



# **PDL BioPharma, Inc.**

Reno, Nevada

**CONSOLIDATED FINANCIAL STATEMENTS**

**AND**

**REPORT OF INDEPENDENT AUDITORS**

**December 31, 2022**

**PDL BioPharma, Inc.**

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## **Report of Independent Auditors**

To Management and the Board of Directors of PDL BioPharma, Inc.,

### ***Opinion***

We have audited the accompanying consolidated financial statements of PDL BioPharma, Inc. and its subsidiaries (the “Company”), which comprise the consolidated statement of net assets in liquidation as of December 31, 2022, and the related consolidated statement of changes in net assets in liquidation for the year then ended, including the related notes (collectively referred to as the “consolidated financial statements”).

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the net assets in liquidation of the Company as of December 31, 2022, and the changes in its net assets in liquidation for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Basis of Accounting***

As discussed in Note 1 and Note 2 to the consolidated financial statements, the stockholders of PDL BioPharma, Inc. approved a plan of liquidation on August 19, 2020, and the Company determined liquidation is imminent. As a result, the Company changed its basis of accounting on September 1, 2020 from the going concern basis to a liquidation basis. Our opinion is not modified with respect to this matter.

### ***Responsibilities of Management for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement

resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Other Information***

Management is responsible for the other information included in the annual report. The other information comprises the Letter to Investors, but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

*PricewaterhouseCoopers LLP*

San Francisco, CA  
May 11, 2023

**PDL BioPharma, Inc.**  
**CONSOLIDATED STATEMENT OF NET ASSETS IN LIQUIDATION**  
**(Liquidation Basis of Accounting)**  
**(in thousands)**

	<b>December 31, 2022</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 71,635
Short-term investments	118,419
Receivables from asset sales	15,290
Royalty assets	178,596
Other assets	2,024
<b>Total assets</b>	<b>385,964</b>
<b>Liabilities</b>	
Uncertain tax positions	31,423
Compensation and benefit costs	3,649
Other accrued liquidation costs	19,624
<b>Total liabilities</b>	<b>54,696</b>
<b>Net assets in liquidation</b>	<b>\$ 331,268</b>

See accompanying notes.

**PDL BioPharma, Inc.**  
**CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS IN LIQUIDATION**  
**(Liquidation Basis of Accounting)**  
**(in thousands)**

<b>Net assets in liquidation, December 31, 2021</b>	\$	431,963
Changes in assets and liabilities:		
Decrease in cash and cash equivalents		(95,645)
Increase in short-term investments		118,419
Decrease in receivables from asset sales		(11,000)
Decrease in liquidation value of royalty assets		(14,102)
Decrease in receivable from legal settlement		(26,250)
Decrease in income tax receivable		(88,432)
Increase in other assets		60
Decrease in uncertain tax positions		6,139
Decrease in compensation and benefit costs		2,034
Decrease in costs to sell assets		3,520
Decrease in other accrued liquidation costs		4,562
Total change in assets in liquidation		(100,695)
<b>Net assets in liquidation, December 31, 2022</b>	<b>\$</b>	<b>331,268</b>

See accompanying notes.

**PDL BioPharma, Inc.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(Liquidation Basis of Accounting)**  
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**1. The Company**

PDL BioPharma, Inc. (including its subsidiaries, “PDL”, the “Company”, “we”, “us” or “our”) mean collectively PDL BioPharma, Inc. and its subsidiaries, except where it is made clear that the term means only PDL BioPharma, Inc.

Historically, we generated a substantial portion of our revenues through the license agreements related to patents covering the humanization of antibodies, which we refer to as the Queen et al. patents. In 2012, and in anticipation of declining revenues from the Queen et al. patents, we began providing alternative sources of capital through royalty monetization and debt facilities, and, in 2016, we began acquiring commercial-stage products and launching specialized companies dedicated to the commercialization of these products, first with our acquisition of branded prescription pharmaceutical drugs from Novartis AG, Novartis Pharma AG and Speedel Holding AG (collectively, “Novartis”) in 2016, which was sold by our subsidiaries Noden Pharma DAC and Noden Pharma USA, Inc. (collectively, “Noden”) and, in 2017, with the acquisition of LENSAR, Inc. (“LENSAR”), a medical device ophthalmology equipment manufacturing company. In 2019, we entered into a securities purchase agreement with Evofem Biosciences, Inc. (“Evofem”), pursuant to which we invested \$60.0 million in a private placement of securities. These investments provided funding for Evofem’s pre-commercial activities for Phexxi, its non-hormonal, on-demand prescription contraceptive gel for women.

