summarizes, for assets and liabilities recorded at fair value, the respective fair value and classification by level of input within the fair value hierarchy defined above:

	June 30, 2011			December 31, 2010		
(In thousands)	**Level 1**	**Level 2**	**Total**	**Level 1**	**Level 2**	**Total**
Assets:						
Money market funds	$ 160,609	$ -	$ 160,609	$ 203,318	$ -	$ 203,318
Corporate debt securities	41,065	-	41,065	20,434	-	20,434
Commercial paper	-	11,988	11,988	-	7,998	7,998
U.S. government sponsored agency bonds	10,736	-	10,736	8,725	-	8,725
U.S. treasury securities	5,510	-	5,510	1,997	-	1,997
Foreign currency hedge contracts	-	15,905	15,905	-	17,763	17,763
Total	$ 217,920	$ 27,893	$ 245,813	$ 234,474	$ 25,761	$ 260,235
Liabilities:						
Foreign currency hedge contracts	$ -	$ (25,200)	$ (25,200)	$ -	$ (12,810)	$ (12,810)

The fair value of the foreign currency hedging contracts is estimated based on pricing models using readily observable inputs from actively quoted markets and disclosed on a gross basis in the table above. The fair value of commercial paper is estimated based on observable inputs of the comparable securities.

5. Cash Equivalents, Short-term and Long-term Investments

Our investments are classified as available-for-sale and are carried at estimated fair value, with unrealized gains and losses, net of estimated taxes, reported in accumulated other comprehensive income in stockholders' deficit. The estimated fair value is based upon quoted market prices for these or similar instruments. 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.

A summary of our available-for-sale securities at June 30, 2011, and December 31, 2010, is presented below:

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
June 30, 2011:				
Money market funds	$ 160,609	$ -	$ -	$ 160,609
Corporate debt securities	41,032	50	(17)	41,065
Commerical paper	11,988	-	-	11,988
U.S. government sponsored agency bonds	10,718	18	-	10,736
U.S. treasury securities	5,491	19	-	5,510
Total	$ 229,838	$ 87	$ (17)	$ 229,908
Classification on Condensed Consolidated Balance Sheets:				
Cash equivalents				$ 161,609
Short-term investments				30,269
Long-term investments				38,030
Total				$ 229,908
December 31, 2010:				
Money market funds	$ 203,318	$ -	$ -	$ 203,318
Corporate debt securities	20,437	2	(5)	20,434
Commerical paper	7,998	-	-	7,998
U.S. government sponsored agency bonds	8,727	-	(2)	8,725
U.S. treasury securities	1,994	3	-	1,997
Total	$ 242,474	$ 5	$ (7)	$ 242,472
Classification on Condensed Consolidated Balance Sheets:				
Cash equivalents				$ 205,817
Short-term investments				34,658
Long-term investments				1,997
Total				$ 242,472

During the six months ended June 30, 2011, and the year ended December 31, 2010, we did not recognize any gains or losses on sales of available-for-sale securities.

A summary of our portfolio of available-for-sale debt securities by contractual maturity at June 30, 2011, is presented below:

	June 30, 2011		December 31, 2010	
(In thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Less than one year	$ 31,265	$ 31,269	$ 37,162	$ 37,157
Greater than one year but less than five years	37,963	38,030	1,994	1,997
Total	$ 69,228	$ 69,299	$ 39,156	$ 39,154

As of June 30, 2011, the unrealized loss on investments included in other comprehensive income, net of estimated taxes, was $10,847. No significant facts or circumstances have arisen to indicate that there has been any deterioration in the creditworthiness of the issuers of these securities. Based on our review of these securities, we believe we had no other-than-temporary impairments on these securities as of June 30, 2011, because it is more likely than not that we will hold these securities until the recovery of their amortized cost basis.

6. Foreign Currency Hedging

Our licensees operate in foreign countries which exposes us to market risk associated with foreign currency exchange rate fluctuations between the U.S. dollar and other currencies, primarily the Eurodollar. In order to manage the risk related to changes in foreign currency exchange rates, in 2010 we entered into a series of foreign currency exchange contracts covering the quarters in which our licensees' sales occur through December 2012. Our foreign currency exchange contracts used to hedge royalty revenues which are based on underlying Eurodollar sales are designated as cash flow hedges.

The following table summarizes the notional amounts, foreign currency exchange rates and fair values of our open foreign currency exchange contracts designated as cash flow hedges at June 30, 2011, and December 31, 2010:

Foreign Currency Exchange Forward Contracts			June 30, 2011		December 31, 2010	
Currency	Settlement Price ($ per Eurodollar)	Type	Notional Amount (In thousands)	Fair Value (In thousands)	Notional Amount (In thousands)	Fair Value (In thousands)
Eurodollar	1.400	Sell Eurodollar	$ 78,028	$ (2,334)	$ 137,179	$ 6,740
Eurodollar	1.200	Sell Eurodollar	117,941	(22,866)	117,941	(12,810)
Total			$ 195,969	$ (25,200)	$ 255,120	$ (6,070)

Foreign Currency Exchange Option Contracts						
Currency	Strike Price ($ per Eurodollar)	Type	Notional Amount (In thousands)	Fair Value (In thousands)	Notional Amount (In thousands)	Fair Value (In thousands)
Eurodollar	1.510	Purchased call option	$ 84,158	$ 626	$ 147,957	$ 772
Eurodollar	1.315	Purchased call option	129,244	15,279	129,244	10,251
Total			$ 213,402	$ 15,905	$ 277,201	$ 11,023

The following table summarizes information about the fair value of our foreign currency exchange contracts on our Condensed Consolidated Balance Sheet as of June 30, 2011, and December 31, 2010:

		Fair Value (In thousands)	
Cash Flow Hedge	Location	June 30, 2011	December 31, 2010
Foreign currency exchange contracts (net)	Foreign currency hedge-current	$ -	$ 5,946
Foreign currency exchange contracts (net)	Accrued liabilities	(4,270)	-
Foreign currency exchange contracts (net)	Other long-term liabilities	(5,025)	(993)
		$ (9,295)	$ 4,953

The foreign currency exchange 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, 2011, the unrealized net loss on the effective component of our foreign currency exchange contracts included in other comprehensive loss, net of estimated taxes, was $6.0 million. As of December 31, 2010, the unrealized net gain on the effective component of our foreign currency exchange contracts included in other comprehensive income, net of estimated taxes, was $3.2 million. There was an ineffective component of our foreign currency exchange contracts as of June 30, 2011, for which we recognized a loss of $19 thousand in Interest and Other Expense for the three and six months ended June 30, 2011. There were no ineffective components of our foreign currency exchange contracts for the three and six months ended June 30, 2010. During the three months ended June 30, 2011, we recognized a loss of $0.3 million in royalty revenue from foreign currency exchange contracts which settled during the period. For the six months ended June 30, 2011, we recognized $0.9 million in royalty revenue from foreign currency exchange contracts which settled during the period. During the three and six months ended June 30, 2010, we recognized $1.5 million in royalty revenue from foreign currency exchange contracts which settled during the period. Approximately $0.7 million is expected to be reclassified from other comprehensive loss into earnings in the next 12 months.

7. Prepaid and Other Current Assets

Prepaid and other current assets consisted of the following:

(In thousands)	June 30, 2011	December 31, 2010
Investment interest receivable	$ 474	$ 169
Non-recourse Notes issuance costs	2,599	3,362
Prepaid taxes	-	8,307
Other	625	276
Total prepaid and other current assets	$ 3,698	$ 12,114

8. Other Assets

Other assets consisted of the following:

(In thousands)	June 30, 2011	December 31, 2010
2012 Notes issuance costs	$ -	$ 683
2015 Notes issuance costs	3,718	4,226
May 2015 Notes issuance costs	4,717	-
Non-recourse Notes issuance costs	386	2,397
Other assets, net	67	-
Total other assets	$ 8,888	$ 7,306

9. Accrued Liabilities

Accrued liabilities consisted of the following:

(In thousands)	June 30, 2011	December 31, 2010
Consulting and services	$ 1,130	$ 2,187
Compensation	945	349
Interest	3,328	2,794
Other	231	141
Total accrued liabilities	$ 5,634	$ 5,471

10. Convertible and Non-Recourse Notes

The following table summarizes our convertible and non-recourse notes activity for the six months ended June 30, 2011, as well as the balances and fair values at June 30, 2011:

(In thousands)	2012 Notes	2015 Notes	May 2015 Notes	Non-recourse Notes	Total
Balance at December 31, 2010	$ 133,464	$ 176,964	$ -	$ 204,270	$ 514,698
Issuance	-	-	136,313		136,313
Payment	-	-	-	(62,570)	(62,570)
Redemption	(133,464)	-	-	-	(133,464)
Discount amortization	-	346	519	-	865
Balance at June 30, 2011	$ -	$ 177,310	$ 136,832	$ 141,700	$ 455,842
Fair value[(1)]	$ -	$ 181,008	$ 150,499	$ 144,534	$ 476,041

(1) As of June 30, 2011, the fair value of the remaining payments under our Convertible notes and Non-recourse Notes was estimated based on the trading value of our notes then outstanding.

May 2015 Notes

On May 16, 2011, we issued $155.25 million in aggregate principal amount of our May 2015 Notes in an underwritten public offering. The May 2015 Notes were issued at an initial conversion ratio of 126.2985 shares of the Company's common stock per $1,000 principal amount of the May 2015 Notes, or a conversion price of approximately $7.92 per share. The conversion ratio was subsequently adjusted to 129.2740 shares of the Company's common stock per $1,000 of principal amount, or a conversion price of approximately $7.74 per share, in connection with the cash dividend paid on June 15, 2011. Holders of the May 2015 Notes may convert their notes at their option under the following circumstances: (i) during any fiscal quarter commencing after the fiscal quarter ending June 30, 2011, if the last reported sale price of our common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter exceeds 130% of the conversion price for the notes on the last day of such preceding fiscal quarter; (ii) during the five business-day period immediately after any five consecutive trading-day period, which we refer to as the measurement period, in which the trading price per $1,000 principal amount of notes for each trading day of that measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate for the notes for each such day; or (iii) upon the occurrence of specified corporate events. On and after November 1, 2014, holders may convert their notes at any time, regardless of the foregoing circumstances. . If a conversion occurs, to the extent that the conversion value exceeds the principal amount, the principal amount is due in cash and the difference between the conversion value and the principal amount is due in shares of common stock. As of June 30, 2011, the if-converted amount of the May 2015 Notes is less than the principal amount.

The May 2015 Notes were issued at par; however, the notes were recorded net of a discount of $18.9 million which will be amortized over the life of the May 2015 Notes. The discount, or equity component, was determined using an assumed borrowing rate of 7.5%, the rate at which the Company could have issued a similar instrument without the conversion feature. The equity component was allocated between additional paid in capital, $12.3 million, and deferred tax liability, $6.6 million. As of June 30, 2011, the carrying value of the May 2015 Notes and the unamortized discount were as follows:

(In thousands)	June 30, 2011
Principal Amount of the May 2015 Notes	$ 155,250
Unamortized discount of liability component	(18,418)
Net carrying value of the May 2015 Notes	$ 136,832

Interest expense for the May 2015 Notes included in interest and other expense, net on the Condensed Consolidated Statements of Income was:

(In thousands)	For the Period May 16 to June 30, 2011
Contractual coupon interest	$ 728
Amortization of debt issuance costs	144
Amortization of debt discount	519
Total	$ 1,391

In connection with the offering of the May 2015 Notes, the Company entered into purchased call option transactions with two hedge counterparties entitling the Company to purchase up to 19.6 million shares of the Company's common stock at a strike price of approximately $7.92 per share, subject to adjustment. In addition, the Company sold to the hedge counterparties warrants exercisable, on a cashless basis, for up to 27.5 million shares of the Company's common stock at a strike price of approximately $9.32 per share, subject to adjustment. The cost of the purchased call options that was not covered by the proceeds from the sale of the warrants was $9.8 million and was reflected as a reduction of additional paid-in capital. The purchased call options are expected to reduce the potential equity dilution upon conversion of the May 2015 Notes to the extent the Company exercises the purchased call options to purchase shares from the hedge counterparties to deliver to converting note holders. The conversion prices were subsequently adjusted to approximately $7.74 and $9.10 with the payment of the June 15, 2011, dividend for the purchased call options and warrants, respectively. However, the warrants could have a dilutive effect on the Company's earnings per share to the extent that the price of the Company's common stock exceeds the strike price of the warrants on the exercise dates of the warrants and the warrants are exercised.

2012 Notes

On June 30, 2011, we redeemed the $133.5 million in aggregate principal outstanding of 2012 Notes, at a redemption price of 100.29% of face value for aggregate consideration of $133.9 million plus interest of $1.0 million. With the completion of this redemption on June 30, 2011, the 2012 Notes were fully retired.

11. Other Long-Term Liabilities

Other long-term liabilities consisted of the following:

(In thousands)	June 30, 2011	December 31, 2010
Accrued lease liability	$ 10,700	$ 10,700
Accrued legal settlement	-	27,500
Uncertain tax position	12,424	12,213
Foreign currency hedge	5,025	993
Total	$ 28,149	$ 51,406

12. Comprehensive Income

The components of comprehensive income were as follows:

(In thousands)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Net income	$ 69,986	$ 50,138	$ 114,531	$ 76,145
Other comprehensive income:				
Unrealized gain (loss) on cash flow hedges, net of taxes	(1,478)	10,725	(6,042)	17,088
Unrealized loss on investments, net of taxes	71	(8)	(46)	(8)
Total comprehensive income	$ 68,579	$ 60,855	$ 108,443	$ 93,225

13. Commitments and Contingencies

Genentech Matter

In August 2010, we received a letter from Genentech, Inc. (Genentech), sent on behalf of F. Hoffman-La Roche Ltd. (Roche) and Novartis AG (Novartis), indicating that they believe that sales of their products that are both manufactured and sold outside of the United States do not infringe our supplementary protection certificates (SPCs) granted to us by various countries in Europe. Our SPCs generally extend the patent protection for our European Patent No. 0 451 216B (‘216B Patent) until December 2014, except that the SPCs for Herceptin will generally expire in July 2014. In response, we filed a complaint against Genentech, Roche and Novartis in Nevada, as we believe that a settlement agreement reached in 2003 between Genentech and us resolved all patent disputes between the two companies at that time. The matter is still ongoing with Genentech and Roche; however, we reached a settlement agreement with Novartis in early 2011. See also “Note 16. Subsequent Events.”

Lease Guarantee

In connection with the divestiture of our former biotechnology subsidiary, Facet Biotech Corporation (Facet), we entered into amendments to the leases for our former facilities in Redwood City, California, under which Facet was added as a co-tenant, and a Co-Tenancy Agreement, under which Facet agreed to indemnify us for all matters related to the leases attributable to the period after the divestiture. Should Facet default under the lease obligations, we would be held liable by the landlord as a co-tenant and, thus, we have in substance guaranteed the payments under the lease agreements for the Redwood City facilities. As of June 30, 2011, the total lease payments for the duration of the guarantee, which runs through December 2021, were approximately $115.9 million. We would 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 if Facet was to default. In April 2010, Abbott Laboratories acquired Facet and later renamed the company Abbott Biotherapeutics Corp. We recorded a liability of $10.7 million on our Condensed Consolidated Balance Sheets as of June 30, 2011, and December 31, 2010, related to the estimated fair value of this guarantee.

Novartis Settlement

In February 2011, we reached a settlement with Novartis under which we agreed to dismiss our claims against Novartis in the action in Nevada state court which also includes Genentech and Roche as defendants and Novartis agreed to withdraw its opposition appeal in the European Patent Office challenging the validity of the ‘216B Patent. Under the settlement agreement with Novartis, after receipt of our royalty payment for sales of Lucentis each quarter, we pay Novartis a portion of the royalties that we receive for Lucentis sales made by them. We do not currently expect such amount to materially impact our total annual revenues.

14. Income Taxes

Income tax expense was $38.0 million and $62.0 million for the three months and six months ended June 30, 2011, respectively, and was primarily determined by applying the federal statutory rate of 35% of income before income taxes. Income tax expense was $33.6 million and $47.8 million for the three and six months ended June 30, 2010, respectively, and was primarily determined by applying the federal statutory income tax rate of 35% to income before income taxes and adjusting for a portion of the premium paid for the repurchase of our 2023 Notes which was not tax deductible.

15. Cash Dividends

On February 25, 2011, our board of directors adopted a regular, quarterly dividend policy and declared that the quarterly dividends to be paid to our stockholders in 2011 will be $0.15 per share of common stock. The dividends are payable on March 15, June 15, September 15 and December 15 of 2011 to stockholders of record on March 8, June 8, September 8 and December 8 of 2011, the record dates for each of the dividend payments, respectively. On each of March 15 and June 15, 2011, we paid the quarterly dividend to our stockholders of $21.0 million using earnings generated in the first six months of 2011 and cash on hand. As of June 30, 2011, we accrued $42.0 million in dividends payable for the September 15 and December 15 dividend payments and for dividends payable on restricted shares of our common stock.

In connection with the payment of the dividend in June 2011, we adjusted the conversion ratios of our convertible notes. The conversion ratios for each of the outstanding 2012 Notes and 2015 Notes were adjusted to 147.887 shares per $1,000 principal amount of convertible notes, or a conversion price of approximately $6.76 per share, effective June 9, 2011. The conversion ratio for our outstanding May 2015 Notes was adjusted to 129.2740 shares per $1,000 principal amount of convertible notes, or a conversion price of approximately $7.74 per share effective, June 6, 2011.

16. Subsequent Event

On July 7, 2011, the Second Judicial District Court of Nevada denied motions made by Genentech and Roche to dismiss four of PDL's claims for relief relating to the 2003 settlement agreement with Genentech and, further, denied Roche's motion to dismiss for lack of personal jurisdiction. The court dismissed one of PDL's claims that Genentech committed a bad-faith breach of the covenant of good faith and fair dealing with regard to the 2003 settlement agreement stating that, on the current state of pleadings, no "special relationship" had been established between Genentech and PDL, as required under Nevada law.

The effect of the Court's ruling is that PDL is permitted to continue to pursue its claims that (i) Genentech is obligated to pay royalties to PDL on international sales of the Genentech Products; (ii) Genentech, by challenging, at the behest of Roche and Novartis, whether PDL's SPCs cover the Genentech Products breached its contractual obligations to PDL under the 2003 settlement agreement; (iii) Genentech breached the implied covenant of good faith and fair dealing with respect to the 2003 settlement agreement and (iv) Roche intentionally and knowingly interfered with PDL's contractual relationship with Genentech in conscious disregard of PDL's rights.

PDL seeks compensatory damages, including liquidated damages and other monetary remedies set forth in the 2003 settlement agreement, punitive damages and attorney's fees as a result of Genentech and Roche's conduct. The ultimate outcome of this litigation is uncertain and we may not be successful in our allegations.

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

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

OVERVIEW

Our business is the management of our antibody humanization patents and royalty assets which consist of our Queen et al. patents and our license agreements with numerous biotechnology and pharmaceutical companies pursuant to which we have licensed certain rights under our Queen et al. patents. We receive royalties based on sales of humanized antibody products marketed today and may also receive royalty payments on additional humanized antibody products launched before final patent expiry in December 2014. Under most of our licensing agreements, we are entitled to receive a flat-rate or tiered royalty based upon our licensees' net sales of covered antibodies.

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

Recent Developments

Issuance of $155.25 Million of Convertible Senior Notes due May 1, 2015

On May 16, 2011, we issued $155.25 million in aggregate principal amount of 3.75% Convertible Senior Notes due May 1, 2015 (the May 2015 Notes), in an underwritten public offering. The May 2015 Notes were issued at an initial conversion ratio of 126.2985 shares of the Company's common stock per $1,000 principal amount of the May 2015 Notes, or a conversion price of approximately $7.92 per share. The conversion ratio was subsequently adjusted to 129.2740 shares of the Company's common stock per $1,000 of principal amount, or a conversion price of approximately $7.74 per share, in connection with the cash dividend paid on June 15, 2011. The May 2015 Notes are freely convertible on or after November 1, 2014, or upon the occurrence of certain conditions as described in the indenture. If a conversion occurs, to the extent that the conversion value exceeds the principal amount, the principal amount is due in cash and the difference between the conversion value and the principal amount is due in shares of common stock.

Concurrent with the issuance of the May 2015 Notes, the Company entered into privately negotiated purchased call option transactions with two hedge counterparties for the Company's common stock. The purchased call option transactions cover, subject to customary anti-dilution adjustments, the number of shares of the Company's common stock that underlie the May 2015 Notes and are intended to reduce the dilutive impact of the conversion feature of the May 2015 Notes. To reduce the hedging costs of the purchased call options, the Company also entered into privately negotiated warrant transactions with the hedge counterparties relating to the same number of shares of the Company's common stock. The warrant transactions could have a dilutive effect to the extent that the market price per share of the Company's common stock exceeds the applicable strike price of the warrants on any expiration date of the warrants. The shares of the Company's common stock issuable upon conversion of the May 2015 Notes or exercise of the warrants have been reserved for issuance by the Company and listed on the NASDAQ Stock Market.

2012 Notes Redemption and Retirement

On June 30, 2011, using the proceeds from the issuance of the May 2015 Notes, we redeemed the remaining $133.5 million in aggregate principal of our 2.00% Convertible Senior Notes, due February 15, 2012 (the 2012 Notes), at a redemption price of 100.29% of face value for aggregate consideration of $133.9 million plus accrued but unpaid interest of $1.0 million. With the completion of this redemption on June 30, 2011, the 2012 Notes were fully retired.

Adjustments to Convertible Note Conversion Ratios

In connection with the dividend payment on June 15, 2011, the conversion ratios for our convertible notes increased. The conversion ratios for our 2012 Notes (which were redeemed in full on June 30, 2011) and our 2.875% Convertible Senior Notes due February 15, 2015 (the 2015 Notes), were adjusted to 147.887 shares of common stock per $1,000 principal amount, or a conversion price of approximately $6.76 per share, effective June 9, 2011. The conversion ratio for our May 2015 Notes was adjusted to 129.2740 shares of common stock per $1,000 principal amount, or a conversion price of approximately $7.74 per share, effective June 6, 2011. The conversion ratios for each of the 2012 Notes and the 2015 Notes was previously 144.474 shares of common stock per $1,000 principal amount, or a conversion price of approximately $6.92 per share. The conversion ratio for the May 2015 Notes was previously 126.2985 shares of common stock per $1,000 principal amount, or a conversion price of approximately $7.92 per share.

In connection with a cash dividend, the conversion ratio for the 2012 Notes and the 2015 Notes is increased by multiplying the previous conversion ratio by a fraction, the numerator of which is the average closing price of PDL's common stock for the five consecutive trading days immediately preceding the ex-dividend date for the cash dividend and the denominator of which is the difference of such average closing price less the dividend amount. For the May 2015 Notes, the numerator equals the average closing price of PDL's common stock for the ten consecutive trading days immediately preceding the ex-dividend date and the denominator is the difference of such ten day average closing price less the dividend amount.

