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

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2012
OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number: 000-19756

PDL BioPharma, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

Title of Class	**Name of Exchange on which Registered**
Common Stock, par value $0.01 per share	**The NASDAQ Stock Market LLC**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ☐
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No x
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 website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐
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 (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No x
The aggregate market value of shares of common stock held by non-affiliates of the registrant, based on the closing sale price of a share of common stock on June 29, 2012 (the last business day of the registrant's most recently completed second fiscal quarter, as reported on the NASDAQ Global Select Market, was $925,223,899.

As of February 15, 2013, the registrant had outstanding 139,982,837 shares of common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement to be delivered to stockholders with respect to the registrant's 2013 Annual Meeting of Stockholders to be filed by the registrant with the U.S. Securities and Exchange Commission (hereinafter referred to as the "Proxy Statement") are incorporated by reference into Part III of this Annual Report on Form 10-K. The registrant intends to file its proxy statement within 120 days after its fiscal year end.

PDL BIOPHARMA, INC.

2012 Form 10-K Annual Report

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GLOSSARY OF TERMS AND ABBREVIATIONS

Abbreviation/term	Definition
'216B Patent	European Patent No. 0 451 216B
'761 Patent	U.S. Patent No. 5,693,761
2012 Notes	2.0% Convertible Senior Notes due February 15, 2012, fully retired at June 30, 2011
Abbott	Abbott Laboratories
APIC	Additional paid-in-capital
ASU	Accounting Standards Update
AxoGen	AxoGen, Inc.
BioTransplant	BioTransplant, Inc.
Chugai	Chugai Pharmaceutical Co., Ltd.
Elan	Elan Corporation, PLC
EPO	European Patent Office
ex-U.S.-based Manufacturing and Sales	Products that are both manufactured and sold outside of the United States
Facet	Facet Biotech Corporation. In April 2010, Abbott acquired Facet and later renamed the company Abbott Biotherapeutics Corp., and in January 2013, Abbott Biotherapeutics Corp. was renamed AbbVie Biotherapeutics, Inc. and spun off from Abbott as a subsidiary of AbbVie Inc.
FASB	Financial Accounting Standards Board
FDA	U.S. Food and Drug Administration
February 2015 Notes	2.875% Convertible Senior Notes due February 15, 2015
GAAP	U.S. Generally Accepted Accounting Principles
Genentech	Genentech, Inc.
Genentech Products	Avastin®, Herceptin®, Lucentis®, Xolair®, Perjeta®
Lilly	Eli Lilly and Company
May 2015 Notes	3.75% Senior Convertible Notes due May 2015
MedImmune	MedImmune, LLC
Merus Labs	Merus Labs International, Inc.
Non-Recourse Notes	QHP PhaRMA℠ Senior Secured Notes due March 15, 2015, issued through our wholly-owned subsidiary, QHP Royalty Sub LLC, in November 2009, fully repaid in September 2012
Novartis	Novartis AG
PDL, we, us, our, the Company	PDL BioPharma, Inc.
Pfizer	Pfizer, Inc.
PLMA	Patent licensing master agreement
Queen et al. patents	PDL's patents in the United States and elsewhere covering the humanization of antibodies
Roche	F. Hoffman LaRoche, Ltd.
Royalty Agreement	Revenue interests purchase agreement between PDL and AxoGen.
SEC	Securities and Exchange Commission
Series 2012 Notes	2.875% Series 2012 Convertible Senior Notes due February 15, 2015
SPCs	Supplementary Protection Certificates
SPC Products	Avastin®, Herceptin®, Lucentis®, Xolair® and Tysabri®
Spin-Off	The spin-off by PDL of Facet
T-DM1	Trastuzumab-DM1
U.S.-based Sales	Products sold in the United States or manufactured in the United States and used or sold anywhere in the world
UCB	UCB Pharma S.A.
VWAP	Volume weighted average share price
Wellstat Diagnostics	Wellstat Diagnostics, LLC

PART I

Forward-looking Statements

This Annual Report contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts are "forward-looking statements" for purposes of these provisions, including any projections of earnings, revenues or other financial items, any statements of the plans and objectives of management for future operations, including any statements concerning new licensing, any statements regarding future economic conditions or performance, and any statement of assumptions underlying any of the foregoing. In some cases, forward-looking statements can be identified by the use of terminology such as "may," "will," "intends," "plans," "believes," "anticipates," "expects," "estimates," "predicts," "potential," "continue" or "opportunity," or the negative thereof or other comparable terminology. Although we believe that the expectations presented in the forward-looking statements contained herein are reasonable at the time of filing, 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 Annual Report. All forward-looking statements and reasons why results may differ included in this Annual 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.

We own or have rights to certain trademarks, trade names, copyrights and other intellectual property used in our business, including PDL BioPharma and the PDL logo, each of which is considered a trademark. All other company names, product names, trade names and trademarks included in this Annual Report are trademarks, registered trademarks or trade names of their respective owners.

ITEM 1. BUSINESS

Overview

PDL pioneered the humanization of monoclonal antibodies and, by doing so, enabled the discovery of a new generation of targeted treatments for cancer, immunologic diseases and other medical conditions. Today, PDL is focused on intellectual property asset management, investing in income generating assets and maximizing the value of its patent portfolio and related assets. We receive royalties based on sales of humanized antibody products marketed today and may also receive royalty payments on additional humanized antibody products that are manufactured or launched before final patent expiry in December 2014 or which are otherwise subject to a royalty for licensed know-how under our agreements. Under our licensing agreements, we are entitled to receive a flat-rate or tiered royalty based upon our licensees' net sales of covered antibodies.

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

We were organized as a Delaware corporation in 1986 under the name Protein Design Labs, Inc. In 2006, we changed our name to PDL BioPharma, Inc. Our business previously included a biotechnology operation that was focused on the discovery and development of novel antibodies. We spun-off the operation to our stockholders as Facet in December 2008.

2013 Dividends

We currently utilize dividends to increase return for our stockholders. On January 23, 2013, our board of directors declared that the regular quarterly dividends to be paid to our stockholders in 2013 will be $0.15 per share of common stock, payable on March 12, June 12, September 12 and December 12 of 2013 to stockholders of record on March 5, June 5, September 5 and December 5 of 2013, the record dates for each of the dividend payments, respectively. At the beginning of each fiscal year, our board of directors sets the Company's total annual dividend payments for the 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 the dividend.

Intellectual Property

Patents

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

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	Expiration Date
08/477,728	06/07/95	5,585,089	12/17/96	06/25/13
08/474,040	06/07/95	5,693,761	12/02/97	12/02/14
08/487,200	06/07/95	5,693,762	12/02/97	06/25/13
08/484,537	06/07/95	6,180,370	01/30/01	06/25/13

Our U.S. '761 patent, which is the last to expire of our U.S. patents, covers methods and materials used in the manufacture of humanized antibodies. In addition to covering methods and materials used in the manufacture of humanized antibodies, coverage under our ‘761 patent will typically extend to the use or sale of compositions made with those methods and/or materials.

Our '216B patent expired in Europe in December 2009. We have been granted SPCs for the Avastin®, Herceptin®, Lucentis®, Xolair® and Tysabri® products in many of the jurisdictions in the European Union in connection with the ‘216B patent. The SPCs effectively extend our patent protection with respect to SPC Products generally until December 2014, except that the SPCs for Herceptin will generally expire in July 2014. Because SPCs are granted on a jurisdiction-by-jurisdiction basis, the duration of the extension varies slightly in certain jurisdictions. We may still be eligible for royalties notwithstanding the unavailability of SPC protection if the relevant royalty-bearing humanized antibody product is also made, used, sold or offered for sale in or imported from a jurisdiction in which we have an unexpired Queen et al. patent such as the United States. Royalties on the sale of the Genentech Products that are made and sold outside the United States accounted for approximately 38% of our royalty revenues for the year ended December 31, 2012.

Licensing Agreements

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

Our total revenues from U.S. based licensees were $133.8 million, $137.3 million and $130.1 million for the years ended December 31, 2012, 2011 and 2010, respectively. Our total revenues from foreign based licensees were $240.7 million, $224.7 million and $214.9 million for the years ended December 31, 2012, 2011 and 2010, respectively.

Licensing Agreements for Marketed Products

In the year ended December 31, 2012, 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 and other regulatory agencies outside the United States.

Licensee	Product Names
Genentech	Avastin®
	Herceptin®
	Xolair®
	Lucentis®
	Perjeta®
Elan	Tysabri®
Chugai	Actemra®

For the years ended December 31, 2012, 2011 and 2010, we received royalty revenues under our license agreements of approximately $374.5 million, $351.6 million and $343.5 million, respectively.