In September 2019, we engaged financial and legal advisors and initiated a review of our strategy. This review was completed in December 2019. At such time, we disclosed that we planned to halt the execution of our growth strategy, cease making additional strategic transactions and investments and instead pursue a formal process to unlock the value of our portfolio by monetizing our assets and ultimately distributing net proceeds to stockholders (the “monetization strategy”). We further announced in December 2019 that we would explore a variety of potential transactions in connection with the monetization strategy, including a whole Company sale, divestiture of our assets, spin-offs of operating entities, merger opportunities or a combination thereof. Over the subsequent months, our board of directors (the “Board”) and management analyzed, together with our outside financial and legal advisors, how to best capture value pursuant to our monetization strategy and best return the significant intrinsic value of the assets in our portfolio to the stockholders.

In February 2020, the Board approved a plan of complete liquidation (the “Plan of Liquidation”) of our assets and passed a resolution to seek stockholder approval to dissolve our Company. At our Annual Meeting of Stockholders in August 2020, the proposal to liquidate and dissolve our Company pursuant to a plan of dissolution was approved by our stockholders. On November 5, 2020, our Board approved filing a certificate of dissolution with the Delaware Secretary of State in January 2021 and proceeding to complete the dissolution process for the Company in accordance with Delaware General Corporate Law. The filing of the certificate of dissolution occurred on January 4, 2021 and we closed our stock transfer books as of such date (the “Final Record Date”). After such time, we are not recording any further transfers of our common stock,

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except pursuant to the provisions of a deceased stockholder's will, intestate succession, or by operation of law and we will not issue any new stock certificates, other than replacement certificates. In addition, we will not be issuing any shares of our common stock for the outstanding stock options. As a result of the closing of our transfer books, it is anticipated that distributions made in connection with the dissolution will be made pro rata to the stockholders of record as of the Final Record Date. In accordance with our dissolution plan, we completed the voluntary delisting process from the Nasdaq Stock Market exchange so that suspension of trading occurred before the market opened on December 31, 2020 and official delisting of our stock occurred on January 7, 2021. On January 8, 2021, we filed a Form 15 notifying the SEC of deregistration of our common stock under Section 12(g) of the Exchange Act and suspension of our duty to file reports under Sections 13 and 15(d) of the Exchange Act. We will not participate in Over-The-Counter ("OTC") trading related to our stock or economic interests in our stock.

Our mission continues to be to optimize the monetization process for PDL's remaining assets and the efficient distribution of the proceeds from that process to our stockholders. In accordance with this mission, in May 2022 we distributed \$114.5 million or \$1.00 per share to stockholders and in November 2022 we distributed \$24.0 million or \$0.21 per share. On April 10, 2023, the Delaware court approved a third distribution of \$95.9 million. As a result, on April 21, 2023, we distributed \$95.9 million. We have not found a suitable buyer for the Assertio royalty asset. If a suitable offer to purchase the Assertio royalty asset is not received prior to completing the dissolution process, the asset could be placed in a liquidating trust, or the company may elect to continue its corporate form if such continuance will further its monetization process by optimizing asset value or utilizing its tax assets. The available proceeds from either the ongoing collection of royalty income or from the sale of the royalty assets would ultimately be distributed to our stockholders. We will continue to assess the market for our remaining assets to determine the appropriate time to sell them or to opt for alternative paths to return their value to our stockholders.

**2. Summary of Significant Accounting Policies**

***Basis of Presentation***

The accompanying Consolidated Financial Statements of the Company and its subsidiaries have been prepared in accordance with Generally Accepted Accounting Principles (United States) ("GAAP").

***Principles of Consolidation***

The Consolidated Financial Statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated.