Dividend Payment

On February 25, 2011, our board of directors adopted a regular, quarterly dividend policy and declared that the quarterly dividends to be paid to our stockholders in 2011 will be $0.15 per share of common stock. The dividends are payable on March 15, June 15, September 15 and December 15 of 2011 to stockholders of record on March 8, June 8, September 8 and December 8 of 2011, the record dates for each of the dividend payments, respectively. On each of March 15 and June 15, 2011, we paid the quarterly dividend to our stockholders of $21.0 million using earnings generated in the first six months of 2011 and cash on hand.

Genentech and Roche Dispute

In August 2010, we received a letter from Genentech, Inc. (Genentech), sent on behalf of F. Hoffman-La Roche Ltd. (Roche) and Novartis AG (Novartis), asserting that Avastin®, Herceptin®, Lucentis® and Xolair® (the Genentech Products) do not infringe our supplementary protection certificates (SPCs) granted to us by various countries in Europe for each of the Genentech Products and seeking a response to these assertions. The SPCs covering the Genentech Products effectively extend the patent protection for our European Patent No. 0 451 216B (the ‘216B Patent) until December 2014, except that the SPCs for Herceptin will generally expire in July 2014. We responded to Genentech, stating that we believe its assertions of non-infringement are without merit and that we disagreed fundamentally with its assertions of non-infringement with respect to the Genentech Products. In August 2010, we filed a complaint in the Second Judicial District of Nevada, Washoe County, against Genentech and, Roche seeking to enforce our rights under our 2003 settlement agreement with Genentech and an order from the court declaring that Genentech is obligated to pay royalties to us on sales of the Genentech Products that are manufactured and sold outside of the United States.

On July 7, 2011, the Second Judicial District Court of Nevada ruled in favor of PDL on two motions to dismiss filed by Genentech and Roche in PDL’s lawsuit related to the 2003 settlement agreement with Genentech. The court denied Genentech and Roche’s motion to dismiss four of PDL’s five claims for relief and, further, denied Roche’s separate motion to dismiss for lack of personal jurisdiction. The court dismissed one of PDL’s claims that Genentech committed a bad-faith breach of the covenant of good faith and fair dealing stating that, based on the current state of the pleadings, no “special relationship” had been established between Genentech and PDL, as required under Nevada law.

The effect of the Court’s ruling is that PDL is permitted to continue to pursue its claims that (i) Genentech is obligated to pay royalties to PDL on international sales of the Genentech Products; (ii) Genentech, by challenging, at the behest of Roche and Novartis, whether PDL’s SPCs cover the Genentech Products breached its contractual obligations to PDL under the 2003 settlement agreement; (iii) Genentech breached the implied covenant of good faith and fair dealing with respect to the 2003 settlement agreement and (iv) Roche intentionally and knowingly interfered with PDL’s contractual relationship with Genentech in conscious disregard of PDL’s rights.

PDL seeks compensatory damages, including liquidated damages and other monetary remedies set forth in the 2003 settlement agreement, punitive damages and attorney’s fees as a result of Genentech and Roche’s conduct. The ultimate outcome of this litigation is uncertain and we may not be successful in our allegations.

Patents and Technology Out-License Agreements

Patents

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

The following is a list of our U.S. patents within our Queen et al. patent portfolio:

Application Number	Filing Date	Patent Number	Issue Date
08/477,728	06/07/95	5,585,089	12/17/96
08/474,040	06/07/95	5,693,761	12/02/97
08/487,200	06/07/95	5,693,762	12/02/97
08/484,537	06/07/95	6,180,370	01/30/01

The '216B Patent expired in Europe in December 2009. We have been granted SPCs for the Avastin, Herceptin, Lucentis, Xolair and Tysabri® products in many of the jurisdictions in the European Union in connection with the '216B Patent. These SPCs effectively extend our patent protection with respect to these products generally until December 2014 except that the SPCs for Herceptin will generally expire in July 2014. Because SPCs are granted on a jurisdiction-by-jurisdiction basis, the duration of the extension varies slightly in some jurisdictions. We are not able to file applications for any new SPCs after the '216B Patent expiration. Therefore, if a product is first approved for marketing after December 2009 in a jurisdiction that issues SPCs, we will not have patent protection or SPC protection in that jurisdiction with respect to this product. We may still be eligible for royalties notwithstanding the unavailability of SPC protection if the relevant royalty-bearing humanized antibody product is also made, used, sold or offered for sale in or imported from a jurisdiction in which we have an unexpired Queen et al. patent such as the United States.

Licensing Agreements

We have entered into licensing agreements with numerous entities that are independently developing or have developed humanized antibodies pursuant to which we have licensed certain rights under our Queen et al. patents to make, use, sell, offer for sale and import humanized antibodies. We receive royalties on net sales of products that are made, used or sold prior to patent expiry. In general, these agreements cover antibodies targeting antigens specified in the license agreements. Under our licensing agreements, we are entitled to receive a flat-rate or tiered royalty based upon our licensees' net sales of covered antibodies. Our licensing agreements generally entitle us to royalties following the expiration of our patents with respect to sales of products manufactured prior to patent expiry in a jurisdiction providing patent protection. We also expect to receive minimal annual maintenance fees from licensees of our Queen et al. patents prior to patent expiry.

Licensing Agreements for Marketed Products

In the six months ended June 30, 2011, we received royalties on sales of the seven humanized antibody products listed below, all of which are currently approved for use by the U.S. Food and Drug Administration (FDA) and other regulatory agencies outside the United States. In June 2010, after results from a recent clinical trial raised concerns about the efficacy and safety of Mylotarg®, Pfizer Inc. (Pfizer), the parent company of Wyeth Pharmaceuticals, Inc. (Wyeth), announced that it will be discontinuing commercial availability of Mylotarg. For the three months ended June 30, 2011 and 2010, we received royalties of $0.1 million and $0.2 million for sales of Mylotarg, respectively. For the six months ended June 30, 2011 and 2010, we received royalties of $0.1 million and $0.5 million for sales of Mylotarg, respectively.

For the three months ended June 30, 2011 and 2010, we received approximately $122.1 million and $120.3 million, respectively, of royalty revenues under license agreements. For the six months ended June 30, 2011 and 2010, we received approximately $195.4 million and $182.4 million, respectively, of royalty revenues under license agreements. The licensees with commercial products as of June 30, 2011, are listed below:

Licensees	Product Names
Genentech, Inc. (Genentech)	*Avastin*®
	Herceptin®
	Xolair®
	Lucentis®
Elan Corporation, Plc (Elan)	*Tysabri*®
Wyeth Pharmaceuticals, Inc. (Wyeth)	*Mylotarg*®
Chugai Pharmaceutical Co., Ltd. (Chugai)	*Actemra*® / *RoActemra*®

Genentech

We entered into a master patent license agreement, effective September 25, 1998, pursuant to which we granted Genentech a license under our Queen et al. patents to make, use and sell certain antibody products. Our master patent license agreement with Genentech provides for a tiered royalty structure under which the royalty rate Genentech must pay on royalty-bearing products sold in the United States or manufactured in the United States and used or sold anywhere in the world (U.S.-based Sales) in a given calendar year decreases on incremental U.S.-based Sales above certain sales thresholds based on 95% of the underlying gross U.S.-based Sales. The net sales thresholds and the applicable royalty rates are outlined below:

Aggregate Net Sales	Royalty Rate
Net sales up to $1.5 billion	3.0%
Net sales between $1.5 billion and $2.5 billion	2.5%
Net sales between $2.5 billion and $4.0 billion	2.0%
Net sales exceeding $4.0 billion	1.0%

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

With respect to royalty-bearing products that are both manufactured and sold outside of the United States (ex-U.S.-based Manufacturing and Sales), the royalty rate that we receive from Genentech is a fixed rate of 3.0% based on 95% of the underlying gross ex-U.S.-based Manufacturing and Sales. The mix of U.S.-based Sales and ex-U.S.-based Manufacturing and Sales has fluctuated in the past and may continue to fluctuate in future periods, particularly in light of the 2009 acquisition of Genentech by Roche. The percentage of total global sales that were generated outside of the United States and the percentage of total global sales that were ex-U.S.-based Manufacturing and Sales are outlined in the following table:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Avastin				
% Ex-U.S. Sold	55%	49%	55%	49%
% Ex-U.S.-based Manufactured and Sold	20%	27%	20%	16%
Herceptin				
% Ex-U.S. Sold	72%	70%	71%	70%
% Ex-U.S.-based Manufactured and Sold	30%	47%	35%	45%
Lucentis				
% Ex-U.S. Sold	57%	57%	57%	57%
% Ex-U.S.-based Manufactured and Sold	-	-	-	-
Xolair				
% Ex-U.S. Sold	40%	36%	39%	35%
% Ex-U.S.-based Manufactured and Sold	40%	36%	39%	35%

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

In the six months ended June 30, 2011, PDL received royalties generated from three of Genentech's licensed products which were both manufactured and sold outside of the United States: Herceptin, Avastin and Xolair. Prior to the first quarter of 2010, only Herceptin and Xolair generated royalties from ex-U.S.-based Manufacturing and Sales. Roche has announced that new plants in Singapore have been registered by the FDA to produce bulk Avastin and Lucentis for use in the United States in 2010 and that they expect the plants to be registered to produce bulk Avastin and Lucentis for use in Europe in 2011. The master patent license agreement continues until the expiration of the last to expire of our Queen et al. patents but may be terminated (i) by Genentech prior to such expiration upon sixty days written notice, (ii) by either party upon a material breach by the other party or (iii) upon the occurrence of certain bankruptcy-related events.

Elan

We entered into a patent license agreement, effective April 24, 1998, pursuant to 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. Pursuant to 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. The agreement continues until the expiration of the last to expire of our Queen et al. patents but may be terminated (i) by Elan prior to such expiration upon sixty days written notice, (ii) by either party upon a material breach by the other party or (iii) upon the occurrence of certain bankruptcy-related events.

Wyeth

We entered into a patent license agreement, effective September 1, 1999, pursuant to which we granted to Wyeth a license under our Queen et al. patents to make, use and sell antibodies that bind to CD33, an antigen that is found in about 80% of patients with acute myeloid leukemia, and conjugated to a cytotoxic agent. Pursuant to the agreement, we are entitled to receive a flat royalty rate in the low single digits based on Wyeth's net sales of the Mylotarg product. The agreement continues until the expiration of the last to expire of our Queen et al. patents but may be terminated (i) by Wyeth prior to such expiration upon sixty days written notice, (ii) by either party upon a material breach by the other party or (iii) upon the occurrence of certain bankruptcy-related events. In June 2010, after results from a recent clinical trial raised concerns about the efficacy and safety of Mylotarg, Pfizer, the parent company of Wyeth, announced that it will be discontinuing commercial availability of Mylotarg.

Chugai

We entered into a patent license agreement, effective May 18, 2000, with Chugai, a majority owned subsidiary of Roche, pursuant to 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. Pursuant to the agreement, we are entitled to receive a flat royalty rate in the low single digits based on net sales of the Actemra product (RoActemra in Europe). The agreement continues until the expiration of the last to expire of our Queen et al. patents but may be terminated (i) by Chugai prior to such expiration upon sixty days written notice, (ii) by either party upon a material breach by the other party or (iii) upon the occurrence of certain bankruptcy-related events.

Licensing Agreements for Non-Marketed Products

We have also entered into licensing agreements pursuant to which we have licensed certain rights under our Queen et al. patents to make, use and sell certain products in development that have not yet reached commercialization. Certain of these development-stage products are currently in Phase 3 clinical trials. With respect to these agreements, we may receive payments based on certain development milestones. We may also receive royalty payments if the licensed products receive marketing approval and are manufactured or generate sales before the expiration of our Queen et al. patents. For example, both Eli Lilly and Company (Lilly) and Wyeth have licensed antibodies for the treatment of Alzheimer's disease that are currently in Phase 3 clinical trials. Another example is trastuzumab-DM1 (T-DM1) which is an experimental, antibody-drug conjugate that links Herceptin to a cytotoxic, or cell killing agent, DM1, being developed by Genentech. This approach is designed to increase the already significant tumor fighting ability of Herceptin by coupling it with an additional cell killing agent that is efficiently and simultaneously delivered to the targeted cancer cells by the antibody. The T-DM1 clinical program is concentrated on treatment of Herceptin-experienced metastatic breast cancer patients.

Economic and Industry-wide Factors

Various economic and industry-wide factors are relevant to us and could affect our business, including the factors set forth below.

- Our business success is dependent in significant part on our success in maintaining and protecting our intellectual property rights. If we are unable to protect or defend our intellectual property, our royalty revenues and operating results would be adversely affected. Assertion and defense of our intellectual property rights can be expensive and could result in a significant reduction in the scope or invalidation of our intellectual property rights, which could adversely affect our results of operations.

- The manufacture of drugs and antibodies for use as therapeutics in compliance with regulatory requirements is complex, time-consuming and expensive. If our licensees are unable to manufacture product or product candidates in accordance with FDA and European good manufacturing practices, they may not be able to obtain or retain regulatory approval for products licensed under our patents.

- Our licensees are subject to stringent regulation with respect to product safety and efficacy by various international, federal, state and local authorities and may be unable to maintain regulatory approvals for currently licensed products or obtain regulatory approvals for new products. For example, safety and efficacy issues could also result in the failure to maintain regulatory approvals or decrease revenues. In June 2010, after results from a recent clinical trial raised concerns about the efficacy and safety of Mylotarg, Pfizer, the parent company of Wyeth, announced that it will be discontinuing commercial availability of Mylotarg.

- In March 2010, the Patient Protection and Affordable Care Act was signed into law along with the related Health Care and Education Reconciliation Act of 2010 (collectively, the Act). The Act represents a major overhaul of the healthcare system in the United States and also includes a number of provisions that may affect our licensees and our royalty revenues.

- Approximately 50% of our licensees' product sales are in currencies other than the U.S. dollar; as such, our revenue may fluctuate due to changes in foreign currency exchange rates and is subject to foreign currency exchange risk. Therefore, shifts in currencies can impact our short-term results as well as our long-term revenue and net income projections.

- To be successful, we must attract, retain and integrate qualified personnel. Our business is managing our patents and royalties assets, which requires a small number of employees. If we cannot recruit and retain qualified personnel, results from our operations could be adversely impacted.

- Our business success is also dependent on overall economic conditions. The global financial downturn could adversely affect product sales by our licensees.

See also the "Risk Factors" section of this quarterly report for additional information on economic and industry wide and other factors that may impact our business and results of operations.

CRITICAL ACCOUNTING POLICIES AND THE USE OF ESTIMATES

During the six months ended June 30, 2011, there were no changes made to our critical accounting policies and the use of estimates; for further information please refer to "Critical Accounting Policies and Uses of Estimates" included in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2010.

RESULTS OF OPERATIONS

Three and Six Months Ended June 30, 2011 and 2010

Revenues

Revenues consist of royalty revenues as well as license and other revenues. During the three and six months ended June 30, 2011 and 2010, our royalty revenues consisted of royalties and maintenance fees earned on sales of products under license agreements for our Queen et al. patents. During the three months ended March 31, 2011, our revenues also include a one-time $10.0 million settlement payment from UCB Pharma S.A. (UCB) which is described below.

	Three Months Ended June 30,		%	Six Months Ended June 30,		%
(Dollars in thousands)	**2011**	**2010**	**Change**	**2011**	**2010**	**Change**
Revenues						
Royalties	$ 122,127	$ 120,343	1%	$ 195,463	$ 182,404	7%
License and other	-	-	N/A	10,000	-	N/A
Total revenues	$ 122,127	$ 120,343	1%	$ 205,463	$ 182,404	13%

Total revenue for the three months ended June 30, 2011, was $122.1 million as compared with $120.3 million for the same period in 2010. Total revenue for the six months ended June 30, 2011 was $205.5 million as compared with $182.4 million for the same period in 2010. Included in results for the six months ended June 30, 2011, and not included in the same period in 2010 is the $10.0 million settlement payment from UCB resolving all legal disputes between the two companies, including those relating to UCB's pegylated humanized antibody fragment, Cimzia®, and PDL's patents known as the Queen et al. patents.

Royalty revenue for the three months ended June 30, 2011, was approximately $122.1 million, as compared with $120.3 million for the three months ending June 30, 2010, a one percent year-over-year increase. Revenue growth is primarily driven by increased first quarter 2011 sales of Herceptin, Lucentis and Tysabri for which PDL received royalties in the second quarter of 2011 offset, in part, by reduced royalties on sales of Avastin. The second quarter royalty payment received from Genentech included royalties generated on all worldwide sales. Sales of Avastin, Herceptin and Lucentis are subject to a tiered royalty rate for product that is made or sold in the United States and a flat royalty rate of three percent for product that is manufactured and sold outside of the United States.

- Reported sales of Avastin decreased one percent in the first quarter of 2011 when compared to the same period in 2010. Notably, sales in the United States declined 12% whereas international sales increased 10%. Also contributing to the decrease in royalty revenue, ex-U.S.-based Manufacturing and Sales of Avastin declined to 20% of total Avastin sales in the first quarter of 2011 from 27% in the first quarter of 2010. Roche recently reported that sales declines in the United States and Western Europe have been negatively impacted by reimbursement uncertainty regarding the metastatic breast cancer indication, as well as by healthcare reform in the United States and European austerity measures.

- Reported sales for Herceptin increased 16% in the first quarter of 2011 when compared to the same period in 2010. Roche recently reported that sales growth is being driven by increasing penetration in emerging markets and the ongoing launch of Herceptin for stomach cancer. Additionally, Roche reported that improvements in the quality of HER2 testing are expanding the patient population eligible for treatment with Herceptin. Ex-U.S.-based Manufacturing and Sales of Herceptin declined to 30% of total Herceptin sales in the first quarter of 2011 from 47% in the first quarter of 2010.

- Reported sales for Lucentis increased 35% in the first quarter of 2011 when compared to the same period in 2010. Lucentis is approved for the treatment of age-related macular degeneration (AMD) in the United States and Europe. Lucentis received approval in June 2010 in the United States for the treatment of macular edema following retinal vein occlusion as well as for diabetic macular edema in Europe in January 2011. Roche and Novartis recently reported that first quarter sales grew by 35% in the United States and 18% internationally due to continued growth in the treatment of AMD and increased uptake in the new indications. All sales of Lucentis were from inventory produced in the United States.

- Reported sales for Tysabri increased 24% in the first quarter of 2011 when compared to the same period in 2010. Biogen Idec recently announced that, at the end of March 2011, approximately 58,400 patients were on therapy worldwide, representing a 16% increase over the approximately 50,300 patients who were on therapy at the end of March 2010 and that cumulatively 83,300 patients have been treated with Tysabri in the post-marketing setting. Tysabri royalties are determined at a flat rate as a percent of sales regardless of location of manufacture or sale.

Royalty revenue for the six months ended June 30, 2011, increased by more than seven percent when compared to the same period of 2010. The growth was primarily driven by sales of Herceptin, Lucentis and Tysabri by our licensees for which we received royalties in the first half of 2011.

- Reported sales of Herceptin increased 13% when compared to the same period for the prior year. Ex-U.S. sales of Herceptin increased 14% when compared to the same period for the prior year and represented 71% of total global sales.

- Reported sales of Lucentis increased 29% when compared to the same period for the prior year. Ex-U.S. sales of Lucentis increased 28% when compared to the same period for the prior year and represented 57% of total global sales.

- Reported sales of Tysabri increased 18% when compared to the same period for the prior year. U.S. sales of Tysabri increased 18% compared to the same period for the prior year and represented 48% of total global sales.

The following table summarizes revenues from our licensees' products which individually accounted for 10% or more of our total royalty revenue for the three and/or six months ended June 30, 2011 and 2010:

		Three Months Ended June 30,		Six Months Ended June 30,	
Licensees	**Product Name**	**2011**	**2010**	**2011**	**2010**
Genentech, Inc. (Genentech)	Avastin®	34%	37%	31%	34%
	Herceptin®	35%	32%	33%	34%
	Lucentis®	20%	16%	16%	14%
Elan Corporation, Plc (Elan)	Tysabri®	9%	7%	10%	10%

The sales information presented above is based on information provided by PDL's licensees in their quarterly reports to the Company as well as from public disclosures made by PDL's licensees.

Under most of the agreements for the license of rights under our Queen et al. patents, we receive a flat-rate royalty based upon our licensees' net sales of covered products. Royalty payments are generally due one quarter in arrears, that is, generally in the second month of the quarter after the licensee has sold the royalty-bearing product. Our agreement with Genentech provides for a tiered royalty structure under which the royalty rates Genentech must pay on the U.S.-based Sales in a given calendar year decreases on incremental U.S.-based Sales above certain sales thresholds based on 95% of the underlying gross U.S.-based Sales. As a result of the tiered royalty structure, Genentech's average annual royalty rate for a given year will decline as Genentech's U.S.-based Sales increase during that year. Because we receive royalties in arrears, the average royalty rate for the payments we receive from Genentech in the second calendar quarter for Genentech's sales from the first calendar quarter has been and is expected to continue to be higher than the average royalty rate for following quarters. The average royalty rate for payments we receive from Genentech are generally lowest in the fourth and first calendar quarters for Genentech's sales from the third and fourth calendar quarters when more of Genentech's U.S.-based Sales bear royalties at the 1% royalty rate.

With respect to the ex-U.S.-based Manufacturing and Sales, the royalty rate that we receive from Genentech is a fixed rate of 3% based on 95% of the underlying gross ex-U.S.-based Manufacturing and Sales. The mix of U.S.-based Sales and ex-U.S.-based Manufacturing and Sales has fluctuated in the past and may continue to fluctuate in future periods, particularly in light of the 2009 acquisition of Genentech by Roche. For example, Roche has announced that two new plants in Singapore have been registered by the FDA to produce bulk Avastin and Lucentis and that they expect the plants to be registered for use in Europe in 2011.

General and Administrative Expenses

(In thousands)	Three Months Ended June 30, 2011	2010	% Change	Six Months Ended June 30, 2011	2010	% Change
General and administrative expenses	$ 3,776	$ 8,820	-57%	$ 9,555	$ 18,230	-48%

General and administrative expenses for the three months ended June 30, 2011, were $3.8 million as compared with $8.8 million for the same period in 2010. General and administrative expenses for the six months ended June 30, 2011, were $9.6 million as compared with $18.2 million for the same period in 2010. The decreases in general and administrative expenses were primarily driven by decreases in legal expense and professional services expense. The decrease in legal expense is a result of termination of our legal dispute with MedImmune, the opposition to our ‘216B patent in the European Patent Office and the interference proceedings in the U.S. Patent and Trademark Office, all of which were concluded in the first quarter of 2011. The decrease in professional services expense results from a reduction in one-time special project costs. We currently have fewer than ten employees managing our intellectual property, our licensing operations and other corporate activities, as well as providing for certain essential reporting and management functions of a public company.