Genentech

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

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

Genentech Products Made and Sold ex-U.S.	
Net sales	3.0%

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

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

	Year Ended December 31,		
	2012	2011	2010
Avastin			
Ex-U.S.-based sales	56%	55%	50%
Ex-U.S.-based Manufacturing and Sales	29%	21%	21%
Herceptin			
Ex-U.S.-based sales	69%	71%	70%
Ex-U.S.-based Manufacturing and Sales	37%	35%	44%
Lucentis			
Ex-U.S.-based sales	63%	59%	56%
Ex-U.S.-based Manufacturing and Sales	0%	0%	0%
Perjeta			
Ex-U.S.-based sales	1%	0%	0%
Ex-U.S.-based Manufacturing and Sales	0%	0%	0%
Xolair			
Ex-U.S.-based sales	39%	40%	35%
Ex-U.S.-based Manufacturing and Sales	39%	40%	35%

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

In the years ended December 31, 2012, 2011 and 2010, PDL received royalties from ex-U.S. based Manufacturing and Sales of three of Genentech's licensed products: Herceptin, Avastin and Xolair. Roche, Genentech's parent company, produces Avastin and Herceptin in plants in Basel, Switzerland and Penzberg, Germany, respectively. Roche has announced that there are new plants in Singapore for the potential production of Avastin and Lucentis.

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

On June 8, 2012, Genentech announced that the U.S. Food and Drug Administration approved Perjeta (pertuzumab). Perjeta is approved in combination with Herceptin and docetaxel chemotherapy for the treatment of people with HER2-postive metastatic breast cancer who have not received prior anti-HER2 therapy or chemotherapy for metastatic disease. PDL began receiving royalties generated from Perjeta during the year ended December 31, 2012.

On December 14, 2012, Genentech announced that the European Union's Committee for Medicinal Products for Human Use has given a positive opinion for the use of Perjeta in combination with Herceptin and docetaxel chemotherapy for the treatment of people with HER2-postive metastatic breast cancer who have not received prior anti-HER2 therapy or chemotherapy for metastatic disease.

Elan

We entered into a patent license agreement, effective April 24, 1998, under which we granted to Elan a license under our Queen et al. patents to make, use and sell antibodies that bind to the cellular adhesion molecule α4 in patients with multiple sclerosis. Under the agreement, we are entitled to receive a flat royalty rate in the low single digits based on Elan's net sales of the Tysabri product. Our license agreement with Elan entitles us to royalties following the expiration of our patents with respect to sales of licensed product manufactured prior to patent expiry in jurisdictions providing patent protection. The agreement continues until

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

Chugai

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

Licensing Agreements for Non-Marketed Products

We have also entered into licensing agreements under which we have licensed certain rights under our Queen et al. patents to make, use and sell certain products that are not currently marketed. Certain of these development-stage products are currently in Phase 3 clinical trials. With respect to these agreements, we may receive payments based on certain development milestones and annual maintenance fees. We may also receive royalty payments if the licensed products receive marketing approval and are manufactured or generate sales before the expiration of our Queen et al. patents. For example, trastuzumab-DM1 which is an experimental, antibody-drug conjugate that links Herceptin to a cytotoxic, or cell killing agent is 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. An additional example is the Lilly licensed antibody for the treatment of Alzheimer’s disease. If Lilly’s antibody for Alzheimer’s disease is approved, we would receive royalties on sales of solanezumab manufactured before patent expiration, as well as be entitled to receive a royalty based on a “know-how” license for technology provided in the design of this antibody. Unlike the royalty for the patent license, the two percent royalty payable for “know-how” runs for 12.5 years after the product’s initial commercialization.

Protection of our Intellectual Property

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

Genentech / Roche Matter

Communications with Genentech regarding European SPCs

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

Genentech’s letter does not suggest that any of the Genentech Products do not infringe PDL’s U.S. patents to the extent that such Genentech Products are U.S.-based Sales. Genentech’s quarterly royalty payments received after receipt of the letter have included royalties generated on all worldwide sales of the Genentech Products and have been without reservation of rights.

If Genentech is successful in asserting this position, then under the terms of our license agreements with Genentech, it would not owe us royalties on sales Avastin, Herceptin, Lucentis and Xolair that are both manufactured and sold outside of the United States. Royalties on ex-U.S.-based Manufacturing and Sales of the Genentech Products accounted for approximately 38% of our royalty revenues for the year ended December 31, 2012.

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

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

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

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

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

The court has scheduled trial to commence on October 7, 2013. The outcome of this litigation is uncertain and we may not be successful in our allegations.

Income Generating Asset Acquisitions

The last of PDL's Queen et al. patents expire in December 2014, with the obligation to pay royalties under our various license agreements expiring sometime thereafter. We do not expect to receive any meaningful revenue from the inventories produced prior to the expiration of our Queen et al. patents beyond the first quarter of 2016. Consequently, we are acquiring income generating assets if such assets can be acquired on terms that allow us to increase the return to our stockholders. We primarily focus our income generating asset acquisition strategy on commercial stage therapies and devices having strong economic fundamentals and intellectual property protection.

Notes and Other Long-term Receivables

Wellstat Diagnostics Note Receivable and Credit Agreement

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

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

Under the credit agreement, Wellstat Diagnostics may prepay the credit agreement at a price that, together with interest and royalty payments already made to the Company would generate a specified internal rate of return to the Company. In the event of change of control, bankruptcy or certain other customary events of defaults, or Wellstat Diagnostics' failure to achieve specified annual revenue threshold in 2017, Wellstat Diagnostics shall be required to prepay the credit agreement at a price that, together with interest and royalty payments already made to the Company, would generate a specified internal rate of return to the Company.

The credit agreement is secured by a pledge of all of the assets of Wellstat Diagnostics and a pledge of all of Wellstat Diagnostics' equity interests by the holders thereof.

In January 2013, the Company was informed that, as of December 31, 2012, Wellstat Diagnostics had used funds contrary to the terms of the credit agreement and breached Sections 2.1.2 and 7 of the credit agreement. PDL sent Wellstat Diagnostics a notice of default on January 22, 2013, and accelerated the amounts owed under the credit agreement. In connection with the notice of

default, PDL exercised one of its available remedies and transferred approximately $8.1 million of available cash from a bank account of Wellstat Diagnostics to PDL and applied the funds to amounts due under the credit agreement. Subsequently, PDL has agreed to provide up to $7.9 million to Wellstat diagnostics to fund the business for the 120-day forbearance period under the terms of the credit agreement. On February 28, 2013, the parties entered into a forbearance agreement whereby PDL has agreed to refrain from exercising additional remedies for 120 days while Wellstat Diagnostics raises funds to capitalize the business and the parties attempt to negotiate a revised credit agreement.

As a result of the foregoing default, we prepared an impairment analysis of the Wellstat Diagnostics' note receivable as of December 31, 2012. The note is collateralized by all assets and equity interest in Wellstat Diagnostics. Therefore, we evaluated impairment by assessing the estimated fair value of the collateral. We concluded that no impairment existed as of December 31, 2012, because the estimated fair value of the collateral exceeded the carrying value of the note.

On January 27, 2012, PDL and Hyperion Catalysis International, Inc. (Hyperion) entered into a Purchase and Sale Agreement (Agreement) whereby Hyperion sold to PDL the right to receive two milestone payments due from Showa Denka K.K. in 2013 and 2014 in exchange for a lump sum payment to Hyperion. PDL received the first payment of $1.2 million on February 28, 2013. The second and final payment of $1.2 million is due in the first week of March 2014. Hyperion may opt to prepay any payment amount due to PDL at any time without penalty.

Hyperion is a mature company with proven technology, licensees and revenue streams, so there was no indication of impairment at December 31, 2012. However, Hyperion shares common equity holders with Wellstat Diagnostics. As a result of the breach by Wellstat Diagnostics of the Credit Agreement between PDL and Wellstat Diagnostics, the Company reviewed the Hyperion Agreement for impairment. While no payment is due from the Hyperion Agreement until the first week of March 2014, PDL management was concerned that the payment would not be received, given Hyperion's shareholders' breach of the credit agreement of Wellstat Diagnostics. To ensure that the Hyperion March 2013 payment of $1.2 was received, PDL included the Hyperion March 2013 payment in the Wellstat Diagnostics forbearance agreement, signed on February 28, 2013.

A discounted cash flow (DCF) analysis supports the $2.3 million carrying value of the Hyperion Agreement at December 31, 2012. Based upon the DCF and the guarantee provided in the Wellstat Diagnostics forbearance agreement, management believes that all amounts due will be received and believes there is no impairment of the Hyperion Agreement. Therefore, no adjustment or reserve was required to the $2.3 million carrying value of the Agreement as of December 31, 2012.

Merus Labs Note Receivable and Credit Agreement

In July 2012, PDL loaned $35.0 million to Merus Labs in connection with its acquisition of a commercial-stage pharmaceutical product and related assets. In addition, PDL agreed to provide a $20.0 million letter of credit on behalf of Merus Labs that the seller of the assets may draw upon on July 11, 2013, to satisfy the remaining $20.0 million purchase price obligation on July 11, 2013. Draws on the letter of credit will be funded from the proceeds of an additional loan to Merus Labs. Outstanding borrowings under the July 2012 loan bear interest at the rate of 13.5% per annum and outstanding borrowings as a result of draws on the letter of credit bear interest at the rate of 14.0% per annum. Merus Labs is required to make four periodic principal payments in respect of the July 2012 loan, with repayment of the remaining principal balance of all loans due on March 31, 2015. The borrowings are subject to mandatory prepayments upon certain asset dispositions or debt issuances upon the terms set forth in the credit agreement.

The credit agreement provides for a number of standard events of default, including payment, bankruptcy, covenant, judgment and cross-defaults.