***Liquidation Basis of Accounting***

As a result of the August 19, 2020 approval by the Company's stockholders to file for dissolution pursuant to a plan of dissolution, it was determined that liquidation was imminent, and the



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Company's basis of accounting transitioned from the going concern basis of accounting to the liquidation basis of accounting ("Liquidation Basis") in accordance with GAAP. Under the Liquidation Basis, the remeasurement of the Company's assets and liabilities includes management's estimates and assumptions of: (i) income to be generated from the remaining assets until the anticipated date of sale; (ii) sales proceeds to be received for these assets at the time of sale; (iii) operating expenses to be incurred; and (iv) amounts required to settle liabilities.

The estimated liquidation values for assets derived from future revenue streams and asset sales and the settlement of liabilities are reflected on the Consolidated Statement of Net Assets in Liquidation. The actual amounts realized could differ materially from the estimated amounts.

***Use of Estimates***

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

Under the Liquidation Basis, the accounting estimates that require management's most significant, difficult and subjective judgments include: the estimated sales proceeds of our assets; estimated settlement amounts of our liabilities; the recognition and measurement of current and deferred income tax assets and liabilities; the amount of uncertain tax positions; and the estimated operating expenses that are projected during dissolution.

***Cash Equivalents***

The Company considers all highly liquid investments with initial maturities of three months or less at the date of purchase to be cash equivalents. The Company places its cash equivalents with high credit quality financial institutions and, by policy, limits the amount of credit exposure in any one financial instrument.

***Income Taxes***

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

The Company recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the Consolidated Financial

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Statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Company adjusts the level of the liability to reflect any subsequent changes in the relevant facts surrounding the uncertain positions. Any interest and penalties on uncertain tax positions are included within the tax provision.

***New Accounting Pronouncements***

Management has evaluated the impact of newly issued accounting pronouncements, whether effective or not as of December 31, 2022, and has concluded that they will not have a material impact on the Company's Consolidated Financial Statements.

**3. Nets Assets in Liquidation**

As of December 31, 2022 the Company estimated the net assets in liquidation, which represents the expected future cash flows related to its remaining assets, liabilities and operating costs through dissolution. The actual cash inflows and outflows may differ materially from the estimated amounts.

***Cash and Cash Equivalents***

As of December 31, 2022, the Company had invested its excess cash balances primarily in cash and government money market funds.

***Short-Term Investments***

At December 31, 2022 the Company had invested in short-term U.S. Treasury Bills. At the time of purchase, the maturities of these Treasury Bills were between four and seven months.

***Receivables from Asset Sales***

During 2022 the Company collected \$11.0 million from the 2020 sale of Noden. As of December 31, 2022, the Company expects to receive an additional \$14.9 million from the Noden sale and \$0.4 million from the sale of select royalty assets in 2020. The Noden asset receivable is expected to be collected quarterly through the fourth quarter of 2023 and the select royalty asset sale receivable is expected to be collected in the third quarter of 2023.

***Receivable from Legal Settlement***

The Company received \$26.25 million in January 2022 from the settlement of a prior contractual dispute, the terms of which are confidential.

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***Royalty Assets***

*Assertio Royalty Agreement*

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

On August 2, 2018, the Company, entered into an amendment to the Assertio Royalty Agreement with Assertio. Pursuant to the amendment, the Company purchased all of Assertio’s remaining interests in royalty and milestone payments payable on sales of Type 2 diabetes products licensed by Assertio for \$20.0 million. Prior to the amendment, the Assertio Royalty Agreement provided that the Company would have received all royalty and milestone payments due under license agreements between Assertio and its licensees until the Company received payments equal to two times the cash payment it made to Assertio, or approximately \$481.0 million, after which all net payments received by Assertio would have been shared equally between the Company and Assertio. Following the amendment, the Assertio Royalty Agreement provides that the Company will receive all royalty and milestone payments due under the license agreements between Assertio and its licensees.

As of December 31, 2018, in conjunction with the amendment described above, the Company was provided the power to direct the activities of Depo DR Sub, LLC and is the primary beneficiary of Depo DR Sub, LLC; therefore, Depo DR Sub, LLC is subject to consolidation by the Company. As of December 31, 2022, Depo DR Sub, LLC did not have any assets or liabilities of value for consolidation with the Company.

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

Through September 30, 2022, per the liquidation basis of accounting, the Assertio royalties were valued using undiscounted estimated cash receipts until the estimated date of sale of December 31, 2022, plus a discounted value of the remaining estimated cash flows as an estimate of the expected cash consideration from the sale of these royalty rights at that time. However, as of December 31, 2022 the Assertio royalty asset was not sold and management reached the conclusion that the Company should no longer include an expectation that the Assertio royalty will be sold in the foreseeable future.