Individual components of general and administrative expenses comprise:

(In thousands)	Three Months Ended June 30, 2011	2010	% Change	Six Months Ended June 30, 2011	2010	% Change
Compensation and benefits	$ 970	$ 996	-3%	$ 1,912	$ 1,997	-4%
Legal expense	1,404	5,811	-76%	4,898	12,161	-60%
Other professional services	623	1,005	-38%	1,191	2,083	-43%
Insurance	176	195	-10%	380	423	-10%
Depreciation	14	28	-50%	29	62	-53%
Stock-based compensation	74	171	-57%	124	359	-65%
Other	515	614	-16%	1,021	1,145	-11%
Total general and administrative expenses	$ 3,776	$ 8,820	-57%	$ 9,555	$ 18,230	-48%

Non-operating Expense, Net

(In thousands)	Three Months Ended June 30, 2011	2010	Six Months Ended June 30, 2011	2010
Loss on redemption of convertible notes	$ (766)	$ (16,327)	$ (766)	$ (16,327)
Interest and other income	157	90	332	170
Interest and other expense	(9,780)	(11,560)	(18,934)	(24,087)
Total non-operating expense, net	$ (10,389)	$ (27,797)	$ (19,368)	$ (40,244)

Non-operating expense, net, for the three months ended June 30, 2011, was $10.4 million as compared with $27.8 million for the same period in 2010. In three months ended June 30, 2011, we repurchased $133.5 million of the 2012 Notes at 100.29% of face value which resulted in a loss on repurchase of $0.8 million. In the three months ended June 30, 2010, we repurchased $84.2 million of the 2023 Notes at a 19% premium which resulted in a loss on repurchase of $16.3 million. The reduction in interest expense is primarily attributable to repayment reduction in principal of our QHP PhaRMA[SM] Senior Secured Notes due March 15, 2015 (Non-recourse Notes), for which the current principal balance at June 30, 2011, was $141.7 million as compared with $249.6 million at June 30, 2010.

Income Taxes

Income tax expense was $38.0 million and $62.0 million for the three months and six months ended June 30, 2011, respectively, and was primarily determined by applying the federal statutory rate of 35% of income before income taxes. Income tax expense was $33.6 million and $47.8 million for the three and six months ended June 30, 2010, respectively, and was primarily determined by applying the federal statutory income tax rate of 35% to income before income taxes and adjusting for a portion of the premium paid for the repurchase of our 2.75% Convertible Subordinated Notes due August 16, 2023 (the 2023 Notes) which was not tax deductible.

Earnings per Share

Earnings per share for the three and six months ended June 30, 2011 and 2010, was:

(In thousands)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Net income per basic share	$ 0.50	$ 0.42	$ 0.82	$ 0.64
Net income per diluted share	$ 0.38	$ 0.30	$ 0.63	$ 0.44

Non-GAAP Earnings per Share

We are presenting earnings per share in conformance with GAAP and also on a non-GAAP basis because we believe that this non-GAAP information is useful for investors taken in conjunction with the Company's GAAP financial statements. Non-GAAP financial information is not prepared under a comprehensive set of accounting rules and should only be used to supplement an understanding of the Company's net income as reported under GAAP. The effect of the non-GAAP adjustments to earnings per share for the three months ended June 30, 2011, was to increase net income per diluted share from $0.38 per share to $0.39 per share and there was no change for the six months ended June 30, 2011. For the three and six months ended June 30, 2010, the effect of the non-GAAP adjustments was to increase net income per diluted share from $0.30 per share to $0.38 per share and from $0.44 per share to $0.52 per share, respectively.

In the three months ended June 30, 2011, we issued the May 2015 Notes at par; however, the notes were recorded net of a discount of $18.9 million which will be amortized over the life of the notes. The discount, or equity component, was determined using an assumed borrowing rate of 7.5%, the rate at which the Company could have issued a similar instrument without the conversion feature. The equity component was allocated between additional paid in capital, $12.3 million, and deferred tax liability, $6.6 million. The amount of interest expense attributable to using an implied borrowing rate of 7.5% rather than the stated coupon rate of 3.75% was $0.5 million, or $0.3 million net of tax, for the three months ended June 30, 2011. Using the proceeds from the issuance of our May 2015 Notes, we redeemed the remaining $133.5 million in aggregate principal of our 2012 Notes, at a redemption price of 100.29% of face value for aggregate consideration of $133.9 million plus interest of $1.0 million. This transaction resulted in a charge to non-operating expense of $0.8 million, or $0.5 million net of tax, for the three months ended June 30, 2011.

During the same period in 2010, we repurchased at market prices an aggregate $84.2 million face value of the 2023 Notes at an average premium of 19% to face value for total consideration of $100.4 million in cash, plus accrued interest. This transaction resulted in a charge to non-operating expense of $16.3 million or $14.7 million net of tax. The effect of these transactions was to reduce net income per diluted share from $0.38 to $0.30. The result of these repurchase transactions was to reduce shares used to compute net income per diluted share on an as-converted basis by 19.7 million shares and 14.9 million shares in 2011 and 2010, respectively.

Excluding these charges, non-GAAP earnings per share was as follows:

(In thousands)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Numerator				
Net income	$ 69,986	$ 50,138	$ 114,531	$ 76,145
Add back:				
Loss on repurchase of convertible debt, net of estimated taxes	498	14,737	498	14,737
Amortization of debt discount for May 2015 Notes, net of estimated taxes	337	-	337	-
Non-GAAP net income	70,821	64,875	115,366	90,882
Add back interest expense for convertible notes, net of estimated tax of $0.7 million for each of the three months ended June 30, 2011 and 2010, and $1.4 million and $1.6 million for the six months ended June 30, 2011 and 2010, respectively	1,275	1,360	2,594	2,995
Non-GAAP income used to compute net income per diluted share	$ 72,096	$ 66,235	$ 117,960	$ 93,877
Denominator				
Shares used to compute income per diluted share	186,060	173,398	186,055	178,821
Non-GAAP net income per diluted share	$ 0.39	$ 0.38	$ 0.63	$ 0.52

LIQUIDITY AND CAPITAL RESOURCES

Historically, we financed our operations primarily through public and private placements of debt and equity securities, royalty and other license related revenues, product sales revenues, collaboration and other revenues under agreements with third parties and interest income on invested capital. In 2008, we divested assets associated with our former biotechnology and manufacturing operations as well as our former commercial operation. Since the divestiture of these operations, we have significantly downsized our operations and currently have fewer than ten employees managing our intellectual property, our licensing operations and other corporate activities, as well as providing for certain essential reporting and management functions of a public company.

We had cash, cash equivalents and investments in the aggregate of $236.3 million and $248.2 million at June 30, 2011, and December 31, 2010, respectively. The $11.9 million decrease was primarily attributable to dividend payments of $42.0 million and the $65.0 million settlement payment to MedImmune in February 2011. In the three months ended June 30, 2011, we received net proceeds of $149.7 million from the issuance of our May 2015 Notes and used those proceeds to redeem our 2012 Notes for $134.9 million. We believe that cash from future royalty revenues along with potential capital restructuring activities, 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.

We continuously evaluate alternatives to increase return for our stockholders, for example, purchasing new royalty generating assets, buying back our convertible notes, repurchasing our common stock, selling the Company or paying dividends. On February 25, 2011, our board of directors declared a regular, quarterly dividend of $0.15 per share of common stock. The dividends are payable on March 15, June 15, September 15 and December 15 of 2011 to stockholders of record on March 8, June 8, September 8 and December 8 of 2011, the record dates of each of the dividend payment dates, respectively. We paid $21.0 million to our stockholders on each of March 15 and June 15, 2011, using earnings generated in the first half of 2011and cash on hand. As of June 30, 2011, we accrued $42 million in dividends payable for the September 15 and December 15 dividend payments and for dividends payable on restricted shares of our common stock.

In connection with the payment of the dividend on June 15, 2011, the conversion ratios for our convertible notes increased. The conversion ratios for each of the outstanding 2012 Notes and 2015 Notes were adjusted to 147.887 shares per $1,000 principal amount of convertible notes, or a conversion price of approximately $6.76 per share, effective June 9, 2011. The conversion ratio for our outstanding May 2015 Notes was adjusted to 129.2740 shares per $1,000 principal amount of convertible notes, or a conversion price of approximately $7.74 per share, effective June 6, 2011. As of June 30, 2011, we had fully retired the 2012 Notes.

As of June 30, 2011, our material contractual obligations under lease and debt agreements for the next five years and thereafter were as follows:

	Payments Due by Period				
(In thousands)	**Less Than 1 Year**	**1-3 Years**	**4-5 Years**	**More than 5 Years**	**Total**
Operating lease	167	$ 8	$ -	$ -	$ 175
Convertible notes (including interest payments)	10,754	21,994	346,247	-	378,995
Non-recourse Notes (including interest payments) [1]	133,455	18,739	-	-	152,194
Total contractual obligations	$ 144,376	$ 40,741	$ 346,247	$ -	$ 531,364

(1) Repayment of the Non-recourse Notes and interest are based on anticipated future royalties to be received from Genentech and the expected final payment date is September 2012.

Operating Lease

In February 2011, we entered into a lease amendment to extend our building lease term to May 2012 for our offices in Incline Village, Nevada.

Convertible Notes

2012 Notes Redemption and Retirement

In February 2005, we issued the 2012 Notes with a principal amount of $250.0 million. In 2009, we repurchased $22.0 million in aggregate face value of the 2012 Notes, at an average discount of 4.8% from face value in open market transactions for aggregate consideration of $21.0 million in cash, plus accrued but unpaid interest. In 2010, we exchanged $92.0 million in aggregate principal of the 2012 Notes in separate, privately negotiated transactions with the note holders. Pursuant to the exchange transactions, the note holders received $92.0 million in aggregate principal of new 2015 Notes. In December 2010, we repurchased $2.5 million of 2012 Notes in the open market at a discount of 0.5% to face value in a privately negotiated transaction with an institutional holder, for aggregate consideration of $2.5 million in cash, plus accrued but unpaid interest. On June 30, 2011, we redeemed the remaining $133.5 million in aggregate principal of the 2012 Notes at a redemption price of 100.29% of face value for aggregate consideration of $133.9 million plus interest of $1.0 million. With the completion of this redemption on June 30, 2011, the 2012 Notes were fully retired.

2015 Notes

On November 1, 2010, we completed an exchange of $92.0 million in aggregate principal of the 2012 Notes in separate, privately negotiated transactions with the note holders. Pursuant to the exchange transactions, the note holders received $92.0 million in aggregate principal of new 2015 Notes. As part of the transaction, the Company also placed an additional $88.0 million in aggregate principal of the 2015 Notes. The 2015 Notes are due February 15, 2015, and are convertible at any time, at the holders' option, into our common stock using a conversion ratio of 147.887 shares of common stock per $1,000 principal amount of the 2015 Notes, or a conversion price of approximately $6.76 per share of common stock, subject to further adjustment upon certain events, including dividend payments. Interest on the 2015 Notes is payable semiannually in arrears on February 15 and August 15 of each year. The 2015 Notes are senior unsecured debt and are redeemable by us in whole or in part on or after August 15, 2014, at 100% of principal amount. The 2015 Notes are not puttable by the note holders other than in the context of a fundamental change resulting in the reclassification, conversion, exchange or cancellation of our common stock. Such repurchase event or fundamental change is generally defined to include a merger involving PDL, an acquisition of a majority of PDL's outstanding common stock and a change of a majority of PDL's board of directors without the approval of the board of directors. The issuance of the 2015 Notes was not registered under the Securities Act of 1933, as amended, in reliance on exemption from registration thereunder. As of June 30, 2011, $180.0 million in aggregate principal of the 2015 Notes remain outstanding.

May 2015 Notes

On May 16, 2011, we issued the May 2015 Notes due May 1, 2015, in an underwritten public offering. The May 2015 Notes were issued at an initial conversion ratio of 126.2985 shares of the Company's common stock per $1,000 principal amount of the May 2015 Notes or a conversion price of approximately $7.92 per share. The conversion ratio was subsequently adjusted to 129.2740 shares of the Company's common stock per $1,000 of principal amount, or a conversion price of approximately $7.74 per share, in connection with the cash dividend paid on June 15, 2011. Holders of the May 2015 Notes may convert their notes at their option under the following circumstances: (i) during any fiscal quarter commencing after the fiscal quarter ending June 30, 2011, if the last reported sale price of our common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter exceeds 130% of the conversion price for the notes on the last day of such preceding fiscal quarter; (ii) during the five business-day period immediately after any five consecutive trading-day period, which we refer to as the measurement period, in which the trading price per $1,000 principal amount of notes for each trading day of that measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate for the notes for each such day; or (iii) upon the occurrence of specified corporate events. On and after November 1, 2014, holders may convert their notes at any time, regardless of the foregoing circumstances. If a conversion occurs, to the extent that the conversion value exceeds the principal amount, the principal amount is due in cash and the difference between the conversion value and the principal amount is due in shares of common stock. Interest on the May 2015 Notes is payable semiannually in arrears on May 1 and November 1 of each year. The May 2015 Notes are senior unsecured debt and are not redeemable by us prior to maturity. The May 2015 Notes are not puttable by the note holders other than in the context of a fundamental change resulting in the reclassification, conversion, exchange or cancellation of our common stock. Such repurchase event or fundamental change is generally defined to include a merger involving PDL, an acquisition of a majority of PDL's outstanding common stock and a change of a majority of PDL's board of directors without the approval of the board of directors. Note holders who convert their May 2015 Notes in connection with a fundamental change, as defined in the indenture, may be entitled to a make whole premium in the form of an increase in the conversion ratio. Furthermore, in the event of a fundamental change, the holders of the May 2015 Notes may require us to purchase all or a portion of their May 2015 Notes at a purchase price equal to 100% of the principal amount of the May 2015 Notes, plus accrued interest. As of June 30, 2011, $155.25 million of the May 2015 Notes remain outstanding.

Concurrent with the issuance of the May 2015 Notes, the Company entered into privately negotiated purchased call options with two hedge counterparties for the Company's common stock. The purchased call option transactions cover, subject to customary anti-dilution adjustments, the number of shares of the Company's common stock that underlie the May 2015 Notes and are intended to reduce the dilutive impact of the conversion feature of the May 2015 Notes.. The call options will terminate upon the maturity of the May 2015 Notes or the last day any of the May 2015 Notes remain outstanding. To reduce the hedging costs of the purchased call options, the Company also entered into privately negotiated warrant transactions with the hedge counterparties relating to the same number of shares of the Company's common stock. The warrant transactions could have a dilutive effect to the extent that the market price per share of the Company's common stock exceeds the applicable strike price of the warrants on any expiration date of the warrants. The warrants expire ratably commencing on July 30, 2015, and ending on January 20, 2016. We concluded that the call options and warrants were indexed to the Company's stock and, as such, were classified as equity instruments and will not be remeasured prospectively. The call options and warrants are intended to reduce the potential economic dilution upon future conversion of the May 2015 Notes by effectively increasing our initial conversion price to approximately $9.32 per share. The initial conversion price was subsequently adjusted to $9.10 in connection with the June 2011 dividend payment.

Non-Recourse Notes

In November 2009, we completed a $300 million securitization transaction in which we monetized 60% of the net present value of the estimated five year royalties (the Genentech Royalties) from sales of Genentech products including Avastin, Herceptin, Lucentis, Xolair and future products, if any, under which Genentech may take a license pursuant to our related agreements with Genentech. The Non-recourse Notes are due March 15, 2015, bear interest at 10.25% per annum and were issued in a non-registered offering by QHP Royalty Sub LLC (QHP), a Delaware limited liability company, and a newly formed, wholly-owned subsidiary of PDL. The Genentech Royalties and other payments, if any, that QHP is entitled to receive under the agreements with Genentech, together with any funds made available from certain accounts of QHP, is the sole source of payment of principal and interest on the Non-recourse Notes, which are secured by a continuing security interest granted by QHP in its rights to receive the Genentech Royalties. The amount of quarterly repayment of the principal of the Non-recourse Notes varies based upon the amount of future quarterly Genentech Royalties received. The Non-recourse Notes may be redeemed at any time prior to maturity, in whole or in part, at the option of QHP at a make-whole redemption price. As of June 30, 2011, $141.7 million in aggregate principal of the Non-recourse Notes remain outstanding. The anticipated final repayment date of the Non-recourse Notes is September 2012.

Contractual Obligations

At June 30, 2011, our principal obligations were our 2015 Notes, May 2015 Notes and our Non-recourse Notes, which in the aggregate totaled $477 million in principal. The 2015 Notes and the May 2015 Notes are not puttable by the note holders other than in the context of a fundamental change. If one or more May 2015 Notes holders elect to convert their notes if and when conversion is permitted, we would be required to make cash payments to satisfy up to the face value of our conversion obligation in respect of each note, which could adversely affect our liquidity. We expect that our debt service obligations over the next several years will consist of interest payments and repayment of the 2015 Notes, the May 2015 Notes and the Non-recourse Notes. We may further seek to exchange, repurchase or otherwise acquire the convertible notes in the open market in the future which could adversely affect the amount or timing of any distributions to our stockholders. We would make such exchanges or repurchases only if we deemed it to be in our stockholders' best interest. We may finance such repurchases with cash on hand and/or with public or private equity or debt financings if we deem such financings are available on favorable terms.

Lease Guarantee

In connection with the 2008 divestiture of Facet Biotech Corporation (Facet) we entered into amendments to the leases for our former facilities in Redwood City, California, under which Facet was added as a co-tenant, and a Co-Tenancy Agreement, under which Facet agreed to indemnify us for all matters related to the leases attributable to the period after the divestiture date. As a co-tenant, Facet is bound by all of the terms and conditions of the leases. PDL and Facet are jointly and severally liable for all obligations under the leases, including the terms and conditions of the leases. 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, 2011, the total lease payments for the duration of the guarantee, which runs through December 2021, are approximately $115.9 million. If Facet were to default, we could also be responsible for lease related costs including utilities, property taxes and common area maintenance which may be as much as the actual lease payments. In April 2010, Abbott Laboratories acquired Facet and later renamed the company Abbott Biotherapeutics Corp. We have recorded a liability of $10.7 million on our Condensed Consolidated Balance Sheets as of June 30, 2011, and December 31, 2010, related to the original estimated fair value of this guarantee.

Novartis Settlement

In February 2011, we reached a settlement with Novartis under which we agreed to dismiss our claims against Novartis in the action in Nevada state court which also includes Genentech and Roche as defendants and Novartis agreed to withdraw its opposition appeal in the European Patent Office challenging the validity of the '216B Patent. Under the settlement agreement with Novartis, after receipt of our royalty payment for sales of Lucentis each quarter, we pay Novartis a portion of the royalties that we receive for Lucentis sales made by them. We do not currently expect such amount to materially impact our total annual revenues.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Exchange 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, approximately $35 million is based on sales in currencies other than the U.S. dollar. If the U.S. dollar strengthens across all currencies by 10% during the conversion period for that quarter, when compared to the same amount of local currency royalties for the prior year, U.S. dollar converted royalties will be approximately $3.5 million less in that current quarter.

We hedge certain foreign currency exchange risk exposures related to our licensees' product sales with foreign currency exchange contracts. In general, these contracts are intended to offset the underlying foreign currency market risk in our royalty revenues. In 2010, we entered into a series of foreign currency exchange contracts covering the quarters in which our licensees' sales occur through December 2012. We did not have foreign currency exchange contracts prior to January 2010. We have designated the foreign currency exchange contracts as cash flow hedges. At the inception of the hedging relationship and on a quarterly basis, we assess hedge effectiveness. The aggregate unrealized gain or loss on the effective component of our foreign currency exchange contracts, net of estimated taxes, is recorded in stockholders' deficit as accumulated other comprehensive income. Gains or losses on cash flow hedges are recognized as royalty revenue in the same period that the hedged transaction, royalty revenue, impacts earnings.

The following table summarizes the notional amounts, foreign currency exchange rates and fair values of our outstanding foreign currency exchange contracts designated as hedges at June 30, 2011, and December 31, 2010:

Foreign Currency Exchange Forward Contracts			June 30, 2011		December 31, 2010	
Currency	Settlement Price ($ per Eurodollar)	Type	Notional Amount (In thousands)	Fair Value (In thousands)	Notional Amount (In thousands)	Fair Value (In thousands)
Eurodollar	1.400	Sell Eurodollar	$ 78,028	$ (2,334)	$ 137,179	$ 6,740
Eurodollar	1.200	Sell Eurodollar	117,941	(22,866)	117,941	(12,810)
Total			$ 195,969	$ (25,200)	$ 255,120	$ (6,070)

Foreign Currency Exchange Option Contracts

Currency	Strike Price ($ per Eurodollar)	Type	Notional Amount (In thousands)	Fair Value (In thousands)	Notional Amount (In thousands)	Fair Value (In thousands)
Eurodollar	1.510	Purchased call option	$ 84,158	$ 626	$ 147,957	$ 772
Eurodollar	1.315	Purchased call option	129,244	15,279	129,244	10,251
Total			$ 213,402	$ 15,905	$ 277,201	$ 11,023

Interest Rate Risk

The following table presents information about our material debt obligations that are sensitive to changes in interest rates. The table presents principal amounts and the related weighted-average interest rates by year of expected maturity or anticipated repayment for our debt obligations as of June 30, 2011.

(In thousands)	2011	2012	2013	2014	2015	Total	Fair Value	
Convertible Notes								
Fixed Rate	$ -	$ -	$ -	$ -	$ 335,250	$ 335,250	$ 331,507	(1)
Average Interest Rate	3.280%	3.280%	3.280%	3.280%	3.280%			
Non-recourse Notes								
Fixed Rate	$ 52,199	$ 89,501	$ -	$ -	$ -	$ 141,700	$ 144,534	(2)
Average Interest Rate	10.25%	10.25%	-%	-%	-%			

(1) The fair value of the remaining payments under our convertible notes was estimated based on the trading value of these notes at June 30, 2011.

(2) The fair value of the Non-recourse Notes was estimated based on the trading value of the Non-recourse Notes at June 30, 2011. Repayment of the Non-recourse Notes is based on anticipated future royalties to be received from Genentech and the anticipated final payment date is September 2012.

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, 2011, our disclosure controls and procedures were effective to ensure the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms.

Changes in Internal Controls

There were no changes in our internal controls over financial reporting during the three months ended June 30, 2011, that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

Limitations on the Effectiveness of Controls

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Genentech / Roche Matter

Communications with Genentech regarding European SPCs

In August 2010, we received a letter from Genentech, Inc. (Genentech) on behalf of F. Hoffman-La Roche Ltd. (Roche) and Novartis AG (Novartis) asserting that Avastin®, Herceptin®, Lucentis® and Xolair® (the Genentech Products) do not infringe the supplementary protection certificates (SPCs) granted to PDL by various countries in Europe for each of the Genentech Products and seeking a response from PDL to these assertions. Genentech did not state what actions, if any, it intends to take with respect to its assertions. PDL's SPCs were granted by the relevant national patent offices in Europe and specifically cover each of the Genentech Products. The SPCs covering the Genentech Products effectively extend our European patent protection for our European Patent No. 0 451 261B (the '216B Patent) generally until December 2014, except that the SPCs for Herceptin will generally expire in July 2014.

If Genentech were successful in asserting this position, then under the terms of our license agreements with Genentech, it would not owe us royalties on sales of the Genentech Products that are both manufactured and sold outside of the United States (ex-U.S.-based Manufacturing and Sales). Royalties on ex-U.S.-based Manufacturing and Sales of the Genentech Products accounted for approximately 29% of our royalty revenues for the six months ended June 30, 2011. Based on announcements by Roche regarding moving more manufacturing outside of the United States, this amount may increase in the future.