AxoGen Revenue Interest Purchase Agreement

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

Under the Royalty Agreement, beginning on October 1, 2016, or in the event of the occurrence of a material adverse event or AxoGen's bankruptcy or material breach of the Royalty Agreement, the Company may require AxoGen to repurchase the Royalty Rights at a price that, together with payments already made by AxoGen, would generate a specified internal rate of return to the Company.

In the event of a change of control of AxoGen, it must repurchase the assigned interests from the Company for a repurchase price equal to an amount that, together with payments already made by AxoGen, would generate a specified internal rate of return to the Company. The Company concluded that the repurchase option is an embedded derivative which should be bifurcated and separately accounted for at fair value. The fair value of the repurchase option was not material on December 31, 2012.

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

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

Convertible Notes

We have actively worked to restructure the Company’s capital and reduce the potential dilution associated with our convertible notes. As part of those efforts, in January 2012, we exchanged and subsequently retired $169.0 million aggregate principal amount of our February 2015 Notes for an identical principal amount of our new Series 2012 Notes, plus a cash payment of $5.00 for each $1,000 principal amount tendered for a total cash incentive payment of approximately $0.8 million. In February 2012, we entered into separate privately negotiated exchange agreements under which we exchanged and subsequently retired an additional $10.0 million aggregate principal amount of our February 2015 Notes for $10.0 million aggregate principal amount of our Series 2012 Notes. Following settlement of the private exchanges on February 2, 2012, $1.0 million of our February 2015 Notes and $179.0 million of our Series 2012 Notes were outstanding. Our Series 2012 Notes net share settle, meaning that if a conversion occurs, the principal amount is due in cash, and to the extent that the conversion value exceeds the principal amount, the difference is due in shares of our common stock. The effect of issuing $179.0 million aggregate principal of our Series 2012 Notes with the net share settle feature in exchange for our February 2015 Notes was the reduction of 27.8 million shares of potential dilution to our stockholders at the time of the exchange.

Effect of December 14, 2012, Dividend Payment on Conversion Rates for the Convertible Notes

In connection with the December 14, 2012, dividend payment, the conversion rates for our convertible notes adjusted as follows:

Convertible Notes	Conversion Rate per $1,000 Principal Amount	Approximate Conversion Price Per Common Share	Effective Date
Series 2012 Notes	169.525	$ 5.90	December 5, 2012
May 2015 Notes	148.3827	$ 6.74	December 5, 2012
February 2015 Notes	169.525	$ 5.90	December 10, 2012

Major Customers

Our revenues consist almost entirely of royalties. We also receive periodic milestone payments from licensees of our Queen et al. patents and may continue to receive payments if the licensed products in development achieve certain development milestones. In addition, we will 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. In 2012, 2011 and 2010, Genentech accounted for 85%, 86%, and 86% of our revenues, respectively, and Elan accounted for 13%, 12% and 10% of our revenues, respectively.

Employees

As of December 31, 2012, we had less than ten full-time 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. None of our employees are covered by a collective bargaining agreement.

Available Information

We file electronically with the SEC our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended. The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of that website is www.sec.gov.

We make available free of charge on or through our website at *www.pdl.com* our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and proxy statements, as well as amendments to these reports and statements, as soon as practicable after we have electronically filed such material with, or furnished them to, the SEC. You may also obtain copies of these filings free of charge by calling us at (775) 832-8500. Also, our Audit Committee Charter, Compensation Committee Charter, Nominating and Governance Committee Charter, Litigation Committee Charter, Corporate Governance Guidelines and Code of Business Conduct are also available free of charge on our website or by calling the number listed above.

ITEM 1A. RISK FACTORS

You should carefully consider and evaluate all of the information included and incorporated by reference in this Annual Report, including the risk factors listed below. Any of these risks, 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.

Keep these risk factors in mind when you read forward-looking statements contained in this Annual Report and the documents incorporated by reference in this Annual Report. These statements relate to our expectations about future events and time periods. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “intends,” “plans,” “believes,” “anticipates,” “expects,” “estimates,” “predicts,” “potential,” “continue” or “opportunity,” the negative of these words or words of similar import. Similarly, statements that describe our reserves and our future plans, strategies, intentions, expectations, objectives, goals or prospects are also forward-looking statements. Forward-looking statements involve risks and uncertainties, and future events and circumstances could differ significantly from those anticipated in the forward-looking statements.

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. 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, such as limits on the scope of and/or an adverse 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. For further information, see “Item 3—Legal Proceedings.”

Our common stock may lose value, our common stock could be delisted from NASDAQ and our business may be liquidated due to several factors, including the expiration of our Queen et al. patents, the failure to acquire additional sources of revenue, the payment of dividends or distributions to our stockholders and failure to meet analyst expectations.

Our revenues consist almost entirely of royalties from licensees of our Queen et al. patents, which finally expire in December of 2014. The continued payment of dividends or distributions to our stockholders without other revenue sources and the approaching patent expiration will likely reduce the price of our common stock. If the price of our common stock were to fall below NASDAQ listing standards, our common stock may be delisted. If our common stock were delisted, market liquidity for our common stock could be severely affected and our stockholders’ ability to sell securities in the secondary market could be limited. Delisting from NASDAQ would negatively affect the value of our common stock. Delisting could also have other negative results, including, but not limited to, the potential loss of confidence by employees, the loss of institutional investor interest and fewer business development opportunities.

Unless we are able to acquire patents or other sources of revenue on commercially reasonable terms, we will no longer generate revenues sufficient to sustain an ongoing public company once our licensees have sold all their inventory of licensed product that entitles us to receive royalty payments. If we are unsuccessful in acquiring additional new sources of revenue sufficient to sustain our business, we will liquidate or sell our business.

If we fail to meet the expectations of securities analysts or investors, or if adverse conditions prevail or are perceived to prevail with respect to our business, the price of our common stock would likely drop significantly.

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

Our '216B Patent in Europe was granted in 1996 by the European Patent Office. 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 the SPC Products to the extent these products are made and/or sold in Europe. 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 patent offices or 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, whether the product named in the SPC is protected by the underlying patent in accordance with controlling European law and/or whether the SPC was properly granted pursuant to controlling European law. Such a proceeding would involve complex legal and factual questions. In addition, the European Court of Justice has the authority to interpret the SPC regulation and could do so in a manner that materially impacts the enforceability of our SPCs against the SPC Products. 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 38%, 33%, and 35% of our royalty revenues for the years ended December 31, 2012, 2011 and 2010. 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 "Item 3—Legal Proceedings."

We depend on our licensees for the determination of royalty payments. We may not be able to detect errors and payment calculations may call for retroactive adjustments.

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

Although we regularly exercise our royalty audit rights, we rely in the first instance on our licensees to accurately report sales and calculate and pay applicable royalties and, upon exercise of such royalty audit rights, we rely on licensees cooperation in performing such audits. In the absence of such cooperation, we may be forced to exercise legal remedies to enforce our agreements.

We derive a significant portion of our royalty revenues from Genentech and our future success depends on continued market acceptance of their products and approval of their licensed products that are in development, as well as continued performance by Genentech of its obligations under its agreements with us.

Our revenues consist almost entirely of royalties from licensees of our Queen et al. patents of which the Genentech Products accounted for 85%, 86% and 86% of our revenues for the years ended December 31, 2012, 2011 and 2010, respectively. Our future success, at least prior to the expiration of the Queen et al. patents, depends upon the continued market acceptance of the Genentech Products and upon the ability of Genentech to develop, introduce and deliver products that achieve and sustain market acceptance. We have no control over the sales efforts of Genentech and our other licensees, and our licensees might not be successful. Reductions in the sales volume or average selling price of Genentech Products could have a material adverse effect on our business.

In addition, our business and results of operations also depend on Genentech continuing to perform its obligations under its license agreements with us.

In August 2010, we received a letter from Genentech on behalf of Roche and Novartis asserting that Avastin, Herceptin, Lucentis and Xolair do not infringe our SPCs. If Genentech is successful in asserting this position, then under the terms of our license agreements with Genentech, it would not owe us royalties on ex-U.S.-based Manufacturing and Sales of Avastin, Herceptin,

Lucentis and Xolair. These royalties accounted for approximately 38%, 33%, and 35% of our royalty revenues for the years ended December 31, 2012, 2011 and 2010, respectively.

We believe that these SPCs are enforceable and intend to vigorously assert our SPC-based patent rights. If we are unable to resolve the dispute with Genentech, we will incur significant additional costs and senior management time in asserting our rights under our various agreements with Genentech, whether through continued litigation, arbitration or otherwise. To the extent Genentech stops or reduces payment of royalties on ex-U.S.-based Manufacturing and Sales of Avastin, Herceptin, Lucentis and Xolair, this would have a material negative impact on our cash flow and our ability to pay dividends in the future. See “Item 3—Legal Proceedings.”

Our licensees may be unable to maintain regulatory approvals for currently licensed products, or to obtain regulatory approvals for new products, and they may voluntarily remove currently licensed products from marketing and commercial distribution. Any of such events, whether due to safety issues or other factors, could reduce our revenues.