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In addition, during the quarter ended December 31, 2022 the Company updated its forecast of the expected future cash flows for the Assertio royalty asset with the assistance of a third-party expert. Management used this new forecast to determine the best estimate of the cash realizable value of the Assertio royalty asset, in accordance with the Liquidation Basis. As of December 31, 2022, the expected cash realizable value of the Assertio royalty asset was \$178.6 million. The Assertio royalty value of \$178.6 million reflects both a forecasted cash flow update as well as changes to the discounting of those future cash flows.

The Company received \$32.3 million in royalty income from the Assertio royalty rights for the year ended December 31, 2022.

*University of Michigan Royalty Agreement*

On November 6, 2014, the Company acquired a portion of all royalty payments of the U-M worldwide royalty interest in Cerdelga (eliglustat) for \$65.6 million pursuant to the Royalty Purchase and Sale Agreement with U-M (the “U-M Royalty Agreement”). Under the terms of the U-M Royalty Agreement, the Company receives 75% of all royalty payments due under the U-M license agreement with Genzyme Corporation, a Sanofi company (“Genzyme”) until expiration of the licensed patents, excluding any patent term extension. Cerdelga, an oral therapy for adult patients with Gaucher disease type 1, was developed by Genzyme.

The Company received \$4.9 million in royalty income from the U-M royalty rights for the year ended December 31, 2022.

The Company’s royalty rights for the U-M royalty asset expired in April 2022 for the U.S. royalties and in July 2022 for the non-U.S. royalties and no further cash is expected to be received from this asset.

***Other Assets***

Other assets within the Consolidated Statement of Net Assets in Liquidation consist of the following:

<i>(in thousands)</i>	<b>December 31, 2022</b>
Private company investments <sup>1</sup>	\$ 991
CareView note receivable <sup>2</sup>	690
CareView warrants <sup>3</sup>	113
Other assets	230
<b>Total</b>	<b>\$ 2,024</b>

<sup>1</sup> As of December 31, 2022, the Company held 1.7 million shares in a private company, AEON and three private companies which were spun off from AEON. The three additional entities are Alphaeon 1 LLC, Alphaeon Credit

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HoldCo LLC and Zelegent HoldCo LLC. The expected cash realizable value of the AEON Related Companies was \$1.0 million.

<sup>2</sup> As of December 31, 2022, the Company held a note receivable from a publicly traded company, CareView Communications, Inc. (“CareView”) (Nasdaq: CRVW). See Note 4, *Note Receivable*, for additional information.

<sup>3</sup> As of December 31, 2022, the Company held warrants to purchase 4.4 million shares of common stock in CareView. The expected cash realizable value of the CareView warrant was \$0.1 million, which is based on the recently quoted market price of the underlying equity security and the Black-Scholes option pricing model and adjusted by an estimated discount to sell the asset.

***Uncertain Tax Positions***

The Company’s uncertain tax positions primarily relate to the examination of tax years 2013-2016 by the California Franchise Tax Board (“CA FTB”) and tax positions taken on federal tax returns. See Note 6, *Income Taxes*, for additional information.

***Compensation and Benefit Costs***

As of December 31, 2022, the Company had four full-time employees managing our intellectual property, operations and other liquidation activities. The Company’s estimated costs for employee compensation through dissolution of the Company of \$3.6 million at December 31, 2022, includes employee salaries, merit and retention bonuses, health care insurance and employer payroll taxes.

***Other Accrued Liquidation Costs***

Other accrued liquidation costs represent estimated costs related to operating the business through dissolution and settlement of future liabilities. These costs are estimated and are anticipated to be paid during the dissolution period.