Genentech's letter does not suggest that the Genentech Products do not infringe PDL's U.S. patents to the extent that such Genentech Products are made, used or sold in the United States. All of Genentech's quarterly royalty payments received after receipt of the letter included royalties generated on all worldwide sales of the Genentech Products.

We believe that the SPCs are enforceable against the Genentech Products, that Genentech's letter violates the terms of the 2003 settlement agreement and that Genentech owes us royalties on sales of the Genentech Products on a worldwide basis. We intend to vigorously assert our SPC-based patent rights. In August 2010, we responded to Genentech, stating that we believe its assertions are without merit and that we disagreed fundamentally with its assertions of non-infringement with respect to the Genentech Products. Representatives of the Company have participated in discussions with officials of Genentech and Roche towards resolving this dispute.

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

In August 2010, in connection with the letter described above, we filed a complaint in the Second Judicial District of Nevada, Washoe County, naming Genentech, Roche and Novartis as defendants. We seek to enforce our rights under our 2003 settlement agreement with Genentech and are seeking an order from the court declaring that Genentech is obligated to pay royalties to us on ex-U.S.-based Manufacturing and Sales of the Genentech Products. The complaint alleges that the communication received from Genentech, which states that it was sent at the behest of Roche and Novartis, damaged the Company and constitutes a breach of Genentech's obligations under its 2003 settlement agreement with PDL. Specifically the complaint: (i) seeks a declaratory judgment from the court that Genentech is obligated to pay royalties to PDL on international sales of the Genentech Products; (ii) alleges that Genentech, by challenging at the behest of Roche and Novartis whether our SPCs cover the Genentech Products in its August 2010 letter, has breached its contractual obligations to PDL under the 2003 settlement agreement; (iii) alleges that Genentech breached the implied covenant of good faith and fair dealing with respect to the 2003 settlement agreement; (iv) alleges that Genentech committed a bad faith tortious breach of the implied covenant of good faith and fair dealing in the 2003 settlement agreement; and (v) alleges that Roche and Novartis intentionally and knowingly interfered with PDL's contractual relationship with Genentech in conscious disregard of PDL's rights. The complaint seeks compensatory damages, including liquidated damages and other monetary remedies set forth in the 2003 settlement agreement, punitive damages and attorney's fees.

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

In November 2010, Genentech and Roche filed a motion to dismiss our complaint under Nevada Rule of Civil Procedure 12(b)(5), in which they contend that all of our claims for relief relating to the 2003 settlement agreement should be dismissed because the 2003 settlement agreement applies only to PDL's U.S. patents. In addition, Roche filed a separate motion to dismiss our complaint under Nevada Rule of Civil Procedure 12(b)(2) on the ground that the Nevada court lacks personal jurisdiction over Roche. The Nevada state court held a hearing on Genentech and Roche's motions on April 21, 2011. On July 7, 2011, the Second Judicial District Court of Nevada ruled in favor of PDL and denied Genentech and Roche's motion to dismiss four of PDL's five claims for relief and, further, denied Roche's motion to dismiss for lack of personal jurisdiction. The court dismissed one of PDL's claims that Genentech committed a bad-faith breach of the covenant of good faith and fair dealing stating that, based on the current state of the pleadings, no "special relationship" had been established between Genentech and PDL, as required under Nevada law.

Following the court's ruling, we continue to pursue our claims that (i) Genentech is obligated to pay royalties to PDL on international sales of the Genentech Products; (ii) Genentech, by challenging, at the behest of Roche and Novartis, whether PDL's SPCs cover the Genentech Products breached its contractual obligations to PDL under the 2003 settlement agreement; (iii) Genentech breached the implied covenant of good faith and fair dealing with respect to the 2003 settlement agreement and (iv) Roche intentionally and knowingly interfered with PDL's contractual relationship with Genentech in conscious disregard of PDL's rights.

On February 25, 2011, we reached a settlement with Novartis under which, among other things, PDL agreed to dismiss its claims against Novartis in its action in Nevada state court against Genentech, Roche and Novartis. Genentech and Roche continue to be parties to the Nevada suit. The outcome of this litigation is uncertain and we may not be successful in our allegations.

Other Legal Proceedings

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

ITEM 1A. RISK FACTORS

Except as set forth below, during the six months ended June 30, 2011, 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, 2010. Please carefully consider the information set forth in this Quarterly Report on Form 10-Q and the risk factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2010, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K, as well as other risks and uncertainties, could materially and adversely affect our business, results of operations and financial condition, which in turn could materially and adversely affect the trading price of shares of our common stock. Additional risks not currently known or currently material to us may also harm our business.

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

Our success is dependent in significant part on our ability to protect the scope, validity and enforceability of our intellectual property, including our patents, SPCs and license agreements. The scope, validity, enforceability and effective term of patents and SPCs can be highly uncertain and often involve complex legal and factual questions and proceedings. In addition, the legal principles applicable to patents in any given jurisdiction may be altered through changing court precedent and legislative action, and such changes may affect the scope, strength and enforceability of our patent rights or the nature of proceedings which may be brought by us or a third party related to our patent rights. For example, the America Invents Act of 2011, if signed into law, provides new types of proceedings in which a third party may assert invalidity or unenforceability of a U.S. patent. A finding in a proceeding related to our patent rights which narrows the scope or which affects the validity or enforceability of some or all of our patent rights could have a material impact on our ability to continue to collect royalty payments from our licensees or execute new license agreements.

Any of these proceedings could further result in either loss of a patent or loss or reduction in the scope of one or more of the claims of the patent or claims underlying an SPC. These proceedings could be expensive, last several years and result in a significant reduction in the scope or invalidation of our patents. Any limitation in claim scope could reduce our ability to collect royalties or commence enforcement proceedings based on these patents. Moreover, the scope of a patent in one country does not assure similar scope of a patent with similar claims in another country. Also, claim interpretation and infringement laws vary among countries. Additionally, we depend on our license agreements to enforce royalty obligations against our licensees. Any limitations in our ability to enforce the scope and/or interpretation of the various licensee obligations in our licenses and related agreements could reduce our ability to collect royalties based on our license agreements. As a result of these factors, we are unable to predict the extent of our intellectual property protection in any country. See "Item 1--Legal Proceedings."

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

The '216B Patent was granted in 1996 by the European Patent office (EPO). The '216B Patent expired on December 28, 2009. To extend the period of enforceability of the '216B Patent against specific products which received marketing approval in Europe as of the expiration date of the '216B Patent, we applied for SPCs in various European national patent offices to cover Avastin, Herceptin, Xolair, Lucentis and Tysabri® to the extent these products are made and sold outside the United States (the SPC Products). These SPCs generally expire in 2014. While our SPCs extend the period of enforceability of our '216B Patent against the SPC Products, their enforcement will be subject to varying, complex and evolving national requirements and standards relevant to enforcement of patent claims pursuant to SPCs. In the event that our SPCs are challenged in the national courts of the various countries in Europe in which we own granted SPCs, such a challenge could be directed against the validity of the SPC, the validity of the underlying patent claims and/or whether the product named in the SPC actually infringes those claims and whether the SPC was properly granted pursuant to controlling European law. Such a proceeding would involve complex legal and factual questions and proceedings. In addition, the European Court of Justice has been referred several questions regarding the interpretation of SPCs from national courts in Europe which, depending on the outcome, may impact how courts in Europe will decide matters related to the scope of our SPCs. As a result of these factors, we are unable to predict the extent of protection afforded by our SPCs.

Based on information provided to us in the quarterly royalty statements from our licensees, the royalties we collect on sales of the SPC Products approximated 29% of our royalty revenues for the six months ended June 30, 2011. Based on announcements by Roche regarding moving manufacturing outside of the United States, we believe this amount may increase in the future. Our inability to collect those royalties would have a material negative impact on our cash flow, our ability to pay dividends in the future and our ability to service our debt obligations. An adverse decision could also encourage challenges to our related Queen et al. patents in other jurisdictions including the United States. For further information, see "Part II. Other Information, Item 1, Legal Proceedings."

We intend to reserve from time to time a certain amount of cash in order to satisfy the obligations relating to our convertible notes, which could adversely affect the amount or timing of dividends to our stockholders.

As of June 30, 2011, $180.0 million in principal remained outstanding under the 2.00% Convertible Senior Notes Due February 15, 2015 (the 2015 Notes), and $155.25 million in principal remained outstanding under the 3.75% Convertible Senior Notes due May 1, 2015 (the May 2015 Notes). Holders of the 2015 Notes and the May 2015 Notes may require us to purchase all or any portion of their 2015 Notes or the May 2015 Notes at 100% of their principal amount, plus any unpaid interest, upon a fundamental change resulting in the reclassification, conversion, exchange or cancellation of common stock. Such repurchase event or fundamental change is generally defined to include a merger involving PDL, an acquisition of a majority of PDL's outstanding common stock and the change of a majority of PDL's board of directors without the approval of the board of directors.

We intend to reserve from time to time a certain amount of cash in order to satisfy these repurchase or other obligations relating to the convertible notes which could adversely affect the amount or timing of any distribution to our stockholders or any royalty asset acquisition. We may continue to redeem, repurchase or otherwise acquire the convertible notes in the open market in the future, any of which could adversely affect the amount or timing of any cash distribution to our stockholders.

If any or all of the convertible notes are not converted into shares of our common stock before their respective maturity dates, we will have to pay the holders of such notes the full aggregate principal amount of the convertible notes, then outstanding. For example, on February 15, 2015, we will have to pay the full aggregate principal amount of the 2015 Notes, $180.0 million as of June 30, 2011, if the 2015 Notes remain outstanding on such date. Any of the above payments could have a material adverse effect on our cash position. If we fail to satisfy these repurchase or other obligations, it may result in a default under the indenture which could result in a default under certain of our other debt instruments, if any.

The conversion of any of the 2015 Notes or the May 2015 Notes into shares of our common stock would have a dilutive effect which could cause our stock price to go down.

The 2015 Notes are currently convertible at any time, at the option of the holder, into shares of our common stock. The May 2015 Notes, until November 1, 2014, are convertible only if specified conditions are met and thereafter convertible at any time, at the option of the holder. We have reserved shares of our authorized common stock for issuance upon conversion of the 2015 Notes and the May 2015 Notes. If any or all of the 2015 Notes or the May 2015 Notes are converted into shares of our common stock, our existing stockholders will experience immediate dilution of voting rights and our common stock price may decline. Furthermore, the perception that such dilution could occur may cause the market price of our common stock to decline.

The conversion ratios as of June 30, 2011, for the 2015 Notes and May 2015 Notes are 147.887 and 129.2740 shares of common stock per $1,000 principal amount, or a conversion price of approximately $6.76 and $7.74 per share of common stock, respectively. Because the conversion ratios of the 2015 Notes and the May 2015 Notes adjust upward upon the occurrence of certain events, such as a dividend payment, our existing stockholders will experience increased dilution if any or all of the 2015 Notes or the May 2015 Notes are converted into shares of our common stock after the adjusted conversion ratios became effective.

The conversion of any of the May 2015 Notes may adversely affect our financial condition and operating results.

The May 2015 Notes are "net share settled," meaning that upon conversion the note is settled in cash up to its face value with any remaining settlement amount paid in shares of our common stock. Holders of the May 2015 Notes may convert their notes at their option under the following circumstances: (i) during any fiscal quarter commencing after the fiscal quarter ending June 30, 2011, if the last reported sale price of our common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter exceeds 130% of the conversion price for the notes on the last day of such preceding fiscal quarter; (ii) during the five business-day period immediately after any five consecutive trading-day period, which we refer to as the measurement period, in which the trading price per $1,000 principal amount of notes for each trading day of that measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate for the notes for each such day; or (iii) upon the occurrence of specified corporate events. On and after November 1, 2014, holders may convert their notes at any time, regardless of the foregoing circumstances. If one or more holders elect to convert their notes when conversion is permitted, we would be required to make cash payments to satisfy up to the face value of our conversion obligation in respect of each note, which could adversely affect our liquidity. In addition, even if holders do not elect to convert their May 2015 Notes, because the May 2015 Notes are net share settled, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the May 2015 Notes as a current rather than long-term liability, which could result in a material reduction of our net working capital.

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

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

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

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

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

ITEM 6. EXHIBITS

4.1**	Indenture between the Company and The Bank of New York Mellon Trust Company, N.A., dated May 16, 2011
4.2	Supplemental Indenture between the Company and The Bank of New York Mellon Trust Company, N.A., dated May 16, 2011 (incorporated by reference to Exhibit 4.1 to Current Report on Form 8-K filed May 16, 2011)
10.1*	Offer Letter between the Company and Danny Hart, dated January 11, 2010 (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed April 18, 2011)
10.2*	Form of Executive Officer Severance Agreement (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed May 26, 2011)
10.3**	2012 Long-Term Incentive Plan
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***	Certification by the Principal Executive Officer and the Principal Financial Officer, as required by Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350)
101+	The following materials from Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, formatted in Extensible Business Reporting Language (XBRL) includes: (i) Condensed Consolidated Balance Sheets at June 30, 2011, and December 31, 2010, (ii) Condensed Consolidated Statements of Income for the Three and Six Months Ended June 30, 2011 and 2010, (iii) Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2011 and 2010, and (iv) Notes to Condensed Consolidated Financial Statements, tagged as blocks of text.

* Management contract or compensatory plan or arrangement.

** Filed herewith.

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

\+ XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Exchange Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

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: July 29, 2011

PDL BIOPHARMA, INC.
(Registrant)

/S/ JOHN P. MCLAUGHLIN

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

/S/ CHRISTINE R. LARSON

Christine R. Larson
Vice President and Chief Financial Officer
(Principal Financial Officer)

/S/ CAROLINE KRUMEL

Caroline Krumel
Vice President Finance
(Principal Accounting Officer)

Exhibit 4.1

PDL BIOPHARMA, INC.

Debt Securities

Indenture

Dated as of May 16, 2011

The Bank of New York Mellon Trust Company, N.A.,

as Trustee

CROSS-REFERENCE TABLE

This Cross-Reference Table is not a part of the Indenture.

TIA Section	Indenture Section
310(a)(1).	7.10
(a)(2)	7.10
(a)(3)	N.A.
(a)(4)	N.A.
(b).	7.08; 7.10; 12.02
311(a)	7.11
(b).	7.11
(c).	N.A.
312(a).	2.05
(b).	12.03
(c).	12.03
313(a)	7.06
(b)(1)	N.A.
(b)(2)	7.06
(c).	12.02
(d).	7.06
314(a)	4.03; 12.02
(b).	N.A.
(c)(1)	12.04
(c)(2)	12.04
(c)(3)	N.A.
(d).	N.A.
(e).	12.05
315(a)	7.01(b)
(b)	7.05; 12.02
(c)	7.01(a)
(d)	7.01(c)
(e)	6.11
316(a)(last sentence).	12.06
(a)(1)(A)	6.05
(a)(1)(B)	6.04
(a)(2)	N.A.
(b)	6.07
317(a)(1).	6.08
(a)(2)	6.09
(b)	2.04
318(a)	12.01

N.A. means Not Applicable.

TABLE OF CONTENTS

This Table of Contents is not a part of the Indenture.

ARTICLE NINE
RESERVED
ARTICLE TEN

AMENDMENTS, SUPPLEMENTS AND WAIVERS

INDENTURE dated as of May 16, 2011 (the "**Base Indenture**"), by and among PDL BIOPHARMA, INC., a Delaware corporation (the "**Company**") and The Bank of New York Mellon Trust Company, N.A., as trustee (the "**Trustee**").

Each party agrees as follows for the benefit of the other party and for the equal and ratable benefit of the Holders of the Company's debt securities issued under this Base Indenture:

ARTICLE ONE

DEFINITIONS AND INCORPORATION BY REFERENCE

Section 1.01. Definitions.

"**Affiliate**" means, when used with reference to a specified person, any Person directly or indirectly controlling or controlled by or under direct or indirect common control with the Person specified.

"**Agent**" means any Registrar, Paying Agent or co-Registrar or agent for service of notices and demands.

"**Authorizing Resolution**" means a resolution adopted by the Board of Directors or by an Officer or committee of Officers pursuant to Board delegation authorizing a Series of Securities.

"**Bankruptcy Law**" means Title 11 of the United States Code, as amended, or any similar federal or state law for the relief of debtors.

"**Board of Directors**" means the Board of Directors of the Company or any duly authorized committee thereof.

"**Capital Stock**" means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated) of or in such Person's capital stock or other equity interests.

"**Capitalized Lease Obligations**" of any Person means, at the time any determination thereof is to be made, the obligations of such Person to pay rent or other amounts under a lease that is required to be capitalized for financial reporting purposes in accordance with GAAP, and the amount of such obligations will be the capitalized amount thereof determined in accordance with GAAP.

"**Company**" means the party named as such in this Indenture until a successor replaces it pursuant to the Indenture and thereafter means the successor.

"**control**" means, when used with respect to any Person, the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"**Currency Agreement**" of any Person means any foreign exchange contract, currency swap agreement or other similar agreement or arrangement designed to protect such Person or any of its Subsidiaries against fluctuations in currency values.

"**Default**" means any event, act or condition that is, or after notice or the passage of time or both would be, an Event of Default.

"**Definitive Security**" means a certificated Security registered in the name of the Securityholder thereof.

"**Depositary**" means, with respect to Securities of any Series which the Company shall determine will be issued in whole or in part as a Global Security, DTC, another clearing agency, or any successor registered as a clearing agency under the Exchange Act, and any other applicable U.S. or foreign statute or regulation, which, in each case, shall be designated by the Company pursuant to Section 2.01.

"**Dollars**" and "**$**" mean United States Dollars.

"**DTC**" means The Depository Trust Company, New York, New York.

"**Exchange Act**" means the Securities Exchange Act of 1934, as amended.

"**Foreign Currency**" means any currency, currency unit or composite currency, including, without limitation, the euro, issued by the government of one or more countries other than the United States of America or by any recognized confederation or association of such governments.

"**GAAP**" means generally accepted accounting principles set forth in the accounting standards codification of the Financial Accounting Standards Board or in such other statements by such or any other entity as may be approved by a significant segment of the accounting profession of the United States, as in effect on the date of this Base Indenture.

"**Global Security**" means, with respect to any Series of Securities, a Security executed by the Company and delivered by the Trustee to the Depositary or pursuant to the Depositary's instruction, all in accordance with the Indenture, which shall be registered in the name of the Depositary or its nominee.

"**Government Obligations**" means securities which are (i) direct obligations of the United States or the other government or governments in the confederation which issued the Foreign Currency in which the principal of or any interest on the Security of the applicable Series shall be payable, in each case for the payment of which its full faith and credit is pledged or (ii) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States or such other government or governments, in each case the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States or such other government or governments, which, in either case are not callable or redeemable at the option of the issuer or issuers thereof, and shall also include a depositary receipt issued by a bank or trust company as custodian with respect to any such Government Obligations or a specific payment of interest on or principal of any such Government Obligation held by such custodian for the account of the holder of a depositary receipt; *provided* that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depositary receipt from any amount received by the custodian in respect of the Government Obligation or the specific payment of interest on or principal of the Government Obligation evidenced by such depositary receipt.

"**Holder**" or "**Securityholder**" means the Person in whose name a Security is registered on the Registrar's books.

"**Indebtedness**" means, with respect to any specified Person, any indebtedness of such Person, whether or not contingent:

(1) in respect of borrowed money;

(2) evidenced by bonds, notes, debentures or similar instruments;

(3) in respect of letters of credit (or reimbursement agreements in respect thereof) or banker's acceptances;

(4) representing Capitalized Lease Obligations;

(5) in respect of the balance deferred and unpaid of the purchase price of any property, except (i) any such balance that constitutes an accrued expense or trade payable, or (ii) any obligation to pay a contingent purchase price as long as such obligation remains contingent; or

(6) in respect of any Interest Protection Agreement or Currency Agreement,

if and to the extent any of the preceding items (other than letters of credit and any Interest Protection Agreement or Currency Agreement) would appear as a liability upon a balance sheet of the specified Person prepared in accordance with GAAP. In addition, the term "Indebtedness" includes all Indebtedness of others secured by a Lien on any asset of the specified Person (whether or not such Indebtedness is assumed by the specified Person) and, to the extent not otherwise included, the guarantee by such Person of any indebtedness of any other Person.

Except as otherwise expressly provided in this Indenture, the amount of any Indebtedness outstanding as of any date shall be:

(a) with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation;

(b) with respect to any Interest Protection Agreement or Currency Agreement, the net amount payable thereunder if such agreement were terminated at that time due to default by such Person;

(c) the accreted value thereof, in the case of any Indebtedness issued at a discount to par; or

(d) except as provided above, the principal amount or liquidation preference thereof, in the case of any other Indebtedness.

"**Indenture**" means this Base Indenture as amended or supplemented from time to time, including pursuant to any Authorizing Resolution or supplemental indenture pertaining to any Series, and including, for all purposes of this instrument and any such Authorizing Resolution or supplemental indenture, the provisions of the TIA that are deemed to be a part of and govern this Base Indenture and any such Authorizing Resolution or supplemental indenture, respectively.

"**Interest Protection Agreement**" of any Person means any interest rate swap agreement, interest rate collar agreement, option or futures contract or other similar agreement or arrangement designed to protect such Person or any of its Subsidiaries against fluctuations in interest rates with respect to Indebtedness.

"**Investments**" means, with respect to any Person, all investments by such Person in other Persons in the form of direct or indirect loans (but excluding advances to customers in the ordinary course of business that are recorded as accounts receivable on the balance sheet of such Person and guarantees of Indebtedness not otherwise prohibited from being incurred under this Indenture), advances or capital contributions (excluding commission, travel, payroll, entertainment, relocation and similar advances to officers and employees and profit sharing plan contributions made in the ordinary course of business), and purchases or other acquisitions for consideration of Indebtedness, Capital Stock or other securities. If the Company or any Restricted Subsidiary sells or otherwise disposes of any Capital Stock of any direct or indirect Restricted Subsidiary of the Company such that, after giving effect to any such sale or disposition, such Person is no longer a Subsidiary of the Company, the Company shall be deemed to have made an Investment on the date of any such sale or disposition equal to the fair market value of the Company of such Subsidiary not sold or disposed of, as determined in good faith by the Board of Directors.

"**Issue Date**" means, with respect to any Series of Securities, the date on which the Securities of such Series are originally issued under this Indenture.

"**Lien**" means, with respect to any Property, any mortgage, deed of trust, lien, pledge, charge, hypothecation, security interest or encumbrance of any kind in respect of such Property. For purposes of this definition, a Person shall be deemed to own, subject to a Lien, any Property which it has acquired or holds subject to the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement relating to such Property.

"**Non-Recourse Indebtedness**" with respect to any Person means Indebtedness of such Person for which (i) the sole legal recourse for collection of principal and interest on such Indebtedness is against the specific Property identified in the instruments evidencing or securing such Indebtedness (and any accessions thereto and proceeds thereof) and such Property was acquired with the proceeds of such Indebtedness or such Indebtedness was incurred within 180 days after the acquisition of such Property and (ii) no other assets of such Person may be realized upon in collection of principal or interest on such Indebtedness. Indebtedness which is otherwise Non-Recourse Indebtedness will not lose its character as Non-Recourse Indebtedness because there is recourse to the borrower, any guarantor or any other Person for (i) environmental or tax warranties and indemnities and such other representations, warranties, covenants and indemnities as are customarily required in such transactions, or (ii) indemnities for and liabilities arising from fraud, misrepresentation, misapplication or non-payment of rents, profits, insurance and condemnation proceeds and other sums actually received by the borrower from secured assets to be paid to the lender, waste and mechanics' liens.