Our licensees are subject to stringent regulation with respect to product safety and efficacy by various international, federal, state and local authorities. Of particular significance are the FDA requirements covering research and development, testing, manufacturing, quality control, labeling and promotion of drugs for human use in the United States. As a result of these requirements, the length of time, the level of expenditures and the laboratory and clinical information required for approval of a biologic license application or new drug application are substantial and can require a number of years. In addition, even if our licensees’ products receive regulatory approval, they remain subject to ongoing FDA and other international regulations including, but not limited to, obligations to conduct additional clinical trials or other testing, changes to the product label, new or revised regulatory requirements for manufacturing practices, written advisements to physicians and/or a product recall or withdrawal. Our licensees may not maintain necessary regulatory approvals for their existing licensed products or our licensees may not obtain necessary regulatory approvals on a timely basis, if at all, for any of the licensed products our licensees are developing or manufacturing. The occurrence of adverse events reported by any licensee may result in the revocation of regulatory approvals or decreased sales of the applicable product due to a change in physicians’ willingness to prescribe, or patients’ willingness to use the applicable product. Our licensees could also choose to voluntarily remove their licensed products from marketing and commercial distribution. In any of these cases, our revenues could be materially and adversely affected. For example, in November 2011, the FDA removed the indication for breast cancer from Avastin’s label. In 2005, Tysabri, was temporarily suspended and then returned to the market. In such cases, our revenues could be materially and adversely affected.

In addition, the current regulatory framework could change, or additional regulations could arise at any stage during our licensees’ product development or marketing which may affect our licensees’ ability to obtain or maintain approval of their licensed products. Delays in our licensees receiving regulatory approval for licensed products or their failure to maintain existing regulatory approvals could have a material adverse effect on our business.

Our licensees face competition.

Our licensees face competition from other pharmaceutical and biotechnology companies. The introduction of new competitive products or follow-on biologics may result in lost market share for our licensees, reduced use of licensed products, lower prices and/or reduced licensed product sales, any of which could reduce our royalty revenues and have a material adverse effect on our results of operations.

Our current and future acquisitions of other material income generating asset transactions may not produce anticipated revenues, and if such transactions are secured by collateral, we may be, or may become, undersecured by the collateral or such collateral may lose value and we will not be able recuperate our capital expenditures in the acquisition.

We are engaged in a continual review of opportunities to acquire income generating assets, whether royalty based or otherwise, or to acquire companies that hold royalty assets. We currently, and generally at any time, have acquisition opportunities in various stages of active review, including, for example, our engagement of consultants and advisors to analyze particular opportunities, technical, financial and other confidential information, submission of indications of interest and involvement as a bidder in competitive auctions. Many potential acquisition targets do not meet our criteria, and for those that do, we may face significant competition for these acquisitions from other royalty buyers and enterprises. Competition for future asset acquisition opportunities in our markets could increase the price we pay for such assets and could reduce the number of potential acquisition targets. The success of our income generating asset acquisitions is based on our ability to make accurate assumptions regarding the valuation, timing and amount of payments. The failure of any of these acquisitions to produce anticipated revenues may materially and adversely affect our financial condition and results of operations.

Some of these income generating acquisitions expose us to credit risk in the event of default by the counterparty. To mitigate this risk, on occasion, we may obtain a security interest as collateral in the assets of such counterparty. Our credit risk in respect of such counterparty may be exacerbated when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount we are due pursuant to the terms of the particular income generating assets. This could occur in circumstances where the original collateral was not sufficient to cover a complete loss (e.g., our interests were only partially secured) or may result from the deterioration in value of the collateral, so that, in either such case, we are unable to recuperate our full capital outlay. Any such losses resulting therefrom could materially and adversely affect our financial condition and results of operations.

We may use cash from time to time a certain amount of cash in order to satisfy the obligations relating to our convertible notes. The maturity or conversion of any of our convertible notes may adversely affect our financial condition and operating results, which could adversely affect the amount or timing of dividends to our stockholders.

As of December 31, 2012, $179.0 million in principal remained outstanding under our Series 2012 Notes, $155.3 million in principal remained outstanding under our May 2015 Notes and $1.0 million in principal remained outstanding under our February 2015 Notes. At maturity, 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 our Series 2012 Notes, $179.0 million as of December 31, 2012.

Holders of the February 2015 Notes may convert their notes at any time, at the holder’s election. Holders of the May 2015 Notes and Series 2012 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, in the case of our May 2015 Notes, and December 31, 2011, in the case of our Series 2012 Notes, 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, in the case of our May 2015 Notes, and August 15, 2014, in the case of our Series 2012 Notes, holders may convert their notes at any time, regardless of the foregoing circumstances. These notes are net-share settled. 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 or Series 2012 Notes, because our May 2015 Notes and Series 2012 Notes are net share settled, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of our May 2015 Notes and Series 2012 Notes as a current rather than long-term liability, which could result in a material reduction of our net working capital.

We may use cash 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. In addition, we may redeem (except in the case of our Series 2012 Notes that are unredeemable by us), 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.

The conversion of any of our February 2015 Notes, our May 2015 Notes or our Series 2012 Notes into shares of our common stock would have a dilutive effect that could cause our stock price to go down.

Our May 2015 Notes, until November 1, 2014, and our Series 2012 Notes, until August 15, 2014, are convertible into shares of our common stock only if specified conditions are met and thereafter convertible at any time, at the option of the holder. Our February 2015 Notes are convertible at any time at the holder’s election. We have reserved shares of our authorized common stock for issuance upon conversion of these convertible notes. Upon conversion, the principal amount is due in cash, and to the extent that the conversion value exceeds the principal amount, the difference is due in shares of common stock. If any or all of these convertible 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 rate as of December 31, 2012, for our February 2015 Notes and Series 2012 Notes is 169.525 shares of common stock per $1,000 principal amount or a conversion price of approximately $5.90 per share of common stock and the conversion rate for our May 2015 Notes is 148.3827 shares of common stock per $1,000 principal amount, or a conversion price of

approximately $6.74 per share of common stock. Because the conversion rates of these convertible notes adjust upward upon the occurrence of certain events, such as a dividend payment, our existing stockholders may experience more dilution if any or all of these convertible notes are converted into shares of our common stock after the adjusted conversion rates became effective.

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

In connection with the issuance of our 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 our 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' deficit. In connection with hedging these transactions, the 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 our May 2015 Notes (and are likely to do so during any cash settlement averaging period related to any conversion of our 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 our 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 our May 2015 Notes and may result in an increase in dilution with respect to our common stock.

Changes in the third-party reimbursement environment may affect product sales from which we receive royalty revenues.

Sales of products from which we receive royalties will depend significantly on the extent to which reimbursement for the cost of such products and related treatments will be available to physicians and patients from various levels of U.S. and international government health authorities, private health insurers and other organizations. Third-party payers and government health administration authorities increasingly attempt to limit and/or regulate the reimbursement of medical products and services, including branded prescription drugs. Changes in government legislation or regulation, such as the Affordable Care Act; the Health Care and Education Reconciliation Act of 2010; the Medicare Improvements for Patients and Providers Act of 2009 and the Medicare, Medicaid and State Children's Health Insurance Program Extension Act of 2007 and changes in formulary or compendia listing or changes in private third-party payers' policies toward reimbursement for such products may reduce reimbursement of the cost of such products to physicians, pharmacies and distributors. Decreases in third-party reimbursement could reduce usage of such products and sales to collaborators, which may have a material adverse effect on our royalties. In addition, macroeconomic factors may affect the ability of patients to pay or co-pay for costs or otherwise pay for products from which we generate royalties by, for example, decreasing the number of patients covered by insurance policies or increasing costs associated with such policies.

Our revenues and operating results will likely fluctuate in future periods.

Our royalty revenues may be unpredictable and fluctuate because they depend upon, among other things, the rate of growth of sales of licensed products as well as the mix of U.S.-based Sales and ex-U.S.-based Manufacturing and Sales in connection with our master patent license agreement with Genentech.

The Genentech agreement provides for a tiered royalty structure. The royalty rate Genentech must pay on 95% of the underlying gross U.S.-based Sales in a given calendar year decreases on incremental U.S.-based Sales above certain net sales thresholds. As a result of the tiered royalty structure, Genentech's average annual royalty rate for a given year declines as Genentech's U.S.-based Sales increase during that year. Because we receive royalties one quarter in arrears, the average royalty rate for the payments we receive from Genentech in the second calendar quarter, which would be 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 is generally lowest in the fourth quarter and first calendar quarter of the following year, which would be for Genentech's sales from the third and fourth calendar quarter, when Genentech's U.S.-based Sales bear royalties at a 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.

We may experience increases and decreases in our royalty revenues due to fluctuations in foreign currency exchange rates and we may be unsuccessful in our attempts to mitigate this risk.

A material portion of our royalties are calculated based on sales in currencies other than the U.S. dollar. Fluctuations in foreign currency rates, particularly the Euro, relative to the U.S. dollar can significantly affect our revenues and operating results. 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. For example, 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 exchange rates remained unchanged. 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 is subject to foreign currency exchange risk. For example, in a quarter in which we generate $70 million in royalty revenues and when approximately $35 million is based on sales in currencies other than the U.S. dollar, if the U.S. dollar strengthens across all currencies by 10% during the conversion period for that quarter, when compared to the same amount of local currency royalties for the prior year, U.S. dollar converted royalties will be approximately $3.5 million less in the current quarter than in the prior year.