As of December 31, 2022, “Other accrued liquidation costs” on the Consolidated Statement of Net Assets in Liquidation included the following estimated costs:

<i>(in thousands)</i>	<b>December 31, 2022</b>
Deferred tax liabilities <sup>1</sup>	\$ 16,202
Legal and other professional fees <sup>2</sup>	1,597
Tax preparation fees <sup>3</sup>	195
Audit fees <sup>4</sup>	295
Board fees <sup>5</sup>	375
Other <sup>6</sup>	960
<b>Total</b>	<b>\$ 19,624</b>

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- <sup>1</sup> Deferred tax assets and liabilities are determined based on the differences between financial reporting and income tax bases of assets and liabilities, as well as net operating loss carryforwards and are measured using the enacted tax rates and laws in effect when the differences are expected to reverse. See Note 6, *Income Taxes*, for additional information.
- <sup>2</sup> Includes estimated legal services required for the dissolution of the business, asset management costs and other professional services.
- <sup>3</sup> The Company uses third-party tax advisors for the preparation of the tax provision, tax compliance filings, and for assistance with various tax issues that arise in the normal course of business.
- <sup>4</sup> The Company used an independent accounting firm to perform an annual audit of the Company's consolidated financial statements at December 31, 2022.
- <sup>5</sup> As of December 31, 2022, the Company has three independent board members who are each paid \$18,750 quarterly. It is estimated that the Company will continue to have three independent board members through December 31, 2024.
- <sup>6</sup> Other accrued liquidation costs include miscellaneous expenses related to operating the business through dissolution and settlement of future liabilities.

**4. Note Receivable**

*CareView Credit Agreement*

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

As part of the original credit agreement, the Company received a warrant to purchase approximately 4.4 million shares of common stock of CareView.

In February 2018, the Company entered into a modification agreement with CareView (the "February 2018 Modification Agreement") whereby the Company agreed, effective December 28, 2017, to modify the credit agreement before remedies could otherwise have become available to the Company under the credit agreement in relation to certain obligations of CareView that would potentially not be met, including the requirement to make principal payments. Under the February 2018 Modification Agreement, the Company agreed that principal repayment would be delayed until December 31, 2018.

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In December 2018, the Company further modified the loan by agreeing that the first principal payment would be deferred until January 31, 2019 and the scheduled interest payment due December 31, 2018 would be deferred until January 31, 2019. The principal repayment and interest payment were subsequently deferred until May 15, 2019 under additional amendments. In May 2019, the Company further modified the loan by agreeing that the first principal and interest payments would be deferred until September 30, 2019 and the interest rate would be increased to 15.5%. Pursuant to further amendments to the February 2018 Modification Agreement the Company has agreed to defer principal and interest payments until May 31, 2023.

As of December 31, 2022, the expected cash realizable value of the CareView note receivable was \$0.7 million, which approximates the estimated recovery value of the CareView loan and is included in "Other assets" on the Statement of Net Assets in Liquidation.

**5. Assets with No Estimable Cash Value**

As of December 31, 2022, select assets held by the Company have no estimated cash value, although future events could cause the Company to recognize additional value from these assets.

*Solanezumab*

Solanezumab is a Lilly-licensed humanized monoclonal antibody being tested in a study of older individuals who may be at risk of memory loss and cognitive decline due to Alzheimer's disease. Lilly has characterized the study as an assessment of whether an anti-amyloid investigational drug in older individuals who do not yet show symptoms of Alzheimer's disease cognitive impairment or dementia can slow memory loss and cognitive decline. The study will also test whether Solanezumab treatment can delay the progression of Alzheimer's disease related brain injury on imaging and other biomarkers. If Solanezumab is approved and commercialized pursuant to this clinical trial or another, we would be entitled to receive a royalty based on a "know-how" license for technology provided in the design of this antibody. The 2% royalty on net sales is payable for 12.5 years after the product's first commercial sale. The above-described study is currently in Phase 3 testing with a primary completion date of December 27, 2022 and an estimated study completion date of June 30, 2023.

*Direct Flow Medical*

In November 2013, the Company entered into a credit agreement with Direct Flow Medical, Inc. ("Direct Flow Medical"). Direct Flow Medical was unable to make interest and principal payments according to the original and subsequent amendments to the credit agreement. As a result of not being able to obtain additional funding, Direct Flow Medical shut down its operations in December 2016 and in January 2017, made an assignment for the benefit of creditors. The Company then initiated foreclosure procedures resulting in the Company obtaining ownership of most of the Direct Flow Medical assets through the Company's wholly owned subsidiary, DFM, LLC. In August 2019, the Company sold the DFM intangible assets for \$5.0 million in cash and a single-

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digit percentage of any net final award received as part of the acquirer’s monetization process using the intangible assets.