"**NYUCC**" means the New York Uniform Commercial Code, as in effect from time to time.

"**Officer**" means the Chairman of the Board, the President, any Vice President, the Treasurer, the Controller or the Secretary of the Company.

"**Officers' Certificate**" means a certificate signed by two Officers or by an Officer and an Assistant Treasurer or an Assistant Secretary of the Company.

"**Opinion of Counsel**" means a written opinion, in form and substance reasonably satisfactory to the Trustee, from legal counsel. The counsel may be an employee of or counsel to the Company. Each such opinion shall include the statements provided for in Section 12.05 if and to the extent required by the provisions of such Section.

"**Person**" means any individual, corporation, partnership, limited liability company, joint venture, incorporated or unincorporated association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"**principal**" of a debt security means the principal of the security *plus*, when appropriate, the premium, if any, on the security.

"**Property**" of any Person means all types of real, personal, tangible, intangible or mixed property owned by such Person, whether or not included in the most recent consolidated balance sheet of such Person and its Subsidiaries under GAAP.

"**Restricted Subsidiary**" means any Subsidiary of the Company which is not an Unrestricted Subsidiary.

"**SEC**" means the Securities and Exchange Commission or any successor agency performing the duties now assigned to it under the TIA.

"**Securities**" means any Securities that are issued under this Base Indenture.

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

"**Series**" means a series of Securities established under this Base Indenture.

"**Significant Subsidiary**" means any Subsidiary of the Company which would constitute a "significant subsidiary" as defined in Rule 1.02 of Regulation S-X under the Securities Act and the Exchange Act.

"**Subsidiary**" of any Person means any corporation or other entity of which a majority of the Capital Stock having ordinary voting power to elect a majority of the board of directors of such entity or other persons performing similar functions is at the time directly or indirectly owned or controlled by such Person.

"**TIA**" means the Trust Indenture Act of 1939, as in effect from time to time, except as otherwise provided herein.

"**Trustee**" means the party named as such in this Base Indenture until a successor replaces it pursuant to this Base Indenture and thereafter means the successor serving hereunder; *provided*, *however*, that if at any time there is more than one such Person, "Trustee" as used with respect to the Securities of any Series shall mean only the Trustee with respect to Securities of that Series.

"**Trust Officer**" means, when used with respect to the Trustee, any officer within the corporate trust department of the Trustee, including any vice president, assistant vice president, assistant secretary, assistant treasurer, trust officer or any other officer of the Trustee who customarily performs functions similar to those performed by the Persons who at the time shall be such officers, respectively, or to whom any corporate trust matter is referred because of such person's knowledge of and familiarity with the particular subject and who shall have direct responsibility for the administration of this Indenture.

"**United States**" means the United States of America.

"**Unrestricted Subsidiary**" means, with respect to any Series, any Subsidiary of the Company (1) so designated by a resolution adopted by the Board of Directors of the Company as provided below and (2) any Subsidiary of an Unrestricted Subsidiary, subject, in each case, to such conditions as may be stated in the supplemental indenture or specified in the Authorizing Resolution with respect to such Series.

Term	Defined in Section
Agent Members	2.15
Base Indenture	Preamble
Business Day	12.07
Covenant Defeasance	8.01
Custodian	6.01
Event of Default	6.01
Legal Defeasance	8.01
Legal Holiday	12.07
Paying Agent	2.03
Payment Default	6.01
Registrar	2.03
Security Register	2.03
Successor	5.01

Section 1.03. Incorporation by Reference of Trust Indenture Act.

Whenever this Indenture refers to a provision of the TIA, the provision is incorporated by reference in and made a part of this Indenture. The following TIA terms used in this Indenture have the following meanings:

"Commission" means the SEC.

"indenture securities" means the Securities of a particular Series.

"indenture security holder" means a Securityholder.

"indenture to be qualified" means this Indenture.

"indenture trustee" or "institutional trustee" means the Trustee.

"obligor" on the indenture securities means the Company or any other obligor on the Securities of a Series.

All other TIA terms used in this Indenture that are defined by the TIA, defined by TIA reference to another statute or defined by SEC rule have the meanings so assigned to them.

Section 1.04. Rules of Construction.

Unless the context otherwise requires:

(1) a term has the meaning assigned to it herein;

(2) an accounting term not otherwise defined has the meaning assigned to it in accordance with GAAP and all accounting determinations shall be made in accordance with GAAP;

(3) "or" is not exclusive and "including" means "including without limitation";

(4) words in the singular include the plural, and in the plural include the singular;

(5) "herein," "hereof" and "hereunder," and other words of similar import, refer to this Indenture as a whole (including any Authorizing Resolution or supplemental indenture relating to the relevant Series) and not to any particular Article, Section or other subdivision;

(6) all exhibits are incorporated by reference herein and expressly made a part of this Indenture; and

(7) any transaction or event shall be considered "permitted by" or made "in accordance with" or "in compliance with" this Indenture or any particular provision thereof if such transaction or event is not expressly prohibited by this Indenture or such provision, as the case may be.

ARTICLE TWO

THE SECURITIES

Section 2.01. Form and Dating.

The aggregate principal amount of Securities that may be issued under this Base Indenture is unlimited. The Securities may be issued from time to time in one or more Series. Each Series shall be created by an Authorizing Resolution or a supplemental indenture that establishes the terms of the Series, which may include the following:

(1) the title of the Series;

(2) the aggregate principal amount (or any limit on the aggregate principal amount) of the Series and, if any Securities of a Series are to be issued at a discount from their face amount, the method of computing the accretion of such discount;

(3) the interest rate or method of calculation of the interest rate;

(4) the date from which interest will accrue;

(5) the record dates for interest payable on Securities of the Series;

(6) the dates when, places where and manner in which principal and interest are payable;

(7) the Registrar and Paying Agent;

(8) the terms of any mandatory (including any sinking fund requirements) or optional redemption by the Company;

(9) the terms of any redemption at the option of Holders;

(10) the permissible denominations in which Securities of such Series are issuable, if different from $2,000 and multiples of $1,000 in excess thereof;

(11) whether Securities of such Series will be issued in registered or bearer form and the terms of any such forms of Securities;

(12) whether the Securities of the Series shall be issued in whole or in part in the form of a Global Security or Securities, the terms and conditions, if different from those contained in this Base Indenture, upon which such Global Security or Securities may be exchanged in whole or in part for Definitive Securities; the Depositary for such Global Security or Securities; the form of any legend or legends, if any, to be borne by any such Global Security or Securities in addition to or in lieu of the legends referred to in Section 2.15;

(13) the currency or currencies (including any composite currency) in which principal or interest or both may be paid;

(14) if payments of principal or interest may be made in a currency other than that in which Securities of such Series are denominated, the manner for determining such payments, including the time and manner of determining the exchange rate between the currency in which such Securities are denominated and the currency in which such Securities or any of them may be paid, and any deletions from or modifications of or additions to the terms of this Indenture to provide for or to facilitate the issuance of Securities denominated or payable, at the election of the Company or a Holder thereof or otherwise, in a Foreign Currency;

(15) provisions for electronic issuance of Securities or issuance of Securities of such Series in uncertificated form;

(16) any Events of Default, covenants and/or defined terms in addition to or in lieu of those set forth in this Base Indenture;

(17) whether and upon what terms Securities of such Series may be defeased or discharged if different from the provisions set forth in this Base Indenture;

(18) the form of the Securities of such Series, which, unless the Authorizing Resolution or supplemental indenture otherwise provides, shall be in the form of Exhibit A;

(19) any terms that may be required by or advisable under applicable law;

(20) the percentage of the principal amount of the Securities of such Series which is payable if the maturity of the Securities of such Series is accelerated in the case of Securities issued at a discount from their face amount;

(21) whether Securities of such Series will or will not have the benefit of guarantees and the Company's Subsidiaries that will be the initial guarantors of such Series and, if applicable, the terms and conditions upon which such guarantees may be subordinated to other indebtedness of the respective guarantors;

(22) whether the Securities of such Series are senior or subordinated debt securities, and if subordinated debt securities, the terms of such subordination;

(23) whether the Securities of the Series will be convertible into or exchangeable for other Securities, common shares or other securities of any kind of the Company or another obligor, and, if so, the terms and conditions upon which such Securities will be so convertible or exchangeable, including the initial conversion or exchange price or rate or the method of calculation, how and when the conversion price or exchange ratio may be adjusted, whether conversion or exchange is mandatory, at the option of the holder or at the Company's option, the conversion or exchange period, and any other provision in relation thereto; and

(24) any other terms in addition to or different from those contained in this Base Indenture applicable to such Series.

All Securities of one Series need not be issued at the same time and, unless otherwise provided, a Series may be reopened for issuances of additional Securities of such Series pursuant to an Authorizing Resolution, an Officers' Certificate or in any indenture supplemental hereto.

The creation and issuance of a Series and the authentication and delivery thereof are not subject to any conditions precedent.

Section 2.02. Execution and Authentication.

One Officer shall sign the Securities for the Company by manual or facsimile signature.

If an Officer whose signature is on a Security no longer holds that office at the time the Trustee authenticates the Security, the Security shall nevertheless be valid.

A Security shall not be valid until the Trustee manually signs the certificate of authentication on the Security. The signature shall be conclusive evidence that the Security has been authenticated under this Base Indenture.

At any time and from time to time after the execution and delivery of this Indenture, the Company may deliver Securities of any series executed by the Company to the Trustee for authentication. Each Security shall be dated the date of its authentication. The Trustee shall authenticate Securities for original issue upon receipt of, and shall be fully protected in relying upon:

(a) A copy of the resolution or resolutions of the Board of Directors in or pursuant to which the terms and form of the Securities were established, certified by the Secretary or an Assistant Secretary of the Company to have been duly adopted by the Board of Directors and to be in full force and effect as of the date of such certificate, and if the terms and form of such Securities are established by an Officers' Certificate pursuant to general authorization of the Board of Directors, such Officers' Certificate;

(b) an Officers' Certificate of the Company delivered in accordance with Section 12.04; and

(c) an Opinion of Counsel delivered in accordance with Section 12.04.

The Trustee shall have the right to decline to authenticate and deliver any Securities under this Section if the Trustee, being advised by counsel, determines that such action may not lawfully be taken or if the Trustee in good faith shall determine that such action would expose the Trustee to personal liability to existing Holders.

Section 2.03. Registrar and Paying Agent.

The Company shall maintain an office or agency where Securities may be presented for registration of transfer or where Securities of a Series that are convertible or exchangeable may be surrendered for conversion or exchange ("**Registrar**"), an office or agency where Securities may be presented for payment ("**Paying Agent**") and an office or agency where notices and demands to or upon the Company in respect of the Securities and this Indenture may be served. The Registrar shall keep a register of the Securities and of their transfer and exchange (the "**Security Register**"). The Company may have one or more co-Registrars and one or more additional paying agents. The term "Paying Agent" includes any additional paying agent.

The Company shall enter into an appropriate agency agreement with any Agent not a party to this Base Indenture. The agreement shall implement the provisions of this Indenture that relate to such Agent. The Company shall promptly notify the Trustee in writing of the name and address of any such Agent and the Trustee shall have the right to inspect the Securities Register at all reasonable times to obtain copies thereof, and the Trustee shall have the right to rely upon such register as to the names and addresses of the Holders and the principal amounts and certificate numbers thereof. If the Company fails to maintain a Registrar or Paying Agent or fails to give the foregoing notice, the Trustee shall act as such.

The Company initially appoints the Trustee as Registrar and Paying Agent.

Section 2.04. Paying Agent to Hold Money in Trust.

Each Paying Agent shall hold in trust for the benefit of Securityholders and the Trustee all money held by the Paying Agent for the payment of principal of or interest on the Securities, and shall notify the Trustee of any default by the Company in making any such payment. If the Company or a Subsidiary acts as Paying Agent, it shall segregate the money and hold it as a separate trust fund. The Company at any time may require a Paying Agent to pay all money held by it to the Trustee. Upon doing so the Paying Agent shall have no further liability for the money.

Section 2.05. Securityholder Lists.

The Trustee shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of Securityholders. If the Trustee is not the Registrar, the Company shall furnish to the Trustee at least five (5) Business Days before each semiannual interest payment date and at such other times as the Trustee may request in writing a list in such form and as of such date as the Trustee may reasonably require of the names and addresses of Securityholders.

Section 2.06. Transfer and Exchange.

Where a Security is presented to the Registrar or a co-Registrar with a request to register a transfer, the Registrar shall register the transfer as requested if the requirements of Section 8-401(a) of the NYUCC are met and the other provisions of this Section 2.06 are satisfied. Where Securities are presented to the Registrar or a co-Registrar with a request to exchange them for an equal principal amount of Securities of other denominations, the Registrar shall make the exchange as requested if the same requirements are met. To permit transfers and exchanges, the Trustee shall authenticate Securities at the Registrar's request. The Registrar need not transfer or exchange any Security selected for redemption or repurchase, except the unredeemed or repurchased part thereof if the Security is redeemed or repurchased in part, or transfer or exchange any Securities for a period of 15 days before a selection of Securities to be redeemed or repurchased. Any exchange or transfer shall be without charge, except that the Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto except in the case of exchanges pursuant to 2.09, 3.06, or 10.05 not involving any transfer.

Any Holder of a Global Security shall, by acceptance of such Global Security, agree that transfers of beneficial interests in such Global Security may be effected only through a book entry system maintained by the Holder of such Global Security (or its agent), and that ownership of a beneficial interest in the Security shall be required to be reflected in a book entry.

Section 2.07. Replacement Securities.

If the Holder of a Security claims that the Security has been lost, destroyed, mutilated or wrongfully taken, the Company shall issue and execute a replacement security and, upon written request of any Officer of the Company, the Trustee shall authenticate such replacement Security, *provided*, in the case of a lost, destroyed or wrongfully taken Security, that the requirements of Section 8-405 of the NYUCC are met. If any such lost, destroyed, mutilated or wrongfully taken Security shall have matured or shall be about to mature, the Company may, instead of issuing a substitute Security therefor, pay such Security without requiring (except in the case of a mutilated Security) the surrender thereof. An indemnity bond must be sufficient in the judgment of the Company and the Trustee to protect the Company, the Trustee and any Agent from any loss which any of them may suffer if a Security is replaced, including the acquisition of such Security by a bona fide purchaser. The Company and the Trustee may charge for its expenses in replacing a Security.

Section 2.08. Outstanding Securities.

Securities outstanding at any time are all Securities authenticated by the Trustee except for those cancelled by it and those described in this Section. A Security does not cease to be outstanding because the Company or one of its Affiliates holds the Security.

If a Security is replaced pursuant to Section 2.07, it ceases to be outstanding unless the Trustee receives proof satisfactory to it that the replaced Security is held by a "protected purchaser" (as such term is defined in the NYUCC).

If the Paying Agent holds on a redemption date, purchase date or maturity date money sufficient to pay Securities payable on that date, then on and after that date such Securities cease to be outstanding and interest on them ceases to accrue.

Subject to the foregoing provisions of this Section, each Security delivered under this Indenture upon registration of transfer of or in exchange for or in lieu of any other Security shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Security.

Section 2.09. Temporary Securities.

Until definitive Securities are ready for delivery, the Company may prepare and the Trustee shall authenticate temporary Securities. Temporary Securities shall be substantially in the form of definitive Securities but may have variations that the Company considers appropriate for temporary Securities. Without unreasonable delay, the Company shall prepare and, upon surrender for cancellation of the temporary Security, the Company shall execute and the Trustee shall authenticate definitive Securities in exchange for temporary Securities. Until so exchanged, the temporary Securities shall in all respects be entitled to the same benefits under this Indenture as definitive Securities authenticated and delivered hereunder.

Section 2.10. Cancellation.

The Company at any time may deliver Securities to the Trustee for cancellation. The Registrar and Paying Agent shall forward to the Trustee any Securities surrendered to them for registration of transfer, exchange, redemption, purchase or payment. The Trustee and no one else shall cancel and dispose of such cancelled or tendered securities, or retain in accordance with its standard retention policy, all Securities surrendered for registration of transfer, exchange, redemption, purchase, payment or cancellation. Unless the Authorizing Resolution or supplemental indenture so provides, the Company may not issue new Securities to replace Securities that it has previously paid or delivered to the Trustee for cancellation.

Section 2.11. Defaulted Interest.

If the Company defaults in a payment of interest on the Securities of any Series, it shall pay the defaulted interest *plus* any interest payable on the defaulted interest to the persons who are Securityholders of such Series on a subsequent special record date. The Company shall fix such special record date and a payment date which shall be reasonably satisfactory to the Trustee. At least 15 days before such special record date, the Company shall mail to each Securityholder of the relevant Series a notice that states the record date, the payment date and the amount of defaulted interest to be paid. On or before the date such notice is mailed, the Company shall deposit with the Paying Agent money sufficient to pay the amount of defaulted interest to be so paid. The Company may pay defaulted interest in any other lawful manner if, after notice given by the Company to the Trustee of the proposed payment, such manner of payment shall be deemed practicable by the Trustee.

Section 2.12. Treasury Securities.

In determining whether the Holders of the required principal amount of Securities of a Series have concurred in any direction, waiver, consent or notice, Securities owned by the Company or any of its Affiliates shall be considered as though they are not outstanding, except that for the purposes of determining whether the Trustee shall be protected in relying on any such direction, waiver or consent, only Securities which a Trust Officer of the Trustee actually knows are so owned shall be so considered.

Section 2.13. CUSIP/ISIN Numbers.

The Company in issuing the Securities of any Series may use a "CUSIP" and/or "ISIN" or other similar number, and if so, the Trustee shall use the CUSIP and/or ISIN or other similar number in notices of redemption or exchange as a convenience to Holders of such Securities; *provided* that no representation is hereby deemed to be made by the Trustee as to the correctness or accuracy of any such CUSIP and/or ISIN or other similar number printed in the notice or on such Securities, and that reliance may be placed only on the other identification numbers printed on such Securities. The Company shall promptly notify the Trustee of any change in any CUSIP and/or ISIN or other similar number.

Section 2.14. Deposit of Moneys.

Prior to 11:00 a.m. New York City time on each interest payment date and maturity date with respect to each Series of Securities, the Company shall have deposited with the Paying Agent in immediately available funds money in the applicable currency sufficient to make cash payments due on such interest payment date or maturity date, as the case may be, in a timely manner which permits the Paying Agent to remit payment to the Holders of such Series on such interest payment date or maturity date, as the case may be.

Section 2.15. Book-Entry Provisions for Global Security.

(a) Any Global Security of a Series initially shall (i) be registered in the name of the Depositary or the nominee of such Depositary, (ii) be delivered to the Trustee as custodian for such Depositary and (iii) bear any required legends.

Members of, or participants in, the Depositary ("**Agent Members**") shall have no rights under this Indenture with respect to any Global Security held on their behalf by the Depositary, or the Trustee as its custodian, or under the Global Security, and the Depositary may be treated by the Company, the Trustee and any agent of the Company or the Trustee as the absolute owner of the Global Security for all purposes whatsoever. Notwithstanding the foregoing, nothing herein shall prevent the Company, the Trustee or any agent of the Company or the Trustee from giving effect to any written certification, proxy or other authorization furnished by the Depositary or impair, as between the Depositary and its Agent Members, the operation of customary practices governing the exercise of the rights of a Holder of any Security.

(b) Transfers of any Global Security shall be limited to transfers in whole, but not in part, to the Depositary, its successors or their respective nominees. Interests of beneficial owners in the Global Security may be transferred or exchanged for Definitive Securities in accordance with the rules and procedures of the Depositary. In addition, Definitive Securities shall be transferred to all beneficial owners in exchange for their beneficial interests in a Global Security if (i) the Depositary notifies the Company that it is unwilling or unable to continue as Depositary for the Global Security and a successor depository is not appointed by the Company within 90 days of such notice or (ii) an Event of Default has occurred and is continuing and the Registrar has received a request from the Depositary to issue Definitive Securities.

(c) In connection with any transfer or exchange of a portion of the beneficial interest in any Global Security to beneficial owners pursuant to paragraph (b), the Registrar shall (if one or more Definitive Securities are to be issued) reflect on its books and records the date and a decrease in the principal amount of the Global Security in an amount equal to the principal amount of the beneficial interest in the Global Security to be transferred, and the Company shall execute, and the Trustee shall authenticate and deliver, one or more Definitive Securities of like Series and amount.

(d) In connection with the transfer of an entire Global Security to beneficial owners pursuant to paragraph (b), the Global Security shall be deemed to be surrendered to the Trustee for cancellation, and the Company shall execute, and the Trustee shall authenticate and deliver, to each beneficial owner identified by the Depositary in exchange for its beneficial interest in the Global Security, an equal aggregate principal amount of Definitive Securities of the same Series in authorized denominations.

(e) The Holder of any Global Security may grant proxies and otherwise authorize any person, including Agent Members and persons that may hold interests through Agent Members, to take any action which a Holder is entitled to take under this Indenture or the Securities of such Series.

(f) Unless otherwise provided in the Authorizing Resolution or supplemental indenture for a particular Series of Securities, each Global Security of such Series shall bear legends in substantially the following forms:

"THIS GLOBAL SECURITY IS HELD BY THE DEPOSITARY (AS DEFINED IN THE INDENTURE GOVERNING THIS SECURITY) OR ITS NOMINEE IN CUSTODY FOR THE BENEFIT OF THE HOLDERS OF BENEFICIAL INTERESTS HEREIN, AND IS NOT TRANSFERABLE TO ANY PERSON UNDER ANY CIRCUMSTANCES EXCEPT THAT (I) THE TRUSTEE MAY MAKE ANY SUCH NOTATIONS HEREON AS MAY BE REQUIRED PURSUANT TO THE INDENTURE, (II) THIS GLOBAL SECURITY MAY BE EXCHANGED IN WHOLE BUT NOT IN PART PURSUANT TO SECTION 2.06 OF THE INDENTURE, (III) THIS GLOBAL SECURITY MAY BE DELIVERED TO THE TRUSTEE FOR CANCELLATION PURSUANT TO THE INDENTURE AND (IV) THIS GLOBAL SECURITY MAY BE TRANSFERRED TO A SUCCESSOR DEPOSITARY WITH THE PRIOR WRITTEN CONSENT OF THE COMPANY."

"UNLESS AND UNTIL IT IS EXCHANGED IN WHOLE OR IN PART FOR SECURITIES IN DEFINITIVE FORM, THIS SECURITY MAY NOT BE TRANSFERRED EXCEPT AS A WHOLE BY THE DEPOSITARY TO A NOMINEE OF THE DEPOSITARY OR BY A NOMINEE OF THE DEPOSITARY TO THE DEPOSITARY OR TO ANOTHER NOMINEE OF THE DEPOSITARY OR BY THE DEPOSITARY OR ANY SUCH NOMINEE TO A SUCCESSOR DEPOSITARY OR A NOMINEE OF SUCH SUCCESSOR DEPOSITARY. UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITARY TO THE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF ANY ENTITY AS MAY BE REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITARY (AND ANY PAYMENT IS MADE TO SUCH ENTITY AS MAY BE REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITARY), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF HAS AN INTEREST HEREIN."