To compensate for Euro currency fluctuations, we hedge Euro currency exposures with Euro forward and option contracts, to offset the risks associated with these Euro currency exposures. We may suspend the use of these contracts from time to time or we may be unsuccessful in our attempt to hedge our Euro currency risk. We will continue to experience foreign currency related fluctuations in our royalty revenues in certain instances when we do not enter into foreign currency exchange contracts or where it is not possible or cost effective to hedge our foreign currency related exposures. Currency related fluctuations in our royalty revenues will vary based on the currency exchange rates associated with these exposures and changes in those rates, whether we have entered into foreign currency exchange contracts to offset these exposures and other factors. All of these factors could materially impact our results of operations, financial position and cash flows, the timing of which is variable and generally outside of our control.

We must attract, retain and integrate key employees in order to succeed. It may be difficult to recruit, retain and integrate key employees.

To be successful, we must attract, retain and integrate qualified personnel. Our business is intellectual property asset management, investing in income generating assets and maximizing the value of our patent portfolio and related assets, which requires only a small number of employees. Due to the potential short-term nature and remote location of our company, it may be difficult for us to recruit and retain qualified personnel. If we are unsuccessful in attracting, retaining and integrating qualified personnel, our business could be impaired.

Our agreements with Facet may not reflect terms that would have resulted from arm's-length negotiations between unaffiliated third parties.

The agreements associated with the Spin-Off of Facet in December 2008, including the Separation and Distribution Agreement, Tax Sharing and Indemnification Agreement and Cross License Agreement, were negotiated in the context of the Spin-Off while Facet was still part of PDL and, accordingly, may not reflect more favorable terms that may have resulted from arm's-length negotiations between unaffiliated third parties.

We may have obligations for which we may not be able to collect under our indemnification rights from Facet.

Under the terms of the Separation and Distribution agreement with Facet, we and Facet agreed to indemnify the other from and after the Spin-Off with respect to certain indebtedness, liabilities and obligations that were retained by our respective companies. These indemnification obligations could be significant. The ability to satisfy these indemnities, if called upon to do so, will depend upon the future financial strength of each of our companies. We cannot assure you that, if Facet has to indemnify us for any substantial obligations, Facet will have the ability to satisfy those obligations. If Facet does not have the ability to satisfy those obligations, we may be required to satisfy those obligations instead. For example, in connection with the Spin-Off, we

entered into amendments to the leases for the facilities in Redwood City, California, which formerly served as our corporate headquarters, under which Facet was added as a co-tenant under the leases and a Co-Tenancy Agreement under which Facet agreed to indemnify us for all matters related to the leases attributable to the period after the Spin-Off date. Should Facet default under its lease obligations, we 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, the disposition of which could have a material adverse effect on the amount or timing of any distribution to our stockholders. As of December 31, 2012, the total lease payments for the duration of the guarantee, which runs through December 2021, are approximately $100.3 million. We would also be responsible for lease related payments 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 renamed the company Abbott Biotherapeutics Corp., and in January 2013, Abbott Biotherapeutics Corp. was renamed AbbVie Biotherapeutics, Inc. and spun off from Abbott as a subsidiary of AbbVie Inc. We do not know how Abbott's acquisition of Facet will impact our ability to collect under our indemnification rights or whether Facet's ability to satisfy its obligations will change. In addition, we have limited information rights under the Co-Tenancy Agreement. As a result, we are unable to determine definitively whether Facet continues to occupy the space and whether it has subleased the space to another party. See "Item 2—Properties."

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We lease approximately 4,800 square feet of office space in Incline Village, Nevada, which serves as our corporate headquarters. The lease expires in May 2014. We may, at our option, extend the term of this lease.

In July 2006, we entered into two leases and a sublease for the facilities in Redwood City, California, which formerly served as our corporate headquarters and cover approximately 450,000 square feet of office space. Under the amendments to the leases entered into in connection with the Spin-Off, Facet was added as a co-tenant under the leases. 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 payment of rental obligations. However, we also entered into a Co-Tenancy Agreement with Facet in connection with the Spin-Off and the lease amendments under which we assigned to Facet all rights under the leases, including, but not limited to, the right to amend the leases, extend the lease term or terminate the leases, and Facet assumed all of our obligations under the leases. Under the Co-Tenancy Agreement, we also relinquished any right or option to regain possession, use or occupancy of these facilities. Facet agreed to indemnify us for all matters associated with the leases attributable to the period after the Spin-Off date and we agreed to indemnify Facet for all matters associated with the leases attributable to the period before the Spin-Off date. In addition, in connection with the Spin-Off, the sublease was assigned by PDL to Facet. To date, Facet has satisfied all obligations under the Redwood City lease.

ITEM 3. LEGAL PROCEEDINGS

Genentech / Roche Matter

Communications with Genentech regarding European SPCs

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

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

If Genentech is successful in asserting this position, then under the terms of our license agreements with Genentech, it would not owe us royalties on sales of Avastin, Herceptin, Lucentis and Xolair that are both manufactured and sold outside of the United States. Royalties on sales of Avastin, Herceptin, Lucentis and Xolair that are ex-U.S.-based Manufacturing and Sales accounted for approximately 38% of our royalty revenues for the year ended December 31, 2012.

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

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

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

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

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

The court has scheduled trial to commence on October 7, 2013. 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 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock trades on the NASDAQ Global Select Market under the symbol "PDLI." Prices indicated below are the high and low intra-day sales prices per share of our common stock as reported by the NASDAQ Global Select Market for the periods indicated.

	High	Low
2012		
First Quarter	$ 6.60	$ 6.00
Second Quarter	$ 6.68	$ 6.03
Third Quarter	$ 7.86	$ 6.49
Fourth Quarter	$ 8.43	$ 6.95
2011		
First Quarter	$ 6.40	$ 4.66
Second Quarter	$ 6.70	$ 5.70
Third Quarter	$ 6.44	$ 5.40
Fourth Quarter	$ 6.46	$ 5.15

As of February 15, 2013, we had approximately 137 common stockholders of record. Most of our outstanding shares of common stock are held of record by one stockholder, Cede & Co., as nominee for the Depository Trust Company. Many brokers, banks and other institutions hold shares of common stock as nominees for beneficial owners which deposit these shares of common stock in participant accounts at the Depository Trust Company. The actual number of beneficial owners of our stock is likely significantly greater than the number of stockholders of record; however, we are unable to reasonably estimate the total number of beneficial owners.

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.

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

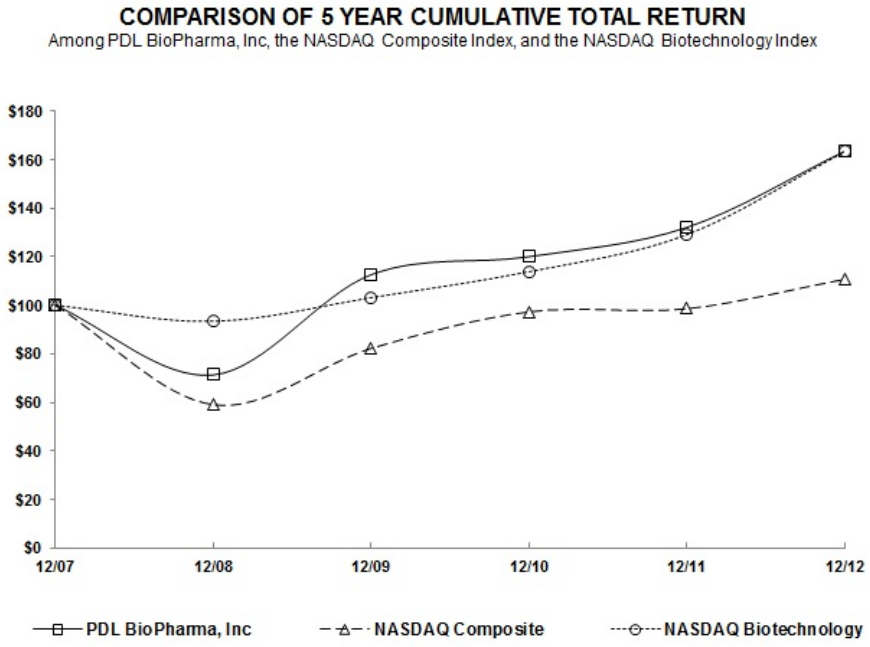
On January 18, 2012, our board of directors declared a regular quarterly dividend of $0.15 per share of common stock. On March 14, June 14, September 14 and December 14 of 2012, we paid quarterly cash dividends of approximately $21.0 million or $0.15 per share to stockholders of record on March 7, June 7, September 7 and December 7 of 2012, the record dates for each of the dividend payments, respectively.

On February 25, 2011, our board of directors declared a regular quarterly dividend of $0.15 per share of common stock. On March 15, June 15, September 15 and December 15 of 2011, we paid quarterly cash dividends of approximately $21.0 million or $0.15 per share 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.

Comparison of Stockholder Returns

The line graph below compares the cumulative total stockholder return on our common stock between December 31, 2007, and December 31, 2012, with the cumulative total return of (i) the NASDAQ Biotechnology Index and (ii) the NASDAQ Composite Index over the same period. This graph assumes that $100.00 was invested on December 31, 2007, in our common stock at the closing sales price for our common stock on that date and at the closing sales price for each index on that date and that all

dividends were reinvested. Stockholder returns over the indicated period should not be considered indicative of future stockholder returns and are not intended to be a forecast.