**6. Income Taxes**

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

The significant components of the Company’s net deferred tax assets and liabilities are as follows:

<i>(in thousands)</i>	<b>December 31, 2022</b>
Deferred tax assets:	
Net operating loss (“NOL”) carryforwards	\$ 722
ASC 740-10 (uncertain tax positions) reserve	4,125
Debt modifications	1,078
Capital loss carryforward	5,746
Stock-based compensation	2,469
Research and other tax credits	1,448
Reserves and accruals	143
Other	30
Total deferred tax assets	15,761
Valuation allowance	(12,816)
Total deferred tax assets, net of valuation allowance	2,945
Deferred tax liabilities:	
Intangible assets	(19,086)
Other	(61)
Total deferred tax liabilities	(19,147)
<b>Net deferred tax liabilities</b>	<b>\$ (16,202)</b>

As of December 31, 2022, the Company had federal NOL carryforwards of \$49.2 million. As of December 31, 2022, the Company also had California NOL carryforwards of \$6.4 million, excluding \$215.5 million of California NOLs available to offset assessments, if any, resulting from the current audit by the CA FTB. The federal and state NOL carryforwards will begin expiring in the year 2023, if not utilized. As of December 31, 2022, the Company had \$2.3 million of federal tax credits that will begin expiring in the year 2025, if not utilized. As of December 31, 2022, the Company had \$19.3 million of California tax credit carryforwards that do not expire.



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Utilization of the federal and California NOL and tax credit carryforwards may be subject to a substantial annual limitation due to the “change in ownership” provisions of the Internal Revenue Code of 1986. The annual limitation may result in the expiration of NOLs and credits before utilization. Of the Company’s \$49.2 million of federal NOL carryforwards as of December 31, 2022, \$7.4 million are subject to an annual limitation of \$1.8 million for the year ending December 31, 2022, and \$1.3 million for the year ending December 31, 2023. As of December 31, 2022, the Company estimates that at least \$6.1 million of federal NOL carryforwards will expire unutilized and none of the California NOLs will expire unutilized. Furthermore, under the Tax Cuts and Job Act of 2017 (the “2017 Tax Act”), although the treatment of tax losses generated in taxable years ending before December 31, 2017 has not changed, tax losses generated in taxable years beginning after December 31, 2017 may only be utilized to offset 80% of taxable income annually. This change may require the Company to pay additional federal income taxes in future years if utilizing any losses generated after 2017.

As of December 31, 2022, the Company determined that it was more likely than not that certain deferred tax assets would not be realized in the near future and had a \$12.8 million valuation allowance against deferred tax assets. The net change in total valuation allowance for the year ending December 31, 2022 was a decrease of \$6.6 million. \$5.7 million of the valuation allowance at December 31, 2022 is related to capital losses that have limited carryforward utilization. The Company does not have an expectation of future capital gains against which such losses could be utilized and as such determined that it was more likely than not that such deferred tax assets would not be realized. \$7.1 million of the valuation allowance at December 31, 2022 is related to federal and state deferred tax assets that the Company determined were not more likely than not would be realized.

A reconciliation of the Company’s unrecognized tax benefits, excluding accrued interest and penalties, for 2022 is as follows:

<i>(in thousands)</i>	<b>December 31, 2022</b>
Balance at the beginning of the year	\$ 77,018
Increases related to tax positions from prior fiscal years	-
Decreases related to tax positions from prior fiscal years	<u>(8,344)</u>
Balance at the end of the year	<u>\$ 68,673</u>

The future impact of the unrecognized tax benefit of \$68.7 million, if recognized, is as follows: \$21.1 million would affect the effective tax rate and \$47.6 million would result in adjustments to deferred tax assets and valuation allowances. The Company periodically evaluates its exposures associated with our tax filing positions. The Company is currently engaged in a protest proceeding at the CA FTB. The timing of the audit resolution and the amount to be ultimately paid (if any) is uncertain. The outcome of the audit could result in the payment of tax amounts that differ from the amounts the Company has reserved for uncertain tax positions for the periods under audit resulting in incremental expense or a reversal of the Company’s reserves in a future period. At this time, the

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Company does not anticipate a material change in the unrecognized tax benefits related to the California FTB audit that would affect the effective tax rate, deferred tax assets or valuation allowances over the next 12 months.