Section 2.16. No Duty to Monitor.

The Trustee shall have no obligation or duty to monitor, determine or inquire as to compliance with any restrictions on transfer imposed under this Indenture or under applicable law with respect to any transfer of any interest in any Security (including any transfers between or among Agent Members or beneficial owners of interests in any Global Security) other than to require delivery of such certificates and other documentation or evidence as are expressly required by, and to do so if and when expressly required by the terms of, this Indenture, and to examine the same to determine substantial compliance as to form with the express requirements hereof.

Neither the Trustee nor any Agent shall have any responsibility for any actions taken or not taken by the Depositary.

ARTICLE THREE

REDEMPTION

Section 3.01. Notices to Trustee.

Securities of a Series that are redeemable prior to maturity shall be redeemable in accordance with their terms and, unless the Authorizing Resolution or supplemental indenture provides otherwise, in accordance with this Article Three.

If the Company wants to redeem Securities pursuant to Paragraph 4 of the Securities, it shall notify the Trustee in writing of the redemption date and the principal amount of Securities to be redeemed. Any such notice may be cancelled at any time prior to notice of such redemption being mailed to Holders. Any such cancelled notice shall be void and of no effect.

If the Company wants to credit any Securities previously redeemed, retired or acquired against any redemption pursuant to Paragraph 5 of the Securities, it shall notify the Trustee of the amount of the credit and it shall deliver any Securities not previously delivered to the Trustee for cancellation with such notice.

The Company shall give each notice provided for in this Section 3.01 at least 30 days before the notice of any such redemption is to be delivered to Holders (unless a shorter notice shall be satisfactory to the Trustee).

Section 3.02. Selection of Securities to be Redeemed.

If fewer than all of the Securities of a Series are to be redeemed, the Trustee shall select the Securities to be redeemed by a method the Trustee considers fair and appropriate and in a manner that complies with applicable requirements of the Depositary. The Trustee shall make the selection from Securities outstanding not previously called for redemption and shall promptly notify the Company of the serial numbers or other identifying attributes of the Securities so selected. The Trustee may select for redemption portions of the principal of Securities that have denominations larger than the minimum denomination for the Series. Securities and portions of them it selects shall be in amounts equal to a permissible denomination for the Series. Provisions of this Indenture that apply to Securities called for redemption also apply to portions of Securities called for redemption.

Unless otherwise provided in the Authorizing Resolution or supplemental indenture relating to a Series, if any Security selected for partial redemption is converted into or exchanged for Common Stock or other securities, cash or other property in part before termination of the conversion or exchange right with respect to the portion of the Security so selected, the converted portion of such Security shall be deemed (so far as may be) to be the portion selected for redemption. Securities which have been converted or exchanged during a selection of Securities to be redeemed shall be treated by the Trustee as outstanding for the purpose of such selection.

Section 3.03. Notice of Redemption.

At least 30 days but not more than 60 days before a redemption date, the Company shall mail a notice of redemption by first-class mail, postage prepaid, to each Holder of Securities to be redeemed.

The notice shall identify the Securities to be redeemed and shall state:

(1) the redemption date;

(2) the redemption price or the formula pursuant to which such price will be calculated;

(3) if any Security is being redeemed in part, the portion of the principal amount of such Security to be redeemed and that, after the redemption date, upon surrender of such Security, a new Security or Securities in principal amount equal to the unredeemed portion shall be issued upon cancellation of the original Security;

(4) in the case of Securities of a Series that are convertible or exchangeable into shares of the Company's common stock or other securities, cash or other property, the conversion or exchange price or rate, the date or dates on which the right to convert or exchange the principal of the Securities of such Series to be redeemed will commence or terminate and the place or places where such Securities may be surrendered for conversion or exchange;

(5) the name and address of the Paying Agent;

(6) that Securities called for redemption must be surrendered to the Paying Agent to collect the redemption price;

(7) that interest on Securities called for redemption ceases to accrue on and after the redemption date;

(8) that the Securities are being redeemed pursuant to the mandatory redemption or the optional redemption provisions, as applicable; and

(9) the CUSIP number and that no representation is hereby deemed to be made be made by the Trustee as to the correctness or accuracy of any such CUSIP and/or ISIN or other similar number printed in the notice or on such Securities, and that reliance may be placed only on the other identification numbers printed on such Securities.

At the Company's request, the Trustee shall give the notice of redemption in the Company's name and at its expense; *provided*, *however*, that the Company shall deliver to the Trustee at least 15 days prior to the date on which notice of redemption is to be mailed or such shorter period as may be satisfactory to the Trustee, an Officers' Certificate requesting that the Trustee give such notice and setting forth the information to be stated in such notice as provided in the preceding paragraph.

Section 3.04. Effect of Notice of Redemption.

Once notice of redemption is mailed, Securities called for redemption become due and payable on the redemption date and at the redemption price as set forth in the notice of redemption. Upon surrender to the Paying Agent, such Securities shall be paid at the redemption price, *plus* accrued and unpaid interest to the redemption date.

Section 3.05. Deposit of Redemption Price.

On or before the redemption date, the Company shall deposit with the Paying Agent immediately available funds in the applicable currency sufficient to pay the redemption price of and accrued interest on all Securities to be redeemed on that date.

Section 3.06. Securities Redeemed in Part.

Upon surrender of a Security that is redeemed in part, the Company shall execute and the Trustee shall authenticate for each Holder a new Security of the same Series equal in principal amount to the unredeemed portion of the Security surrendered.

ARTICLE FOUR

COVENANTS

Section 4.01. Payment of Securities.

The Company shall pay the principal of and interest on a Series on the dates, in the currency and in the manner provided in the Securities of the Series. An installment of principal or interest shall be considered paid on the date it is due if the Paying Agent holds on that date money in the applicable currency designated for and sufficient to pay the installment.

The Company shall pay interest on overdue principal at the rate borne by the Series; it shall pay interest on overdue installments of interest at the same rate.

Section 4.02. Maintenance of Office or Agency.

The Company shall maintain the office or agency required under Section 2.03. The Company shall give prior written notice to the Trustee of the location, and any change in the location, of such office or agency. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the address of the Trustee.

Section 4.03. Compliance Certificate.

The Company shall deliver to the Trustee within 120 days after the end of each fiscal year of the Company an Officers' Certificate stating whether or not the signers know of any continuing Default by the Company in performing any of its obligations under this Indenture. If they do know of such a Default, the certificate shall describe the Default.

Section 4.04. Payment of Taxes; Maintenance of Corporate Existence; Maintenance of Properties.

The Company will:

(a) cause to be paid and discharged all lawful taxes, assessments and governmental charges or levies imposed upon the Company and its Restricted Subsidiaries or upon the income or profits of the Company and its Restricted Subsidiaries or upon Property or any part thereof belonging to the Company and its Restricted Subsidiaries before the same shall be in default, as well as all lawful claims for labor, materials and supplies which, if unpaid, might become a lien or charge upon such Property or any part thereof; *provided*, *however*, that the Company shall not be required to cause to be paid or discharged any such tax, assessment, charge, levy or claim so long as the validity or amount thereof shall be contested in good faith by appropriate proceedings and the nonpayment thereof does not, in the judgment of the Company, materially adversely affect the ability of the Company to pay all obligations under this Indenture when due; and *provided further* that the Company shall not be required to cause to be paid or discharged any such tax, assessment, charge, levy or claim if, in the judgment of the Company, such payment shall not be advantageous to the Company in the conduct of its business and if the failure so to pay or discharge does not, in its judgment, materially adversely affect the ability of the Company to pay all obligations under this Indenture when due;

(b) cause to be done all things necessary to preserve and keep in full force and effect the corporate existence of the Company and each of its Restricted Subsidiaries and to comply with all applicable laws; *provided*, *however*, that nothing in this paragraph (b) shall prevent a consolidation or merger of the Company or any Restricted Subsidiary not prohibited by the provisions of Article Five or any other provision of this Indenture pertaining to a Series, and the Company may discontinue the corporate existence of any Restricted Subsidiary, or fail to comply with any such applicable laws, if, in the Company's judgment, such discontinuance or non-compliance does not materially adversely affect the ability of the Company to pay all obligations under this Indenture when due; and

(c) at all times keep, maintain and preserve all the Property of the Company and the Restricted Subsidiaries in good repair, working order and condition (reasonable wear and tear excepted) and from time to time make all needful and proper repairs, renewals, replacements, betterments and improvements thereto, so that the business carried on in connection therewith may be properly and advantageously conducted at all times; *provided*, *however*, that nothing in this paragraph (c) shall prevent the Company or any Restricted Subsidiary from discontinuing the operation and maintenance of any such properties if such discontinuance, in the judgment of the Company, does not materially adversely affect the ability of the Company pay all obligations under this Indenture when due.

Section 4.05. Waiver of Stay, Extension or Usury Laws.

The Company covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law or any usury law or other law that would prohibit or forgive the Company from paying all or any portion of the principal of or interest on the Securities of any Series as contemplated herein, wherever enacted, now or at any time hereafter in force, or which may affect the covenants or the performance of this Indenture; and (to the extent that it may lawfully do so) the Company expressly waives all benefit or advantage of any such law, and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

ARTICLE FIVE

SUCCESSOR CORPORATION

Section 5.01. When Company May Merge, etc.

The Company nor will not consolidate or merge with or into, or sell, lease, convey or otherwise dispose of all or substantially all of its assets (including by way of liquidation or dissolution), to any Person (in each case other than in a transaction in which the Company is the survivor of a consolidation or merger, or the transferee in a sale, lease, conveyance or other disposition) unless:

(1) the Person formed by or surviving such consolidation or merger (if other than the Company), or to which such sale, lease, conveyance or other disposition will be made (collectively, the "**Successor**"), is a corporation or other legal entity organized and existing under the laws of the United States or any state thereof or the District of Columbia, and the Successor assumes by supplemental indenture in a form reasonably satisfactory to the Trustee all of the obligations of the Company under the Securities, as the case may be, and the Indenture, and

(2) immediately after giving effect to such transaction, no Default or Event of Default has occurred and is continuing.

The foregoing provisions shall not apply to a transaction the purpose of which is to change the state of incorporation of the Company.

Upon any such consolidation, merger, sale, lease, conveyance or other disposition, the Successor will be substituted for the Company under the Indenture. The Successor may then exercise every power and right of the Company under this Indenture, and except in the case of a lease, the Company will be released from all of its liabilities and obligations in respect of the Securities and the Indenture. If the Company leases all or substantially all of its assets the Company will not be released from its obligations to pay the principal of and interest, if any, on the Securities.

ARTICLE SIX

DEFAULTS AND REMEDIES

Section 6.01. Events of Default.

An "**Event of Default**" on a Series occurs if, voluntarily or involuntarily, whether by operation of law or otherwise, any of the following occurs:

(1) the failure by the Company to pay interest on any Security of such Series when the same becomes due and payable and the continuance of any such failure for a period of 30 days;

(2) the failure by the Company to pay the principal of any Security of such Series when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise;

(3) the failure by the Company or any Restricted Subsidiary to comply with any of its agreements or covenants in, or provisions of, the Securities of such Series or this Indenture (as they relate thereto) and such failure continues for the period and after the notice specified below (except in the case of a default with respect to Article Five (or any other provision specified in the applicable supplemental indenture or Authorizing Resolution), which will constitute Events of Default with notice but without passage of time);

(4) default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness (other than Non-Recourse Indebtedness) for money borrowed by the Company or any of its Restricted Subsidiaries (or the payment of which is guaranteed by the Company or any of its Restricted Subsidiaries), whether such Indebtedness or guarantee now exists or is created after the Issue Date, if that default:

(A) is caused by a failure to pay at final stated maturity the principal amount of such Indebtedness prior to the expiration of the grace period provided in such Indebtedness on the date of such default (a "Payment Default"); or

(B) results in the acceleration of such Indebtedness prior to its express maturity without such Indebtedness having been discharged or such acceleration having been cured, waived, rescinded or annulled for the period and after the notice specified below,

and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates $50 million or more;

(5) the Company or any Restricted Subsidiary that is a Significant Subsidiary pursuant to or within the meaning of any Bankruptcy Law:

(A) commences a voluntary case,

(B) consents to the entry of an order for relief against it in an involuntary case,

(C) consents to the appointment of a Custodian of it or for all or substantially all of its Property, or

(D) makes a general assignment for the benefit of its creditors;

(6) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that:

(A) is for relief against the Company or any Restricted Subsidiary that is a Significant Subsidiary as debtor in an involuntary case,

(B) appoints a Custodian of the Company or any Restricted Subsidiary that is a Significant Subsidiary or a Custodian for all or substantially all of the Property of the Company, or

(C) orders the liquidation of the Company or any Restricted Subsidiary that is a Significant Subsidiary,

and the order or decree remains unstayed and in effect for 60 days.

A Default as described in subclause (3) or (4)(B) above will not be deemed an Event of Default until the Trustee notifies the Company, or the Holders of at least 25 percent in principal amount of the then outstanding Securities of the applicable Series notify the Company and the Trustee, of the Default and (except in the case of a default with respect to Article Five (or any other provision specified in the applicable supplemental indenture or Authorizing Resolution)) the Company does not cure the Default within (a) with respect to in subclause (3), 60 days after receipt of the notice and (b) with respect to in subclause (4)(b), 30 days after receipt of the notice. The notice must specify the Default, demand that it be remedied and state that the notice is a "Notice of Default." If such a Default is cured within such time period, it ceases to exist, without any action by the Trustee or any other Person.

The term "**Custodian**" means any receiver, trustee, assignee, liquidator, custodian or similar official under any Bankruptcy Law.

Section 6.02. Acceleration.

If an Event of Default (other than an Event of Default with respect to the Company resulting from subclause (5) or (6) above), shall have occurred and be continuing under the Indenture, the Trustee by notice to the Company, or the Holders of at least 25 percent in principal amount of the Securities of the applicable Series then outstanding by notice to the Company and the Trustee, may declare all Securities of such Series to be due and payable immediately. Upon such declaration of acceleration, the amounts due and payable on the Securities of such Series will be due and payable immediately. If an Event of Default with respect to the Company specified in subclauses (5) or (6) above occurs, all amounts due and payable on the Securities of such Series will ipso facto become and be immediately due and payable without any declaration, notice or other act on the part of the Trustee and the Company or any Holder.

Holders of a majority in principal amount of the then outstanding Securities of such Series may rescind an acceleration with respect to such Series and its consequence (except an acceleration due to nonpayment of principal or interest) if the rescission would not conflict with any judgment or decree and if all existing Events of Default (other than the non-payment of accelerated principal) have been cured or waived.

No such rescission shall extend to or shall affect any subsequent Event of Default, or shall impair any right or power consequent thereon.

Section 6.03. Other Remedies.

If an Event of Default on a Series occurs and is continuing, the Trustee may pursue any available remedy by proceeding at law or in equity to collect the payment of principal of or interest on the Series or to enforce the performance of any provision in the Securities or this Indenture applicable to the Series.

The Trustee may maintain a proceeding even if it does not possess any of the Securities or does not produce any of them in the proceeding. A delay or omission by the Trustee or any Securityholder in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default. No remedy is exclusive of any other remedy. All available remedies are cumulative.

Section 6.04. Waiver of Existing Defaults.

Subject to Section 10.02, the Holders of a majority in principal amount of the outstanding Securities of a Series on behalf of all the Holders of the Series by notice to the Trustee may waive an existing Default on such Series and its consequences. When a Default is waived, it is cured and stops continuing, and any Event of Default arising therefrom shall be deemed to have been cured; but no such waiver shall extend to any subsequent or other Default or impair any right consequent thereon.

Section 6.05. Control by Majority.

The Holders of a majority in principal amount of the outstanding Securities of a Series may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on it with respect to such Series. The Trustee, however, may refuse to follow any direction (i) that conflicts with law or this Indenture, (ii) that, subject to Section 7.01, the Trustee determines is unduly prejudicial to the rights of other Securityholders, (iii) that would involve the Trustee in personal liability, if there shall be reasonable grounds for believing that adequate indemnity against such liability is not reasonably assured to it, or (iv) if the Trustee shall not have been provided with indemnity satisfactory to it.

Section 6.06. Limitation on Suits.

A Securityholder of a Series may not pursue any remedy with respect to this Indenture or the Series unless:

(1) the Holder gives to the Trustee written notice of a continuing Event of Default on the Series;

(2) the Holders of at least a majority in principal amount of the outstanding Securities of the Series make a written request to the Trustee to pursue the remedy;

(3) such Holder or Holders offer to the Trustee indemnity satisfactory to the Trustee against any loss, liability or expense;

(4) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity; and

(5) no written request inconsistent with such written request shall have been given to the Trustee pursuant to this Section 6.06.

A Securityholder may not use this Indenture to prejudice the rights of another Holder of Securities of the same Series or to obtain a preference or priority over another Holder of Securities of the same Series (it being understood that the Trustee does not have an affirmative duty to ascertain whether or not such actions or forbearances by such Holder are unduly prejudicial to another Holder).

Section 6.07. Rights of Holders to Receive Payment.

Notwithstanding any other provision of this Indenture, the right of any Holder to receive payment of principal of and interest on any Security, on or after the respective due dates expressed in the Security, or to bring suit for the enforcement of any such payment on or after such respective dates, is absolute and unconditional and shall not be impaired or affected without the consent of the Holder.

Section 6.08. Collection Suit by Trustee.

If an Event of Default in payment of interest or principal specified in Section 6.01(1) or (2) occurs and is continuing, the Trustee may recover judgment in its own name and as trustee of an express trust against the Company for the whole amount of principal and interest remaining unpaid.

Section 6.09. Trustee May File Proofs of Claim.

The Trustee may file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements, and advances of the Trustee, its agents and counsel) and the Securityholders allowed in any judicial proceedings relative to the Company or its creditors or Property, and unless prohibited by applicable law or regulation, may vote on behalf of the Holders in any election of a Custodian, and shall be entitled and empowered to collect and receive any moneys or other Property payable or deliverable on any such claims and to distribute the same and any Custodian in any such judicial proceeding is hereby authorized by each Securityholder to make such payments to the Trustee. Nothing herein shall be deemed to authorize the Trustee to authorize or consent to or vote for or accept or adopt on behalf of any Securityholder any plan of reorganization, arrangement, adjustment or composition affecting the Securities or the rights of any Holder or to authorize the Trustee to vote in respect of the claim of any Securityholder except as aforesaid for the election of the Custodian.

Section 6.10. Priorities.

If the Trustee collects any money pursuant to this Article with respect to Securities of any Series, it shall pay out the money in the following order:

First: to the Trustee for amounts due under Section 7.07;

Second: to Securityholders of the Series for amounts due and unpaid on the Series for principal and interest, ratably, without preference or priority of any kind, according to the amounts due and payable on the Series for principal and interest, respectively; and

Third: to the Company as its interests may appear or as a court of competent jurisdiction shall direct.

The Trustee may fix a record date and payment date for any payment to Securityholders pursuant to this Section 6.10.

Section 6.11. Undertaking for Costs.

In any suit for the enforcement of any right or remedy under this Indenture or in any suit against the Trustee for any action taken or omitted by it as Trustee, a court in its discretion may require the filing by any party litigant in the suit of an undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs, including reasonable attorneys' fees and expenses, against any party litigant in the suit, having the due regard to the merits and good faith of the claims or defenses made by the party litigant. This Section does not apply to a suit by the Trustee, a suit by a Holder pursuant to Section 6.07 or a suit by Holders of more than 10% in principal amount of the Series.

ARTICLE SEVEN

TRUSTEE

Section 7.01. Duties of Trustee.

(a) If an Event of Default has occurred and is continuing with respect to Securities of any Series, the Trustee shall, prior to the receipt of directions from the Holders of a majority in principal amount of the Securities of the Series, exercise its rights and powers and use the same degree of care and skill in their exercise as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

(b) Except during the continuance of an Event of Default:

(1) The Trustee need perform only those duties that are specifically set forth in this Indenture and no others and no implied covenants or obligations shall be read into this Indenture against the Trustee.

(2) In the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture. The Trustee, however, in the case of certificates or opinions specifically required by any provision hereof to be furnished to it, shall examine the certificates and opinions to determine whether or not they conform to the requirements of this Indenture but need not confirm or investigate the accuracy of mathematical calculations or other facts or matters stated therein.

(c) The Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act or its own willful misconduct, except that:

(1) This paragraph does not limit the effect of paragraph (b) of this Section.

(2) The Trustee shall not be liable for any error of judgment made in good faith by a Trust Officer, unless it is proved that the Trustee was negligent in ascertaining the pertinent facts.

(3) The Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to Section 6.05 or any other direction of the Holders permitted hereunder.

(d) Every provision of this Indenture that in any way relates to the Trustee is subject to paragraphs (a), (b) and (c) of this Section.

(e) The Trustee may refuse to perform any duty or exercise any right or power unless it receives indemnity satisfactory to it against any loss, liability or expense.

(f) The Trustee shall not be liable for interest on any money received by it except as the Trustee may agree with the Company. Money held in trust by the Trustee need not be segregated from other funds except to the extent required by law.

(g) None of the provisions contained in this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if there shall be reasonable grounds for believing that the repayment of such funds or adequate indemnity against such liability is not reasonably assured to it.

Section 7.02. Rights of Trustee.

Subject to Section 7.01:

(a) The Trustee may conclusively rely and shall be fully protected in acting or refraining from acting on any document, resolution, certificate, instrument, report, or direction believed by it to be genuine and to have been signed or presented by the proper person. The Trustee need not investigate any fact or matter stated in the document, resolution, certificate, instrument, report, or direction.

(b) Before the Trustee acts or refrains from acting, it may require an Officers' Certificate or an Opinion of Counsel or both, which shall conform to Sections 12.04 and 12.05 hereof and containing such other statements as the Trustee reasonably deems necessary to perform its duties hereunder. The Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on the Officers' Certificate, Opinion of Counsel or any other direction of the Company permitted hereunder.

(c) The Trustee may act through agents and shall not be responsible for the misconduct or negligence of any agent appointed with due care.

(d) The Trustee shall not be liable for any action taken, suffered or omitted by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture.

(e) The Trustee may consult with counsel of its selection, and the advice of such counsel or any Opinion of Counsel as to matters of law shall be full and complete authorization and protection in respect of any action taken, omitted or suffered by it hereunder in good faith and in accordance with the advice or opinion of such counsel.

(f) Unless otherwise specifically provided in the Indenture, any demand, request, direction or notice from the Company shall be sufficient if signed by an Officer of the Company.

(g) For all purposes under this Indenture, the Trustee shall not be deemed to have notice or knowledge of any Event of Default (other than under Section 6.01(1) or 6.01(2)) unless a Trust Officer assigned to and working in the Trustee's corporate trust office has actual knowledge thereof or unless written notice of any Event of Default is received by the Trustee at its address specified in Section 12.02 hereof and such notice references the Securities generally, the Company and this Indenture.