	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012
PDL BioPharma, Inc.	$ 100.00	$ 71.29	$ 112.61	$ 120.03	$ 132.10	$ 163.53
Nasdaq Biotechnology Index	$ 100.00	$ 93.40	$ 103.19	$ 113.89	$ 129.12	$ 163.33
Nasdaq Composite Index	$ 100.00	$ 59.03	$ 82.25	$ 97.32	$ 98.63	$ 110.78

The information in this section shall not be deemed to be “soliciting material” or to be “filed” with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that we specifically incorporate it by reference in such filing.

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial information has been derived from our consolidated financial statements. The information below is not necessarily indicative of the results of future operations and should be read in conjunction with Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and Item 1A, “Risk Factors,” of this Form 10-K and the consolidated financial statements and related notes thereto included in Item 8 of this Form 10-K in order to fully understand factors that may affect the comparability of the information presented below.

The financial results relating to our former biotechnology, manufacturing and commercial operations have been presented as discontinued operations for all periods presented in the table below.

Consolidated Statements of Income Data

(In thousands, except per share data)	For the Years Ended December 31, 2012	2011	2010	2009	2008
Revenues:					
Royalties	$ 374,525	$ 351,641	$ 343,475	$ 305,049	$ 278,713
License and other	—	10,400	1,500	13,135	15,483
Total revenues	374,525	362,041	344,975	318,184	294,196
General and administrative expenses	25,469	18,338	41,396	21,064	51,544
Accrued legal settlement expense	—	—	92,500	—	—
Operating income	349,056	343,703	211,079	297,120	242,652
Non-operating income (expense), net	(21,923)	(36,275)	(60,709)	(16,835)	682
Income from continuing operations before income taxes	327,133	307,428	150,370	280,285	243,334
Income tax expense	115,464	108,039	58,496	90,625	5,014
Income from continuing operations	211,669	199,389	91,874	189,660	238,320
Loss on discontinued operations, net of income taxes [1]	—	—	—	—	(169,933)
Net income	$ 211,669	$ 199,389	$ 91,874	$ 189,660	$ 68,387
Net income per basic share:					
Continuing operations	$ 1.52	$ 1.43	$ 0.73	$ 1.59	$ 2.01
Net income	$ 1.52	$ 1.43	$ 0.73	$ 1.59	$ 0.58
Net income per diluted share:					
Continuing operations	$ 1.45	$ 1.15	$ 0.54	$ 1.07	$ 1.48
Net income	$ 1.45	$ 1.15	$ 0.54	$ 1.07	$ 0.47
Dividends per share:					
Cash dividends declared and paid	$ 0.60	$ 0.60	$ 1.00	$ 2.67	$ 4.25
Stock distribution in connection with the Spin-Off of Facet	$ —	$ —	$ —	$ —	$ 2.60

Consolidated Balance Sheet Data

(In thousands)	December 31, 2012	2011	2010	2009	2008
Cash, cash equivalents, investments and restricted investments	$ 168,689	$ 227,946	$ 248,229	$ 303,227	$ 147,527
Working capital	$ 172,511	$ 100,506	$ 90,672	$ 22,320	$ 149,168
Total assets	$ 279,966	$ 269,471	$ 316,666	$ 338,411	$ 191,142
Long-term obligations, less current portion	$ 337,614	$ 340,737	$ 446,857	$ 460,848	$ 510,698
Retained earnings (accumulated deficit)	$ 169,634	$ (42,035)	$ (241,424)	$ (333,298)	$ (522,958)
Total stockholders' deficit	$ (68,122)	$ (204,273)	$ (324,182)	$ (415,953)	$ (352,569)

(1) The financial results for our former biotechnology, manufacturing and commercial operations have been presented as discontinued operations in our Consolidated Statements of Operations.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

PDL pioneered the humanization of monoclonal antibodies and, by doing so, enabled the discovery of a new generation of targeted treatments for cancer, immunologic diseases and other medical conditions. Today, PDL is focused on intellectual property asset management, investing in income generating assets and maximizing the value of its patent portfolio and related assets. We receive royalties based on sales of humanized antibody products marketed today and may also receive royalty payments on additional humanized antibody products that are manufactured or launched before final patent expiry in December 2014 or which are otherwise subject to a royalty for licensed know-how under our agreements. Under our licensing agreements, we are entitled to receive a flat-rate or tiered royalty based upon our licensees' net sales of covered antibodies.

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

We were organized as a Delaware corporation in 1986 under the name Protein Design Labs, Inc. In 2006, we changed our name to PDL BioPharma, Inc. Our business previously included a biotechnology operation that was focused on the discovery and development of novel antibodies. We spun-off the operation to our stockholders as Facet in December 2008.

2012 Developments

Update to Challenges against the Queen et al. Patents in the United States and Europe

Genentech / Roche Matter

Communications with Genentech regarding European SPCs

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

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

If Genentech is successful in asserting this position, then under the terms of our license agreements with Genentech, it would not owe us royalties on sales of Avastin, Herceptin, Lucentis and Xolair that are made and sold outside of the United States. Royalties on sales of Avastin, Herceptin, Lucentis and Xolair that are ex-U.S.-based Manufacturing and Sales accounted for approximately 38% of our royalty revenues for the year ended December 31, 2012.

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

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

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

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

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

The court has scheduled trial to commence on October 7, 2013. The outcome of this litigation is uncertain and we may not be successful in our allegations.

Notes and Other Long-term Receivables

Wellstat Diagnostics Note Receivable and Credit Agreement

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

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

Under the credit agreement, Wellstat Diagnostics may prepay the credit agreement at a price that, together with interest and royalty payments already made to the Company would generate a specified internal rate of return to the Company. In the event of change of control, bankruptcy or certain other customary events of defaults, or Wellstat Diagnostics' failure to achieve specified annual revenue threshold in 2017, Wellstat Diagnostics shall be required to prepay the credit agreement at a price that, together with interest and royalty payments already made to the Company, would generate a specified internal rate of return to the Company.

The credit agreement is secured by a pledge of all of the assets of Wellstat Diagnostics and a pledge of all of Wellstat Diagnostics' equity interests by the holders thereof.

In January 2013, the Company was notified that, as of December 31, 2012, Wellstat Diagnostics was in breach of certain provisions of the credit agreement. PDL sent Wellstat Diagnostics a notice of default on January 22, 2013, and accelerated the amounts owed under the credit agreement. In connection with the notice of default, PDL exercised one of its available remedies and transferred approximately $8.1 million of available cash from a bank account of Wellstat Diagnostics to PDL and applied the funds to amounts due under the credit agreement. On February 28, 2013, the parties entered into a forbearance agreement whereby PDL has agreed to refrain from exercising additional remedies for 120 day while Wellstat Diagnostics raises funds to capitalized the business and the parties attempt to negotiate a revised credit agreement.

On January 27, 2012, PDL and Hyperion Catalysis International, Inc. (Hyperion) entered into a Purchase and Sale Agreement (Agreement) whereby Hyperion sold to PDL the right to receive two milestone payments due from Showa Denka K.K. in 2013 and 2014 in exchange for a lump sum payment to Hyperion. PDL received the first payment of $1.2 million on February 28, 2013. The second and final payment of $1.2 million is due in the first week of March 2014. Hyperion may opt to prepay any payment amount due to PDL at any time without penalty.

Hyperion is a mature company with proven technology, licensees and revenue streams, so there was no indication of impairment at December 31, 2012. However, Hyperion shares common equity holders with Wellstat Diagnostics. As a result of the breach by Wellstat Diagnostics of the Credit Agreement between PDL and Wellstat Diagnostics, the Company reviewed the Hyperion Agreement for impairment. While no payment is due from the Hyperion Agreement until the first week of March 2014, PDL

management was concerned that the payment would not be received, given Hyperion's shareholders' breach of the credit agreement of Wellstat Diagnostics. To ensure that the Hyperion March 2013 payment of $1.2 was received, PDL included the Hyperion March 2013 payment in the Wellstat Diagnostics forbearance agreement, signed on February 28, 2013.

A discounted cash flow (DCF) analysis supports the $2.3 million carrying value of the Hyperion Agreement at December 31, 2012. Based upon the DCF and the guarantee provided in the Wellstat Diagnostics forbearance agreement, management believes that all amounts due will be received and believes there is no impairment of the Hyperion Agreement. Therefore, no adjustment or reserve was required to the $2.3 million carrying value of the Agreement as of December 31, 2012.

Merus Labs Note Receivable and Credit Agreement

In July 2012, PDL loaned $35.0 million to Merus Labs in connection with its acquisition of a commercial-stage pharmaceutical product and related assets. In addition, PDL agreed to provide a $20.0 million letter of credit on behalf of Merus Labs that the seller of the assets may draw upon on July 11, 2013, to satisfy the remaining $20.0 million purchase price obligation on July 11, 2013. Draws on the letter of credit will be funded from the proceeds of an additional loan to Merus Labs. Outstanding borrowings under the July 2012 loan bear interest at the rate of 13.5% per annum and outstanding borrowings as a result of draws on the letter of credit bear interest at the rate of 14.0% per annum. Merus Labs is required to make four periodic principal payments in respect of the July 2012 loan, with repayment of the remaining principal balance of all loans due on March 31, 2015. The borrowings are subject to mandatory prepayments upon certain asset dispositions or debt issuances upon the terms set forth in the credit agreement.