Estimated interest and penalties associated with unrecognized tax benefits increased our income tax expense by \$0.6 million during the year ended December 31, 2022. Interest and penalties associated with unrecognized tax benefits accrued on the Consolidated Statement of Net Assets were \$10.3 million as of December 31, 2022.

The Company's U.S. federal income tax returns are subject to examination for the tax years 2019 forward. In general, the Company's state and local income tax returns are subject to examination by tax authorities for tax years 2000 forward. The Company is currently under income tax examination by the CA FTB for the tax years 2013 through 2016.

As previously disclosed, the Company received a \$88.4 million refund, plus applicable interest in March 2022 from the United States Internal Revenue Service (the "IRS"). The refund was related to the 2020 tax loss, which was able to be carried back pursuant to certain provisions of the CARES Act. In August 2022, the Company received a notice of examination from the IRS for tax years 2015, 2016, 2017, and 2020. The Company responded timely to all communications with the IRS and in December 2022, the Company received a notice stating that the IRS had reviewed the Company's tax periods 2015, 2016, 2017 and 2020 and accepted them as filed. The statute of limitations for the Company's tax year 2020 is March 31, 2023, due to the Company making a request for a prompt assessment and then by further agreement with the IRS.

**7. Commitments and Contingencies**

*Wind Down Payments to Stock Option Holders*

The Wind Down Retention Plan provides for equitable adjustments to outstanding stock options held by participants to ensure such participants realize the same benefits provided to stockholders in the event one or more cash or other distributions become payable to stockholders. Consistent with the existing terms of the Equity Plan, in the event one or more cash or other distributions are paid to stockholders, the exercise price of outstanding stock options will be reduced on a dollar-for-dollar basis to reflect the per share value of such distributions. In the event that the Company declares cash or other distributions that, in the aggregate, exceed the difference between the exercise price of an outstanding stock option and the par value of the underlying shares (\$0.01), the holder of such stock option will be entitled to receive from the Company a cash payment in an amount equal to the number of shares subject to such stock option multiplied by the per share amount of the cash or other distribution that exceeds the difference between exercise price of the outstanding option and the par value of the underlying shares (a "true-up payment"). A true-up payment is also paid with respect to a post-dissolution cash or other distributions with respect to a stock option that was not exercised prior to dissolution in the same fashion as provided above.

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True-up payments are to be made on the same date that cash or other distributions are paid or made to the Company's stockholders.

During the year ended December 31, 2022 the Company made true-up payments of \$0.1 million on 2.0 million options. These options are now eligible to participate in any future distributions on a dollar-for-dollar basis as the exercise price was met.

There were 11,141,051 stock options outstanding at the time the Company filed for dissolution. At December 31, 2022 there were 9,176,639 options subject to the true-up payments referenced previously. The weighted average exercise price of these options is \$0.82. As of January 4, 2021, the date the Certificate of Dissolution was filed, the Company was unable to issue stock for any purpose, including to cover the exercise of employee options, and as a result such options became unexercisable.

*SWK Royalty Asset Escrow Receivable*

The proceeds from the sale of the three royalty interests to SWK Funding, LLC ("SWK"), a wholly owned subsidiary of SWK Holdings Corporation, totaled \$4.35 million, 90% of which was received at the closing of the transaction. The remaining 10% or \$0.4 million, included in "Receivables from asset sales" in the Statement of Net Assets in Liquidation, is currently held in escrow against certain potential contingencies and is to be released on the three-year anniversary of the closing, August 28, 2023, subject to the satisfaction of any such potential contingencies.

**8. Subsequent Events**

Subsequent events have been evaluated by the Company through May 11, 2023, the date that the financial statements were available for issuance.

On February 27, 2023 we filed our Motion for Third Interim Distribution To Stockholders ("Interim Distribution Motion") in which we requested the permission of the Court to distribute \$95.9 million in cash to our stockholders. The Court required that any opposition to our motion be filed by March 31, 2023. No claimants opposed our interim distribution and, other than our open audit with the California Franchise Tax Board, we have resolved all known claims against the Company. As a result, the Court granted our motion on April 10, 2023, and we distributed \$0.837438 per share, or \$95.9 million on April 21, 2023 to stockholders of record as of the Final Record Date (January 4, 2021). We also made payments to option holders of \$3.5 million as a result of this distribution.