(h) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Holders pursuant to this Indenture, unless such Holders shall have offered to the Trustee security or indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

(i) The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Company, personally or by agent or attorney at the sole cost of the Company and shall incur no liability or additional liability of any kind by reason of such inquiry or investigation.

(j) In no event shall the Trustee be responsible or liable for special, indirect, or consequential loss or damage of any kind whatsoever (including, but not limited to, loss of profit) irrespective of whether the Trustee has been advised of the likelihood of such loss or damage and regardless of the form of action.

(k) The rights, privileges, protections, immunities and benefits given to the Trustee, including, without limitation, its right to be indemnified, are extended to, and shall be enforceable by, the Trustee in each of its capacities hereunder, and each agent, custodian and other Person employed to act hereunder.

(l) The Trustee may request that the Company deliver a certificate setting forth the names of individuals and/or titles of officers authorized at such time to take specified actions pursuant to this Indenture.

(m) In no event shall the Trustee be responsible or liable for any failure or delay in the performance of its obligations hereunder arising out of or caused by, directly or indirectly, forces beyond its control, including, without limitation, strikes, work stoppages, accidents, acts of war or terrorism, civil or military disturbances, nuclear or natural catastrophes or acts of God, and interruptions, loss or malfunctions of utilities, communications or computer (software and hardware) services; it being understood that the Trustee shall use reasonable efforts which are consistent with accepted practices in the banking industry to resume performance as soon as practicable under the circumstances.

Section 7.03. Individual Rights of Trustee.

The Trustee in its individual or any other capacity may become the owner or pledgee of Securities and may otherwise deal with the Company or its affiliates with the same rights it would have if it were not Trustee. Any Agent may do the same with like rights. The Trustee, however, must comply with Sections 7.10 and 7.11.

Section 7.04. Trustee's Disclaimer.

The Trustee makes no representation as to the validity or adequacy of this Indenture, the Securities or of any prospectus used to sell the Securities of any Series; it shall not be accountable for the Company's use of the proceeds from the Securities; it shall not be accountable for any money paid to the Company, or upon the Company's direction, if made under and in accordance with any provision of this Indenture; it shall not be responsible for the use or application of any money received by any Paying Agent other than the Trustee; and it shall not be responsible for any statement of the Company in this Indenture or in the Securities other than its certificate of authentication.

Section 7.05. Notice of Defaults.

If a Default on a Series occurs and is continuing and if it is known to the Trustee, the Trustee shall deliver to each Securityholder of the Series notice of the Default (which shall specify any uncured Default known to it) within 90 days after the Trustee obtains such knowledge. Except in the case of a default in payment of principal of or interest on a Series, the Trustee may withhold the notice if and so long as the board of directors of the Trustee, the executive or any trust committee of such directors and/or responsible officers of the Trustee in good faith determine(s) that withholding the notice is in the interests of Holders of the Series.

Section 7.06. Reports by Trustee to Holders.

Within 60 days after each May 15 beginning with the May 15 following the date of this Base Indenture, the Trustee shall mail to each Securityholder a brief report dated as of such May 15 that complies with TIA § 313(a) (but if no event described in TIA § 313(1) through (8) has occurred within the twelve months preceding the reporting date no report in relation thereto need be transmitted). The Trustee also shall comply with TIA § 313(b).

A copy of each report at the time of its mailing to Securityholders shall be delivered to the Company and filed by the Trustee with the SEC and each national securities exchange on which the Securities are listed. The Company agrees to notify the Trustee of each national securities exchange on which the Securities are listed.

Section 7.07. Compensation and Indemnity.

The Company shall pay to the Trustee from time to time reasonable compensation for its services subject to any written agreement between the Trustee and the Company (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust). The Company shall reimburse the Trustee upon request for all reasonable out-of-pocket expenses incurred by it. Such expenses shall include the reasonable compensation and expenses of the Trustee's agents and counsel. The Company shall indemnify the Trustee, its officers, directors, employees and agents and hold it harmless against any loss, liability or expense incurred or made by or on behalf of it in connection with the administration of this Indenture or the trust hereunder and its duties hereunder including the costs and expenses of defending itself against or investigating any claim in the premises. The Trustee shall notify the Company promptly of any claim of which it has received written notice and for which it may seek indemnity. The Company need not reimburse any expense or indemnify against any loss or liability incurred by the Trustee through the Trustee's, or its officers', directors', or employees' negligence or willful misconduct.

Unless otherwise provided in any supplemental indenture or Authorizing Resolution relating to any Series, to ensure the Company's payment obligations in this Section, the Trustee shall have a claim prior to the Securities of all Series on all money or Property held or collected by the Trustee, except that held in trust to pay principal of or interest on particular Securities. When the Trustee incurs expenses or renders services in connection with an Event of Default specified in Section 6.01 or in connection with Article Six hereof, the expenses (including the reasonable fees and expenses of its counsel) and the compensation for services in connection therewith are to constitute expenses of administration under any Bankruptcy Law.

Section 7.08. Replacement of Trustee.

The Trustee may resign with respect to Securities of any or all Series by so notifying the Company. The Holders of a majority in principal amount of the outstanding Securities (or of the relevant Series) may remove the Trustee by so notifying the removed Trustee in writing and may appoint a successor trustee with the Company's consent. Such resignation or removal shall not take effect until the appointment by the Securityholders of the relevant Series or the Company as hereinafter provided of a successor trustee and the acceptance of such appointment by such successor trustee. The Company may remove the Trustee and any Securityholder may petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor trustee for any or no reason, including if:

(1) the Trustee fails to comply with Section 7.10 after written request by the Company or any bona fide Securityholder who has been a Securityholder for at least six months;

(2) the Trustee is adjudged a bankrupt or an insolvent;

(3) a receiver or other public officer takes charge of the Trustee or its Property; or

(4) the Trustee becomes incapable of acting.

If the Trustee resigns or is removed or if a vacancy exists in the office of Trustee for any reason, the Company shall promptly appoint a successor trustee with respect to the Securities of the relevant Series. If a successor trustee does not take office within 30 days after the retiring Trustee resigns or is removed, the retiring Trustee at the expense of the Company, the Company or any Holder may petition any court of competent jurisdiction for the appointment of a successor trustee.

A successor trustee shall deliver a written acceptance of its appointment to the retiring Trustee and to the Company. Immediately after that, the retiring Trustee shall, upon payment of its charges hereunder, transfer all Property held by it as Trustee to the successor trustee, the resignation or removal of the retiring Trustee shall become effective, and the successor trustee shall have all the rights, powers and duties of the Trustee under this Indenture. A successor trustee shall mail notice of its succession to each Securityholder.

Section 7.09. Successor Trustee by Merger, etc.

If the Trustee consolidates with, merges with or into or converts into, or transfers all or substantially all of its corporate trust business to, another corporation, the successor corporation without any further act shall be the successor trustee.

Section 7.10. Eligibility; Disqualification.

This Indenture shall always have a Trustee who satisfies the requirements of TIA § 310(a)(1). The Trustee shall have a combined capital and surplus of at least $10,000,000 as set forth in its most recent published annual report of condition. The Trustee shall comply with TIA § 310(b).

Section 7.11. Preferential Collection of Claims Against Company.

The Trustee shall comply with TIA § 311(a), excluding any creditor relationship listed in TIA § 311(b). A Trustee who has resigned or been removed shall be subject to TIA § 311(a) to the extent indicated therein.

ARTICLE EIGHT

DISCHARGE OF INDENTURE

Section 8.01. Defeasance upon Deposit of Moneys or Government Obligations.

(a) The Company may, at its option and at any time, elect to have either paragraph (b) or paragraph (c) below be applied to the outstanding Securities of any Series upon compliance with the applicable conditions set forth in paragraph (d).

(b) Upon the Company's exercise under paragraph (a) of the option applicable to this paragraph (b) with respect to any Series, the Company shall be deemed to have been released and discharged from its obligations with respect to the outstanding Securities of the Series on the date the applicable conditions set forth below are satisfied (hereinafter, "**Legal Defeasance**"). For this purpose, such Legal Defeasance means that the Company shall be deemed to have paid and discharged the entire Indebtedness represented by the outstanding Securities of a Series, which shall thereafter be deemed to be "outstanding" only for the purposes of the Sections and matters under this Indenture referred to in (i) and (ii) below, and the Company shall be deemed to have satisfied all its other obligations under such Securities and this Indenture insofar as such Securities are concerned, except for the following which shall survive until otherwise terminated or discharged hereunder: (i) the rights of Holders of outstanding Securities of a Series to receive solely from the trust fund described in paragraph (d) below and as more fully set forth in such paragraph, payments in respect of the principal of and interest on such Securities when such payments are due and (ii) obligations listed in Section 8.02, subject to compliance with this Section 8.01. The Company may exercise its option under this paragraph (b) with respect to a Series notwithstanding the prior exercise of its option under paragraph (c) below with respect to the Securities of the Series.

(c) Upon the Company's exercise under paragraph (a) of the option applicable to this paragraph (c) with respect to a Series, the Company shall be released and discharged from the obligations under any covenant contained in Article Five and Sections 4.04 (but only to the extent it applies to Restricted Subsidiaries) and any other covenant contained in or referenced in the Authorizing Resolution or supplemental indenture relating to such Series (to the extent such release and discharge shall not be prohibited thereby), on and after the date the conditions set forth below are satisfied (hereinafter, "**Covenant Defeasance**"), and the Securities of such Series shall thereafter be deemed to be not "outstanding" for the purpose of any direction, waiver, consent or declaration or act of Holders (and the consequences of any thereof) in connection with such covenants, but shall continue to be deemed "outstanding" for all other purposes hereunder. For this purpose, such Covenant Defeasance means that, with respect to the outstanding Securities of a Series, the Company may omit to comply with and shall have no liability in respect of any term, condition or limitation set forth in any such covenant, whether directly or indirectly, by reason of any reference elsewhere herein to any such covenant or by reason of any reference in any such covenant to any other provision herein or in any other document and such omission to comply shall not constitute a Default or an Event of Default under Section 6.01(3) or otherwise, but, except as specified above, the remainder of this Indenture and such Securities shall be unaffected thereby.

(d) The following shall be the conditions to application of either paragraph (b) or paragraph (c) above to the outstanding Securities of the applicable Series:

(1) The Company shall have irrevocably deposited in trust with the Trustee (or another qualifying trustee), pursuant to an irrevocable trust and security agreement in form and substance reasonably satisfactory to the Trustee, money in the currency in which the Securities of such Series are payable or Government Obligations or a combination thereof in such amounts and at such times as are sufficient, in the opinion of a nationally recognized firm of independent public accountants, to pay the principal of and interest on the outstanding Securities of such Series to maturity or redemption; *provided*, *however*, that the Trustee (or other qualifying trustee) shall have received an irrevocable written order from the Company instructing the Trustee (or other qualifying trustee) to apply such money or the proceeds of such Government Obligations to said payments with respect to the Securities of such Series to maturity or redemption;

(2) No Default or Event of Default (other than a Default or Event of Default resulting from non-compliance with any covenant from which the Company is released upon effectiveness of such Legal Defeasance or Covenant Defeasance pursuant to paragraph (b) or (c) hereof, as applicable) shall have occurred and be continuing on the date of such deposit or result therefrom;

(3) Such deposit will not result in a breach or violation of, or constitute a default under, any other material instrument or agreement to which the Company or any of any of its Restricted Subsidiaries is a party or by which it or any of their Property is bound;

(4) (i) In the event the Company elects paragraph (b) hereof, the Company shall deliver to the Trustee an Opinion of Counsel in the United States, in form and substance reasonably satisfactory to the Trustee, to the effect that (A) the Company has received from, or there has been published by, the Internal Revenue Service a ruling or (B) since the Issue Date pertaining to such Series, there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such Opinion of Counsel shall state that, or (ii) in the event the Company elects paragraph (c) hereof, the Company shall deliver to the Trustee an Opinion of Counsel in the United States, in form and substance reasonably satisfactory to the Trustee, to the effect that, in the case of clauses (i) and (ii), and subject to customary assumptions and exclusions, Holders of the Securities of such Series will not recognize income, gain or loss for federal income tax purposes as a result of such deposit and the defeasance contemplated hereby and will be subject to federal income tax in the same amounts and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred;

(5) The Company shall have delivered to the Trustee an Officers' Certificate, stating that the deposit under clause (1) was not made by the Company with the intent of preferring the Holders of the Securities of such Series over any other creditors of the Company or with the intent of defeating, hindering, delaying or defrauding any other creditors of the Company or others;

(6) the Company shall have delivered to the Trustee an Opinion of Counsel (subject to customary assumptions and qualifications) to the effect that, assuming no intervening bankruptcy of the Company between the date of deposit and the 123rd day following the deposit and assuming that no Holder is an "insider" of the Company under applicable Bankruptcy Law, after the 123rd day following the deposit, the trust funds shall not be subject to the effect of Section 547 of the United States Bankruptcy Code or any analogous New York State law provision; and

(7) The Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent specified herein relating to the defeasance contemplated by this Section 8.01 have been complied with.

In the event all or any portion of the Securities of a Series are to be redeemed through such irrevocable trust, the Company must make arrangements satisfactory to the Trustee, at the time of such deposit, for the giving of the notice of such redemption or redemptions by the Trustee in the name and at the expense of the Company.

(e) In addition to the Company's rights above under this Section 8.01, the Company may terminate all of its obligations under this Indenture with respect to a Series, when:

(1) All Securities of such Series theretofore authenticated and delivered (other than Securities which have been destroyed, lost or stolen and which have been replaced or paid as provided in Section 2.07 and Securities for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust) have been delivered to the Trustee for cancellation or all such Securities not theretofore delivered to the Trustee for cancellation (A) have become due and payable, (B) will become due and payable at maturity within one year or (C) are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Company, and in each such case, the Company has irrevocably deposited or caused to be deposited with the Trustee (or another qualifying trustee) as trust funds in trust solely for that purpose an amount of money in the currency in which the Securities of such Series are payable or Government Obligations or a combination thereof sufficient, in the opinion of a nationally recognized firm of independent public accountants, to pay and discharge the entire Indebtedness on the Securities of such Series not theretofore delivered to the Trustee for cancellation, for principal of and interest on the Securities of such Series, on the date of such deposit or to the maturity or redemption date, as the case may be;

(2) The Company has paid or caused to be paid all other sums payable hereunder by the Company;

(3) The Company has delivered irrevocable instructions to the Trustee (or such other qualifying trustee), to apply the deposited money toward the payment of the Securities of such Series at maturity or redemption, as the case may be; and

(4) The Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, stating that all conditions precedent specified in this Section 8.01(e) relating to the satisfaction and discharge of this Indenture have been complied with.

Section 8.02. Survival of the Company's Obligations.

Notwithstanding the satisfaction and discharge of this Indenture under Section 8.01, the Company's obligations in Paragraph 8 of the Securities and Sections 2.03 through 2.07, 4.01, 7.07, 7.08, 8.04 and 8.05, however, shall survive until the Securities of an applicable Series are no longer outstanding. Thereafter, the Company's obligations in Paragraph 8 of the Securities of such Series and Sections 7.07, 8.04 and 8.05 shall survive (as they relate to such Series) such satisfaction and discharge.

Section 8.03. Application of Trust Money.

The Trustee shall hold in trust money or Government Obligations deposited with it pursuant to Section 8.01. It shall apply the deposited money and the money from Government Obligations in accordance with this Indenture to the payment of principal of and interest on the Securities of the defeased Series.

Section 8.04. Repayment to the Company.

The Trustee and the Paying Agent shall promptly pay to the Company upon request any excess money or securities held by them at any time. The Trustee and the Paying Agent shall pay to the Company upon request any money held by them for the payment of principal or interest that remains unclaimed for two years, *provided*, *however*, that the Trustee or such Paying Agent, before being required to make any such repayment, may at the expense of the Company cause to be published once in a newspaper of general circulation in the City of New York or mail to each such Holder notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication or mailing, any unclaimed balance of such money then remaining will be repaid to the Company. After payment to the Company, Securityholders entitled to the money must look to the Company for payment as general creditors unless applicable abandoned property law designates another person and all liability of the Trustee or such Paying Agent with respect to such money shall cease.

Section 8.05. Reinstatement.

If the Trustee is unable to apply any money or Government Obligations in accordance with Section 8.01 by reason of any legal proceeding or by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, the Company's obligations under this Indenture and the Securities relating to the Series shall be revived and reinstated as though no deposit had occurred pursuant to Section 8.01 until such time as the Trustee is permitted to apply all such money or Government Obligations in accordance with Section 8.01; *provided*, *however*, that (a) if the Company has made any payment of interest on or principal of any Securities of the Series because of the reinstatement of its obligations hereunder, the Company shall be subrogated to the rights of the Holders of such Securities to receive such payment from the money or Government Obligations held by the Trustee and (b) unless otherwise required by any legal proceeding or any order or judgment of any court or governmental authority, the Trustee shall return all such money or Government Obligations to the Company promptly after receiving a written request therefor at any time, if such reinstatement of the Company's obligations has occurred and continues to be in effect.

ARTICLE NINE

RESERVED

ARTICLE TEN

AMENDMENTS, SUPPLEMENTS AND WAIVERS

Section 10.01. Without Consent of Holders.

The Company and the Trustee may amend or supplement this Indenture or the Securities of a Series without notice to or consent of any Securityholder of such Series:

(1) to cure any ambiguity, omission, defect or inconsistency;

(2) to comply with Article Five;

(3) to provide that specific provisions of this Indenture shall not apply to a Series not previously issued or to make a change to specific provisions of this Indenture that only applies to any Series not previously issued or to additional Securities of a Series not previously issued;

(4) to create a Series and establish its terms;

(5) to provide for uncertificated Securities in addition to or in place of certificated Securities;

(6) to release a guarantor in respect of any Series which, in accordance with the terms of this Indenture applicable to the particular Series, ceases to be liable in respect of its guarantee;

(7) to add a guarantor in respect of any Series;

(8) to secure any Series;

(9) to comply with requirements of the SEC in order to effect or maintain the qualification of this Indenture under the TIA;

(10) to make any other change that does not adversely affect the rights of Securityholders; and

(11) to conform the provisions of the Indenture to the final offering memorandum in respect of any Series.

After an amendment under this Section 10.01 becomes effective, the Company shall mail notice of such amendment to the Securityholders.

Section 10.02. With Consent of Holders.

The Company and the Trustee may amend or supplement this Indenture or the Securities of a Series without notice to any Securityholder of such Series but with the written consent of the Holders of at least a majority in principal amount of the outstanding Securities of each Series affected by the amendment (including consents obtained in connection with a purchase of, or tender offer or exchange offer for, Securities of such Series). Each such Series shall vote as a separate class. The Holders of a majority in principal amount of the outstanding Securities of any Series may waive compliance by the Company with any provision of the Securities of such Series or of this Indenture relating to such Series without notice to any Securityholder (including any waiver granted in connection with a purchase of, or tender offer or exchange offer for, Securities of such Series). Without the consent of each Holder of a Security affected thereby, however, an amendment, supplement or waiver, including a waiver pursuant to Section 6.04, may not:

(1) reduce the amount of Securities of the relevant Series whose Holders must consent to an amendment, supplement or waiver;

(2) reduce the rate of or extend the time for payment of interest, including defaulted interest, on any Security;

(3) reduce the principal of or extend the fixed maturity of any Security or alter the provisions (including related definitions) with respect to redemption of any Security pursuant to Article Three hereof or with respect to any obligations on the part of the Company to offer to purchase or to redeem Securities of a Series pursuant to the Authorizing Resolution or supplemental indenture pertaining to such Series;

(4) make any change that adversely affects any right of a Holder to convert or exchange any Security into or for shares of the Company's common stock or other securities, cash or other property in accordance with the terms of such Security;

(5) modify the ranking or priority of the Securities of the relevant Series or any guarantee thereof;

(6) release any guarantor of any Series from any of its obligations under its guarantee or this Indenture otherwise than in accordance with the terms of this Indenture;

(7) make any change in Sections 6.04, 6.07 or this Section 10.02;

(8) waive a continuing Default or Event of Default in the payment of the principal of or interest on any Security; or

(9) make any Security payable at a place or in money other than that stated in the Security, or impair the right of any Securityholder to bring suit as permitted by Section 6.07.

An amendment of a provision included solely for the benefit of one or more Series does not affect the interests of Securityholders of any other Series.

It shall not be necessary for the consent of the Holders under this Section to approve the particular form of any proposed supplement, but it shall be sufficient if such consent approves the substance thereof.

Section 10.03. Compliance with Trust Indenture Act.

Every amendment to or supplement of this Indenture or any Securities shall comply with the TIA as then in effect.

Section 10.04. Revocation and Effect of Consents.

A consent to an amendment, supplement or waiver by a Holder shall bind the Holder and every subsequent Holder of a Security or portion of a Security that evidences the same debt as the consenting Holder's Security, even if notation of the consent is not made on any Security. Unless otherwise provided in the consent or the consent solicitation statement or other document describing the terms of the consent, any Holder or subsequent Holder may revoke the consent as to its Security or portion of a Security. Any revocation of a consent by the Holder of a Security or any such subsequent Holder shall be effective only if the Trustee receives the notice of revocation before the date on which the Trustee receives an Officers' Certificate from the Company certifying that the requisite number of consents have been received.

The Company may, but shall not be obligated to, fix a record date for the purpose of determining the Holders of Securities of any Series entitled to consent to any amendment, supplement or waiver, which record date shall be at least 10 days prior to the first solicitation of such consent. If a record date is fixed, and if Holders otherwise have a right to revoke their consent under the consent or the consent solicitation statement or other document describing the terms of the consent, then notwithstanding the second to last sentence of the immediately preceding paragraph, those Persons who were Holders at such record date (or their duly designated proxies), and only those Persons, shall be entitled to revoke any consent previously given, whether or not such Persons continue to be Holders after such record date. No such consent shall be valid or effective for more than 90 days after such record date.

An amendment, supplement or waiver with respect to a Series becomes effective upon the (i) receipt by the Company or the Trustee of the requisite consents, (ii) satisfaction of any conditions to effectiveness as set forth in this Indenture or any indenture supplemental hereto containing such amendment, supplement or waiver and (iii) execution of such amendment, supplement or waiver (or the related supplemental indenture) by the Company and the Trustee. After an amendment, supplement or waiver with respect to a Series becomes effective, it shall bind every Holder of such Series, unless it makes a change described in any of clauses (1) through (9) of Section 10.02, in which case, the amendment, supplement or waiver shall bind a Holder of a Security who is affected thereby only if it has consented to such amendment, supplement or waiver and every subsequent Holder of a Security or portion of a Security that evidences the same debt as the consenting Holder's Security; *provided* that no such waiver shall impair or affect the right of any Holder to receive payment of principal of and interest on a Security, on or after the respective due dates expressed in such Security, or to bring suit for the enforcement of any such payment on or after such respective dates without the consent of such Holder.

Section 10.05. Notation on or Exchange of Securities.

If an amendment, supplement or waiver changes the terms of a Security, the Company may require the Holder of the Security to deliver it to the Trustee, at which time the Trustee shall place an appropriate notation on the Security about the changed terms and return it to the Holder. Alternatively, if the Company or the Trustee so determines, the Company in exchange for the Security shall issue and the Trustee shall authenticate a new Security that reflects the changed terms.