The credit agreement provides for a number of standard events of default, including payment, bankruptcy, covenant, judgment and cross-defaults.

AxoGen Revenue Interest Purchase Agreement

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

Under the Royalty Agreement, beginning on October 1, 2016, or in the event of the occurrence of a material adverse event or AxoGen's bankruptcy or material breach of the Royalty Agreement, the Company may require AxoGen to repurchase the Royalty Rights at a price that, together with payments already made by AxoGen, would generate a specified internal rate of return to the Company.

In the event of a change of control of AxoGen, it must repurchase the assigned interests from the Company for a repurchase price equal to an amount that, together with payments already made by AxoGen, would generate a specified internal rate of return to the Company. The Company concluded that the repurchase option is an embedded derivative which should be bifurcated and separately accounted for at fair value. The fair value of the repurchase option was not material on December 31, 2012.

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

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

Convertible Notes

We have actively worked to restructure the Company’s capital and reduce the potential dilution associated with our convertible notes. As part of those efforts, in January 2012, we exchanged and subsequently retired $169.0 million aggregate principal amount

of February 2015 Notes for an identical principal amount of our new Series 2012 Notes, plus a cash payment of $5.00 for each $1,000 principal amount tendered for a total cash incentive payment of approximately $0.8 million. In February 2012, we entered into separate privately negotiated exchange agreements under which we retired an additional $10.0 million aggregate principal amount of our February 2015 Notes for $10.0 million aggregate principal amount of our Series 2012 Notes. Following settlement of the private exchanges on February 2, 2012, $1.0 million of our February 2015 Notes and $179.0 million of our Series 2012 Notes were outstanding. Our Series 2012 Notes net share settle, meaning that if a conversion occurs, the principal amount is due in cash, and to the extent that the conversion value exceeds the principal amount, the difference is due in shares of our common stock. The effect of issuing $179.0 million aggregate principal of our Series 2012 Notes with the net share settle feature in exchange for our February 2015 Notes was the reduction of 27.8 million shares of potential dilution to our stockholders at the time of the exchange.

Effect of December 14, 2012, Dividend Payment on Conversion Rates for the Convertible Notes

In connection with the December 14, 2012, dividend payment, the conversion rates for our convertible notes adjusted as follows:

Convertible Notes	Conversion Rate per $1,000 Principal Amount	Approximate Conversion Price Per Common Share	Effective Date
Series 2012 Notes	169.525	$ 5.90	December 5, 2012
May 2015 Notes	148.3827	$ 6.74	December 5, 2012
February 2015 Notes	169.525	$ 5.90	December 10, 2012

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

2013 Dividends

On January 23, 2013, our board of directors declared regular quarterly dividends of $0.15 per share of common stock, payable on March 12, June 12, September 12 and December 12 of 2013 to stockholders of record on March 5, June 5, September 5 and December 5 of 2013, the record dates for each of the dividend payments, respectively. At the beginning of each fiscal year, our board of directors sets the Company’s total annual dividend payment for the 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 the dividend.

Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with GAAP and the Company's discussion and analysis of its financial condition and operating results require the Company's management to make judgments, assumptions and estimates that affect the amounts reported in its consolidated financial statements and accompanying notes. Note 2, “Summary of Significant Accounting Policies” of the Notes to Consolidated Financial Statements in Part II, Item 8 of this Form 10-K describes the significant accounting policies and methods used in the preparation of the Company's consolidated financial statements. Management bases its estimates on historical experience and on various other assumptions it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates and such differences may be material.

Management believes the Company's critical accounting policies and estimates are those related to royalty revenues, foreign currency hedging, income taxes, notes receivable, convertible notes, and lease guarantee. Management considers these policies critical because they are both important to the portrayal of the Company's financial condition and operating results, and they require management to make judgments and estimates about inherently uncertain matters.

Royalty Revenues

Under most of our patent license agreements, we receive royalty payments based upon our licensees’ net sales of covered products. Generally, under these agreements we receive royalty reports and payments from our licensees approximately one quarter in arrears, generally in the second month of the quarter after the licensee has sold the revenue generating product or products. We recognize royalty revenues when we can reliably estimate such amounts and collectability is reasonably assured. As such, we generally recognize royalty revenues in the quarter reported to us by our licensees. Therefore, royalty revenues are

generally recognized one quarter following the quarter in which sales by our licensees occurred. Under this accounting policy, the royalty revenues we report are not based upon our estimates and are typically reported in the same period in which we receive payment from our licensees.

We may also receive annual license maintenance fees from licensees of our Queen et al. patents prior to patent expiry as well as periodic milestone payments, payable at the election of the licensee, to maintain the license in effect. We have no performance obligations with respect to such fees. Maintenance fees are recognized as they are due and when payment is reasonably assured. Total milestone payments in each of the last several years have been less than 1% of total revenue.

Foreign Currency Hedging

We hedge certain Euro-denominated currency exposures related to our licensees' product sales with Euro forward contracts, and in 2011, Euro forward and option contracts. In general, these contracts are intended to offset the underlying Euro market risks in our royalty revenues. We do not enter into speculative foreign currency transactions. We designate foreign currency exchange contracts used to hedge royalty revenues based on underlying Euro-denominated sales 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 Euro forward contracts is estimated using pricing models with readily observable inputs from actively quoted markets and is disclosed on a gross basis. The aggregate unrealized gain or loss, net of tax, on the effective portion of the hedge is recorded in stockholders' deficit as accumulated other comprehensive income (loss). Gains or losses on cash flow hedges are recognized as an adjustment to royalty revenue in the same period that the hedged transaction impacts earnings. The hedge effectiveness is dependent upon the amounts of future royalties and, if future royalties based on Euro are lower than forecasted, the amount of ineffectiveness would be reported in our Consolidated Statements of Income.

Income Taxes

Our income tax provision is based on income before taxes and is computed using the liability method. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities using tax rates projected to be in effect for the year in which the differences are expected to reverse. We record a valuation allowance to reduce our deferred tax assets to the amounts that are more likely than not to be realized. Significant estimates are required in determining our provision for income taxes. Some of these estimates are based on interpretations of existing tax laws or regulations, or the expected results from any future tax examinations. Various internal and external factors may have favorable or unfavorable effects on our future provision for income taxes. These factors include, but are not limited to, changes in tax laws, regulations and/or rates, the results of any future tax examinations, changing interpretations of existing tax laws or regulations, changes in estimates of prior years' items, past levels of research and development spending, acquisitions, changes in our corporate structure and state of domicile and changes in overall levels of income before taxes all of which may result in periodic revisions to our provision for income taxes. We accrue tax related interest and penalties associated with uncertain tax positions and include these in income tax expense in the Consolidated Statements of Income. We expect that our effective income tax rate going forward will be approximately 35%.

We apply the provision of ASC 740, which contains a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement.

Although we believe we have adequately reserved for our uncertain tax positions, no assurance can be given that the final tax outcome of these matters will not be different. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit or the refinement of an estimate. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate, as well as the related net interest settlement of any particular position, could require the use of cash. In addition, we are subject to the continuous examination of our income tax returns by various taxing authorities, including the Internal Revenue Service and U.S. states. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes.

Notes and Other Long-Term Receivables

Notes receivable and loans originated by us are initially recorded at the amount advanced to the borrower. Notes receivable and loan origination and commitment fees, net of certain origination costs, are recorded as an adjustment to the carrying value of the notes receivable and loans and are amortized over the term of the related financial asset under the effective interest method. Certain of our notes receivable and loans require the borrower to make variable payments which are dependent upon the borrower's sales of specific products. We have elected to use the prospective interest method to account for these notes receivable and loans subsequent to their initial recognition. Under this approach, we recognize the impact of any variations from the expected returns in the period when received. From time to time, we will re-evaluate the expected cash flows and may adjust the effective interest rate prospective from the date of assessment, if the impact of such adjustment could be material to our financial statements.

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

Convertible Notes

In 2012, we issued our Series 2012 Notes with a net share settlement feature, meaning that upon any conversion, the principal amount will be settled in cash and the remaining amount, if any, will be settled in shares of our common stock. In accordance with accounting guidance for convertible debt instruments that may be settled in cash or other assets on conversion, we separated the principal balance between the fair value of the liability component and the common stock conversion feature using a market interest rate for a similar nonconvertible instrument at the date of issuance. Using an assumed borrowing rate of 7.3%, an estimated market interest rate for a similar convertible instrument available to us on the date of issuance, we recorded a total debt discount of $16.8 million, allocated $10.9 million to additional paid-in capital and $5.9 million to deferred tax liability.