Section 10.06. Trustee to Sign Amendments, etc.

Subject to Section 7.02(b), the Trustee shall sign any amendment, supplement or waiver authorized pursuant to this Article if the amendment, supplement or waiver does not adversely affect the rights, duties, liabilities or immunities of the Trustee. If it does, the Trustee may but need not sign it. In signing or refusing to sign such amendment or supplemental indenture, the Trustee shall be provided with and shall be fully protected in relying upon, an Officers' Certificate and an Opinion of Counsel as conclusive evidence that such amendment, supplement or waiver is authorized or permitted by this Indenture, that it is not inconsistent herewith, and that it will be valid and binding upon the Company and enforceable in accordance with its terms.

ARTICLE ELEVEN

SECURITIES IN FOREIGN CURRENCIES

Section 11.01. Applicability of Article.

Whenever this Indenture provides for (i) any action by, or the determination of any of the rights of, Holders of Securities of any Series in which not all of such Securities are denominated in the same currency, or (ii) any distribution to Holders of Securities, in the absence of any provision to the contrary pursuant to this Indenture or the Securities of any particular Series, any amount in respect of any Security denominated in a Foreign Currency shall be treated for any such action or distribution as that amount of Dollars that could be obtained for such amount on such reasonable basis of exchange and as of the record date with respect to Securities of such Series (if any) for such action, determination of rights or distribution (or, if there shall be no applicable record date, such other date reasonably proximate to the date of such action, determination of rights or distribution) as the Company may specify in a written notice to the Trustee or, in the absence of such written notice, as the Trustee may determine.

ARTICLE TWELVE

MISCELLANEOUS

Section 12.01. Trust Indenture Act Controls.

If any provision of this Indenture limits, qualifies or conflicts with another provision which is required to be included in this Indenture by the TIA, the required provision shall control.

Section 12.02. Notices.

Any order, consent, notice or communication shall be sufficiently given if in writing and delivered in person or mailed by first class mail, postage prepaid, addressed as follows:

if to the Company:

PDL BioPharma, Inc.
932 Southwood Boulevard
Incline Village, Nevada 89451
Attention: Chief Financial Officer

if to the Trustee:

The Bank of New York Mellon Trust Company, N.A.
700 S. Flower St., Suite 500
Los Angeles, CA 90017

Attention: Corporate Trust Department

The Company or the Trustee by notice to the other may designate additional or different addresses for subsequent notices or communications.

Any notice or communication mailed to a Securityholder shall be mailed to him by first class mail at his address as it appears on the registration books of the Registrar and shall be sufficiently given to him if so mailed within the time prescribed.

Failure to mail a notice or communication to a Securityholder or any defect in it shall not affect its sufficiency with respect to other Securityholders. If a notice or communication is mailed in the manner provided above, it is duly given, whether or not the addressee receives it except that notice to the Trustee shall only be effective upon receipt thereof by the Trustee.

If the Company mails notice or communications to the Securityholders, it shall mail a copy to the Trustee at the same time.

In addition to the foregoing, the Trustee agrees to accept and act upon notice, instructions or directions pursuant to this Indenture sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods. If the party elects to give the Trustee e-mail or facsimile instructions (or instructions by a similar electronic method) and the Trustee in its discretion elects to act upon such instructions, the Trustee's understanding of such instructions shall be deemed controlling. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such instructions notwithstanding such instructions conflict or are inconsistent with a subsequent written instruction. The party providing electronic instructions agrees to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

Section 12.03. Communications by Holders with Other Holders.

Securityholders may communicate pursuant to TIA § 312(b) with other Securityholders with respect to their rights under this Indenture or the Securities. The Company, the Trustee, the Registrar and anyone else shall have the protection of TIA § 312(c).

Section 12.04. Certificate and Opinion as to Conditions Precedent.

Upon any request or application by the Company to the Trustee to take any action under this Indenture, the Company shall furnish to the Trustee:

(1) an Officers' Certificate (which shall include the statements set forth in Section 12.05) stating that, in the opinion of the signers, all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with; and

(2) an Opinion of Counsel (which shall include the statements set forth in Section 12.05) stating that, in the opinion of such counsel, all such conditions precedent and covenants, compliance with which constitutes a condition precedent, if any, provided for in this Indenture relating to the proposed action or inaction, have been complied with and that any such section does not conflict with the terms of this Indenture.

Section 12.05. Statements Required in Certificate or Opinion.

Each certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture shall include:

(1) a statement that the person making such certificate or opinion has read such covenant or condition;

(2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(3) a statement that, in the opinion of such person, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(4) a statement as to whether or not, in the opinion of such person, such condition or covenant has been complied with.

Section 12.06. Rules by Trustee and Agents.

The Trustee may make reasonable rules for action by or a meeting of Securityholders. The Registrar or Paying Agent may make reasonable rules for its functions.

Section 12.07. Legal Holidays.

A "**Legal Holiday**" is a Saturday, a Sunday, a legal holiday or a day on which banking institutions in Houston, Texas and New York, New York are not required to be open. If a payment date is a Legal Holiday, payment may be made on the next succeeding day that is not a Legal Holiday, and no interest shall accrue for the intervening period. If this Indenture provides for a time period that ends or requires performance of any non-payment obligation by a day that is not a Business Day, then such time period shall instead be deemed to end on, and such obligation shall instead be performed by, the next succeeding Business Day. A "**Business Day**" is any day other than a Legal Holiday.

Section 12.08. Governing Law.

The laws of the State of New York shall govern this Indenture and the Securities of each Series.

Section 12.09. No Adverse Interpretation of Other Agreements.

This Indenture may not be used to interpret another indenture, loan or debt agreement of the Company or a Subsidiary. Any such indenture, loan or debt agreement may not be used to interpret this Indenture.

Section 12.10. No Recourse Against Others.

All liability described in Paragraph 12 of the Securities of any director, officer, employee or stockholder, as such, of the Company is, to the fullest extent permitted by applicable law, waived and released.

Section 12.11. Successors and Assigns.

All covenants and agreements of the Company in this Indenture and the Securities shall bind its successors and assigns. All agreements of the Trustee in this Indenture shall bind its successors and assigns.

Section 12.12. Duplicate Originals.

The parties may sign any number of copies of this Indenture. Each signed copy shall be an original, but all of them together represent the same agreement.

Section 12.13. Severability.

In case any one or more of the provisions contained in this Indenture or in the Securities of a Series shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Indenture or of such Securities.

Section 12.14. Waiver of Jury Trial.

EACH OF THE COMPANY AND THE TRUSTEE HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS INDENTURE, THE SECURITIES OR THE TRANSACTION CONTEMPLATED HEREBY.

SIGNATURES

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

PDL BIOPHARMA, INC.

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

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

By: /s/ Teresa Petta
Name:Teresa Petta
Title:Vice President

EXHIBIT A

No. _____ CUSIP/ISIN No.: _____

[Title of Security]

PDL BIOPHARMA, INC.

a Delaware corporation

promises to pay to_____or registered assigns

the principal sum of _____[Dollars]* on _____

Interest Payment Dates:_____ and_____

Record Dates: _____ and _____

Authenticated:

Dated:

PDL BIOPHARMA, INC.

By: _____
Title:

The Bank of New York Mellon Trust Company, N.A., as Trustee, certifies that this is one of the Securities referred to in the within mentioned Indenture.

By: _____
Authorized Signatory

_____

* Or other currency. Insert corresponding provisions on reverse side of Security in respect of foreign currency denomination or interest payment requirement.

PDL BIOPHARMA, INC.

[Title of Security]

PDL BIOPHARMA, INC., a Delaware corporation (together with its successors and assigns, the "**Company**"), issued this Security under an Indenture dated as of _____, (as amended, modified or supplemented from time to time in accordance therewith, the "**Base Indenture**"), as supplemented by the Supplemental Indenture dated as of _____ (the "**Supplemental Indenture**" and together with the Base Indenture, the "**Indenture**"), by and among the Company and The Bank of New York Mellon Trust Company, N.A., as trustee (in such capacity, the "**Trustee**"), to which reference is hereby made for a statement of the respective rights, obligations, duties and immunities thereunder of the Company, the Trustee and the Holders and of the terms upon which the Securities are, and are to be, authorized and delivered. All terms used in this Security that are defined in the Indenture shall have the meanings assigned to them therein.

1. Interest.

The Company promises to pay interest on the principal amount of this Security at the rate per annum shown above. The Company will pay interest semiannually on _____ and _____ of each year, commencing _____, _____, until the principal is paid or made available for payment. Interest on the Securities will accrue from the most recent date to which interest has been paid or duly provided for or, if no interest has been paid, from _____, _____, *provided* that, if there is no existing default in the payment of interest, and if this Security is authenticated between a record date referred to on the face hereof and the next succeeding interest payment date, interest shall accrue from such interest payment date. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

2. Method of Payment.

The Company will pay interest on the Securities (except defaulted interest, if any, which will be paid on such special payment date to Holders of record on such special record date as may be fixed by the Company) to the persons who are registered Holders of Securities at the close of business on the [Insert record dates] immediately preceding the interest payment date. Holders must surrender Securities to a Paying Agent to collect principal payments. The Company will pay principal and interest in money of [Insert applicable country or currency] that at the time of payment is legal tender for payment of public and private debts.

3. Paying Agent and Registrar.

Initially, the Trustee will act as Paying Agent and Registrar. The Company may change or appoint any Paying Agent, Registrar or co-Registrar without notice. The Company or any of its Subsidiaries or any of their Affiliates may act as Paying Agent, Registrar or co-Registrar.

4. Optional Redemption.[1]

The Company may redeem the Securities at any time on or after_____, in whole or in part, at the following redemption prices (expressed as a percentage of their principal amount) together with interest accrued and unpaid to the date fixed for redemption:

If redeemed during the twelve-month period commencing on_____ and ending on _____ in each of the following years	**Percentage**

[Insert provisions relating to redemption at option of Holders, if any]

[1] If applicable.

Notice of redemption will be mailed at least 30 days but not more than 60 days before the redemption date to each Holder of Securities to be redeemed at its registered address. Securities in denominations larger than _____[2] may be redeemed in part. On and after the redemption date interest ceases to accrue on Securities or portions of them called for redemption, *provided* that if the Company shall default in the payment of such Securities at the redemption price together with accrued interest, interest shall continue to accrue at the rate borne by the Securities.

5. Mandatory Redemption.[3]

The Company shall redeem [ ]% of the aggregate principal amount of Securities originally issued under the Indenture on each of [ ], which redemptions are calculated to retire [ ]% of the Securities originally issued prior to maturity. Such redemptions shall be made at a redemption price equal to 100% of the principal amount thereof, together with accrued interest to the redemption date. The Company may reduce the principal amount of Securities to be redeemed pursuant to this Paragraph 5 by the principal amount of any Securities previously redeemed, retired or acquired, otherwise than pursuant to this Paragraph 5, that the Company has delivered to the Trustee for cancellation and not previously credited to the Company's obligations under this Paragraph 5. Each such Security shall be received and credited for such purpose by the Trustee at the redemption price and the amount of such mandatory redemption payment shall be reduced accordingly.

6. Denominations, Transfer, Exchange.

The Securities are in registered form only without coupons in denominations of _____[4] and integral multiples of _____ in excess thereof.[5] A Holder may transfer or exchange Securities by presentation of such Securities to the Registrar or a co-Registrar with a request to register the transfer or to exchange them for an equal principal amount of Securities of other denominations. The Registrar may require a Holder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes and fees required by law or permitted by the Indenture. The Registrar need not transfer or exchange any Security selected for redemption or purchase, except the unredeemed or unpurchased part thereof if the Security is redeemed or purchased in part, or transfer or exchange any Securities for a period of 15 days before a selection of Securities to be redeemed or purchased.

7. Persons Deemed Owners.

The registered Holder of this Security shall be treated as the owner of it for all purposes.

8. Unclaimed Money.

Subject to any applicable abandoned property law, the Trustee and the Paying Agent shall pay to the Company upon written request any money held by them for the payment of principal or interest that remains unclaimed for two years, and thereafter, Holders entitled to the money must look to the Company for payment as general creditors.

---

[2] Insert applicable denominations and multiples.

[3] If applicable.

[4] Insert applicable denominations and multiples.

[5] Insert applicable denominations and multiples.

9. Amendment, Supplement, Waiver.

Subject to certain exceptions, the Indenture or the Securities may be amended or supplemented with the consent of the Holders of at least a majority in principal amount of the outstanding Securities of each Series affected by the amendment and any past default or compliance with any provision relating to any Series of the Securities may be waived in a particular instance with the consent of the Holders of a majority in principal amount of the outstanding Securities of such Series.[6] Without the consent of any Securityholder, the Company and the Trustee may amend or supplement the Indenture or the Securities in certain respects as specified in the Indenture.

10. Successor Corporation.

When a successor corporation assumes all the obligations of its predecessor under the Securities and the Indenture, the predecessor corporation will be released from those obligations.

11. Trustee Dealings With Company.

Subject to certain limitations imposed by the TIA, the Trustee under the Indenture, in its individual or any other capacity, may make loans to, accept deposits from, and perform services for the Company or its affiliates, and may otherwise deal with the Company or its affiliates, as if it were not Trustee, including owning or pledging the Securities.

12. No Recourse Against Others.

A director, officer, employee or stockholder, as such, of the Company shall not have any liability for any obligations of the Company under the Securities or the Indenture or for any claim based on, in respect of or by reason of, such obligations or their creation. Each Holder by accepting a Security waives and releases all such liability. The waiver and release are part of the consideration for the issue of the Securities. The waiver may not be effective to waive liabilities under the federal securities laws.

13. Discharge of Indenture.

The Indenture contains certain provisions pertaining to defeasance and discharge, which provisions shall for all purposes have the same effect as if set forth herein.

14. Authentication.

This Security shall not be valid until an authorized signatory of the Trustee signs the certificate of authentication on the other side of this Security.

15. Abbreviations.

Customary abbreviations may be used in the name of a Holder or an assignee, such as: TEN COM (= tenants in common), TEN ENT (= tenants by the entireties), JT TEN (= joint tenants with right of survivorship and not as tenants in common), CUST (= custodian), and U/G/M/A (= Uniform Gift to Minors Act).

16. GOVERNING LAW.

THIS SECURITY SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

---

6 If different terms apply, insert a brief summary thereof.

17. CUSIP and ISIN Numbers.

Pursuant to a recommendation promulgated by the Committee on Uniform Security Identification Procedures, the Company has caused CUSIP and ISIN numbers to be printed on the Securities and has directed the Trustee to use CUSIP and ISIN numbers in notices of repurchase as a convenience to Holders. No representation is made as to the accuracy of such numbers either as printed on the Securities or as contained in any notice of repurchase and reliance may be placed only on the other identification numbers placed thereon.

18. Copies.

The Company will furnish to any Holder upon written request and without charge a copy of the Indenture and the applicable Authorizing Resolution or supplemental indenture. Requests may be made to: PDL BioPharma, Inc. , 932 Southwood Boulevard, Incline Village, Nevada 89451, Attention: [Chief Financial Officer].

ASSIGNMENT FORM

If you the Holder want to assign this Security, fill in the form below:

I or we assign and transfer this Security to

(Insert assignee's social security or tax ID number)

(Print or type assignee's name, address, and zip code)

and irrevocably appoint

agent to transfer this Security on the books of the Company. The agent may substitute another to act for him.

Date:

Your signature:

(Sign exactly as your name appears on the other side of this Security)

Signature Guarantee:

Exhibit 10.3

PDL BIOPHARMA, INC.

2012 Long-Term Incentive Plan

This 2012 Long-Term Incentive Plan (the "**Plan**") is intended to enhance stockholder value by promoting a connection between the performance of PDL BioPharma, Inc. (the "**Company**") and the compensation of personnel of the Company and retaining high performing personnel. This Plan is envisioned to be the first long-term incentive plan in a series of long-term incentive plans, each plan overlapping the previous plan and having a subsequent vesting date to provide maximum continuity and retention effects. The Plan will be administered by the Compensation Committee of the Board of Directors of the Company (the "**Committee**"). The Committee shall have all powers and discretion necessary to administer the Plan and to control its operation, and may delegate any and all such powers and discretion to any officer of the Company. The Plan is effective as of January 1, 2011 (the "**Effective Date**"), and will fully vest on December 31, 2012 (the "**Vesting Period**"). The Plan will terminate when all payments and benefits under the Plan have been made.

1. Eligibility

The employees of the Company set forth in **Exhibit A** (each, a "**Participant**") are eligible to receive a long-term incentive for the period ending December 31, 2012, according to this Plan. To be eligible, a Participant must be employed by the Company as of December 31, 2012, or otherwise eligible because of separation from the Company entitling such Participant to acceleration, vesting and payment of the Plan under any outstanding severance agreement.

2. Incentive

The long-term incentive shall consist of (i) a target cash payment, as increased by the Adjustments in Section 3, and (ii) a grant of restricted stock pursuant to the Company's 2005 Equity Incentive Plan. All incentives shall vest and pay on December 31, 2012, subject to compliance with Section 409A of the Internal Revenue Code and except as accelerated by a Change in Control.

Each Participant's incentive as of the Effective Date is set forth in **Exhibit A**.

3. Adjustments

The cash component of each Participant's incentive may be increased based on Company performance. If any of the performance goals set forth in **Exhibit B** are achieved on or before December 31, 2012, the Participant may receive an additional cash payment equal to a percentage of the Participant's target cash payment (the "**Adjustment**"). The amount of the Adjustment and the achievement of each performance goal will be determined by the Committee in its sole discretion, provided that the aggregate maximum cash payment that any Participant may receive under the Plan may not exceed two times his or her target cash payment.

The following examples demonstrate the calculation of the Adjustments. If, at December 31, 2012, Mr. McLaughlin remains employed by the Company and the Company has successfully protected its European Union Queen et al. patent rights and completed its recapitalization, then Mr. McLaughlin's cash payment will be equal to $703,500 ($469,000 (employment through December 31, 2012) + $187,600 (EU intellectual property) + $46,900 (recapitalization) = $703,500).

Alternatively, if, at December 31, 2012, Mr. McLaughlin remains employed by the Company and the Company successfully achieved maximum performance of all of the performance goals on or before December 31, 2012, then, while the cash payment would be equal to $1,172,500 ($469,000 (employment through December 31, 2012) + $187,600 (EU intellectual property) + $234,500 (merger) + $46,900 (recapitalization) + $234,500 (royalty rights) = $1,172,500), the maximum cash payment would be limited to two times the target cash amount or $938,000 (two times his target cash payment of $469,000).

4. Restricted Stock

The restricted stock award will fully vest on December 31, 2012, provided the Participant remains employed by the Company through such date. Dividend payments and other distributions made on the restricted stock during the Vesting Period will accrue through the Vesting Period and will be paid, plus interest (based on the prevailing interest rate of the *Merrill Lynch FFI Select Institutional Fund*), to the Participant upon vesting of the restricted stock award. For avoidance of doubt, the dividend payment made by the Company on March 15, 2011, shall be included in the amounts accruing and shall be based on the number of shares set forth in **Exhibit A**. The number of shares underlying the restricted stock award shall be determined based on the closing price of the Company's common stock on May 23, 2011.

5. Change in Control

Notwithstanding the foregoing, in the event of a Change in Control, (i) the vesting of the restricted stock award, (ii) the payment of any accrued but unpaid dividends or other distributions, plus interest (at the rate set forth above), and (iii) the payment of the target cash payment, plus any Adjustments that the Committee determines has been earned as of the Change in Control, will accelerate and pay in connection with the Change in Control.

For purposes of this Plan, "**Change in Control**" shall be deemed to have occurred as of the first day after the Effective Date that any one or more of the following conditions is satisfied:

(a) any "person" (as such term is used to Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**")), other than a trustee or other fiduciary holding securities of the Company under an employee benefit plan of the Company, becomes the "beneficial owner" (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of (i) the outstanding shares of common stock of the Company or (ii) the combined voting power of the Company's then-outstanding securities entitled to vote generally in the election of directors; or

(b) the Company (i) is party to a merger, consolidation or exchange of securities which results in the holders of voting securities of the Company outstanding immediately prior thereto failing to continue to hold at least 50% of the combined voting power of the voting securities of the Company, the surviving entity or a parent of the surviving entity outstanding immediately after such merger, consolidation or exchange, or (ii) sells or disposes of all or substantially all of the Company's assets (or any transaction or combination of transactions having similar effect is consummated), or (iii) the individuals constituting the Board of Directors immediately prior to such merger, consolidation, exchange, sale or disposition shall cease to constitute at least 50% of the Board of Directors, unless the election of each director who was not a director prior to such merger, consolidation, exchange, sale or disposition was approved by a vote of at least two-thirds of the directors then in office who were directors prior to such merger, consolidation, exchange, sale or disposition.

Notwithstanding the foregoing, a transaction will not be considered a Change in Control unless the transaction qualifies as a "change in control" as defined in Treasury Regulation Section 1.409A-3(i)(5)(i).

6. 409A

This Plan is intended to be exempt from the requirements of Section 409A of the Internal Revenue Code of 1986, as amended (the "**Code**"), pursuant to the short term deferral exemption of Code Section 409A, so that none of the payments or benefits under this Plan, or shares of Company common stock issuable pursuant to this Plan, will be subject to the additional tax, penalties or other sanctions imposed under Code Section 409A and this Plan shall in all respects be administered, and any ambiguities herein will be interpreted, to be so exempt. For purposes of Code Section 409A, each payment under this Plan shall be treated as a separate payment. In no event may a Participant, directly or indirectly, designate the calendar year of any payment to be made under this Plan.

7. Miscellaneous

The Company shall withhold all applicable taxes from any payment paid or benefit provided under the Plan, including any federal, state and local taxes.

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

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

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

Exhibit A
Participant Incentive

Name	Title	Target Cash Payment	Value of Restricted Stock Award	Number of Shares Underlying Restricted Stock Award
John P. McLaughlin	President and Chief Executive Officer	$ 469,000	$ 201,000	30,501
Christine R. Larson	Vice President and Chief Financial Officer	$ 281,400	$ 120,600	18,300
Christopher L. Stone	Vice President, General Counsel and Secretary	$ 258,000	$ 110,600	16,783
Caroline Krumel	Vice President and Principal Accounting Officer	$ 70,400	$ 30,200	4,583
Danny J Hart, Jr.	Associate General Counsel and Assistant Secretary	$ 58,600	$ 25,100	3,809

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: July 28, 2011

/s/ John P. McLaughlin

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

Exhibit 31.2

CERTIFICATIONS

I, Christine R. Larson, 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: July 28, 2011

/s/ Christine R. Larson

Christine R. Larson
Vice President and Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION

John P. McLaughlin, President and Chief Executive Officer, and Christine R. Larson, Vice President and Chief Financial Officer, of PDL BioPharma, Inc. (the "Registrant"), each hereby certifies in accordance with 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, based on his or her knowledge:

(1) the Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, of the Registrant, to which this certification is attached as an exhibit (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and

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

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

Dated: July 28, 2011

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

/s/ Christine R. Larson
Christine R. Larson
Vice President and Chief Financial Officer
(Principal Financial Officer)