In 2011, we issued our May 2015 Notes with a net share settlement feature. In accordance with accounting guidance for convertible debt instruments that may be settled in cash or other assets on conversion, we separated the principal balance between the fair value of the liability component and the common stock conversion feature using a market interest rate for a similar nonconvertible instrument at the date of issuance. Using an assumed borrowing rate of 7.5%, an estimated market interest rate for a similar convertible instrument available to us on the date of issuance, we recorded a total debt discount of $18.9 million, allocated $12.3 million to additional paid-in capital and $6.6 million to deferred tax liability.

Lease Guarantee

In connection with the Spin-Off, we entered into amendments to the leases for our former facilities in Redwood City, California, under which Facet was added as a co-tenant under the leases, and a Co-Tenancy Agreement, under which Facet agreed to indemnify us for all matters related to the leases attributable to the period after the Spin-Off date. Should Facet default under its lease obligations, we could be held liable by the landlord as a co-tenant and, thus, we have in substance guaranteed the payments under the lease agreements for the Redwood City facilities. As of December 31, 2012, the total lease payments for the duration of the guarantee, which runs through December 2021, are approximately $100.3 million. If Facet were to default, we could also be responsible for lease related costs including utilities, property taxes and common area maintenance which may be as much as the actual lease payments.

We recorded a liability of $10.7 million on our Consolidated Balance Sheets as of December 31, 2012 and 2011, for the estimated liability resulting from this guarantee. We prepared a discounted, probability-weighted cash flow analysis to calculate the estimated fair value of the lease guarantee as of the Spin-Off. We were required to make assumptions regarding the probability of Facet’s default on the lease payment, the likelihood of a sublease being executed and the times at which these events could occur. These assumptions are based on information that we received from real estate brokers and the then-current economic conditions, as well as expectations of future economic conditions. The fair value of this lease guarantee was charged to additional paid-in capital upon the Spin-Off and any future adjustments to the carrying value of the obligation will also be recorded in additional paid-in capital. On a quarterly basis, we review the underlying cash flow analysis assumptions and update them if necessary. In future periods, we may increase the recorded liability for this obligation if we conclude that a loss, which is larger than the amount recorded, is both probable and estimable.

Summary of 2012, 2011 and 2010 Financial Results

- Our net income for the years ended December 31, 2012, 2011 and 2010 was $211.7 million, $199.4 million and $91.9 million, respectively;
- At December 31, 2012, we had cash, cash equivalents, investments and restricted investments of $168.7 million as compared with $227.9 million at December 31, 2011; and
- At December 31, 2012, we had $348.1 million in total liabilities as compared with $473.7 million at December 31, 2011.

Revenues

Revenues were $374.5 million, $362.0 million and $345.0 million for the years ended December 31, 2012, 2011 and 2010, respectively, and consist of royalty revenues as well as in 2011 other license related revenues. During the years ended December 31, 2012, 2011 and 2010, our royalty revenues consisted of royalties and maintenance fees earned on sales of products under license agreements associated with our Queen et al. patents. Over this same time period, our other license related revenues primarily consisted of milestone payments from licensees under our patent license agreements as well as a $10.0 million payment in 2011 from our legal settlement with UCB. Our revenues consist primarily of royalty revenues, which represent more than 95% of total revenues for each of the past three years. Revenues for the years ended December 31, 2012 and 2011, are net of the payments made under our February 2011 settlement agreement with Novartis, which is based on a portion of the royalties that the company receives from Lucentis sales made by Novartis outside the United States.

A summary of our revenues for the years ended December 31, 2012, 2011 and 2010, is presented below:

(Dollars in thousands)	2012	2011	Change from Prior Year %	2010	Change from Prior Year %
Revenues					
Royalties	$ 374,525	$ 351,641	7%	$ 343,475	2%
License and other	—	10,400	N/M	1,500	593%
Total revenues	$ 374,525	$ 362,041	3%	$ 344,975	5%

N/M = Not meaningful

In the year ended December 31, 2012, we received royalties on sales of the seven humanized antibody products listed below, all of which are currently approved for use by the FDA and other regulatory agencies outside the United States. The licensees with commercial products as of December 31, 2012, are listed below:

Licensee	Product Names
Genentech	Avastin
	Herceptin
	Xolair
	Lucentis
	Perjeta
Elan	Tysabri
Chugai	Actemra

Under our agreements for the license of rights under our Queen et al. patents, we receive a flat-rate or tiered 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 our 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 our 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.

The net sales thresholds and the applicable royalty rates for Genentech's U.S.-based Sales are outlined below:

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

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. The mix of net ex-U.S.-based Sales and net ex-U.S.-based Manufacturing and Sales for the Genentech Products, as outlined below, is based on information provided to us by Genentech. We were not provided the reasons for the fluctuations in the manufacturing split between U.S.-based Sales and ex-U.S.-based Manufacturing and Sales.

	Year Ended December 31,		
	2012	**2011**	**2010**
Avastin			
Ex-U.S.-based sales	56%	55%	50%
Ex-U.S.-based Manufacturing and Sales	29%	21%	21%
Herceptin			
Ex-U.S.-based sales	69%	71%	70%
Ex-U.S.-based Manufacturing and Sales	37%	35%	44%
Lucentis			
Ex-U.S.-based sales	63%	59%	56%
Ex-U.S.-based Manufacturing and Sales	0%	0%	0%
Perjeta			
Ex-U.S.-based sales	1%	0%	0%
Ex-U.S.-based Manufacturing and Sales	0%	0%	0%
Xolair			
Ex-U.S.-based sales	39%	40%	35%
Ex-U.S.-based Manufacturing and Sales	39%	40%	35%

For the year ended December 31, 2012, compared to December 31, 2011

Royalty revenues increased 7% for the year ended December 31, 2012, when compared to the same period in 2011. The growth is primarily driven by increased net sales of Lucentis, Herceptin, Xolair and Tysabri by our licensees. Net sales of Avastin, Herceptin, Lucentis, and Xolair are subject to a tiered royalty rate for product that is U.S.-based Sales and a flat royalty rate of 3% for product that is ex-U.S.-based Manufacturing and Sales.

- Reported net sales of Herceptin increased $0.4 billion or 7% compared to the same period for the prior year.
- Reported Lucentis sales increased $0.4 billion or 11% compared to the same period for the prior year.
- Reported sales of Tysabri increased $0.1 billion or 8% compared to the same period for the prior year. Tysabri royalties are determined at a flat rate as a percent of the sales regardless of location of manufacture or sale.

- Reported net sales of Avastin increased $0.1 billion or 1% compared to the same period for the prior year.

For the year ended December 31, 2011, compared to December 31, 2010

Royalty revenues increased 2% for the year ended December 31, 2011, when compared to the same period in 2010. The growth is primarily driven by increased net sales of Lucentis, Herceptin and Tysabri by our licensees. Net sales of Avastin, Herceptin and Lucentis are subject to a tiered royalty rate for product that is U.S.-based Sales and a flat royalty rate of 3% for product that is ex-U.S.-based Manufacturing and Sales.

- Reported net sales of Herceptin increased $0.7 billion or 13% compared to the same period for the prior year. While Herceptin net sales increased 13%, royalties on Herceptin only increased 5% due to a shift in site of manufacture: ex-U.S. manufactured and sold Herceptin declined to 35% compared to 44% for the same period in 2010.

- Reported Lucentis sales increased $1.0 billion or 33% compared to the same period for the prior year. Reported sales in 2011 increased 27% in the United States and 38% internationally.

- Reported sales of Tysabri increased $0.3 billion or 22% compared to the same period for the prior year. Tysabri royalties are determined at a flat rate as a percent of the sales regardless of location of manufacture or sale.

- Reported net sales of Avastin decreased $0.1 billion or 2% compared to the same period for the prior year.

The following table summarizes the percentage of our total revenues earned from our licensees' net product sales, which individually accounted for 10% or more of our total revenues for the years ended December 31, 2012, 2011 and 2010:

		Year Ended December 31,		
Licensee	**Product Name**	**2012**	**2011**	**2010**
Genentech	*Avastin*	32%	31%	34%
	Herceptin	34%	33%	33%
	Lucentis	12%	15%	13%
Elan	*Tysabri*	13%	12%	10%

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

For the year ended December 31, 2012, we hedged certain Euro-denominated currency exposures related to our licensees' product sales with Euro forward contracts, and in 2011, Euro forward and option contracts. In general, these contracts are intended to offset the underlying Euro market risks in our royalty revenues. We designate foreign currency exchange contracts used to hedge royalty revenues based on underlying Euro-denominated sales as cash flow hedges. The aggregate unrealized gain or loss, net of tax, on the effective portion of the hedge is recorded in stockholders' deficit as accumulated other comprehensive income (loss). Gains or losses on cash flow hedges are recognized as an adjustment to royalty revenue in the same period that the hedged transaction impacts earnings. For the years ended December 31, 2012, 2011 and 2010, we recognized $(2.9) million, $1.0 million and $5.2 million in royalty revenues from our Euro contracts, respectively.

Operating Expenses

A summary of our operating expenses for the years ended December 31, 2012, 2011 and 2010, is presented below:

(Dollars in thousands, except for percentages)	2012	2011	Change from Prior Year %	2010	Change from Prior Year %
General and administrative	$ 25,469	$ 18,338	39%	$ 41,396	(56)%
Percentage of total revenues	7%	5%		12%	
Legal settlement	$ —	$ —	0%	$ 92,500	N/M
Percentage of total revenues	0%	0%		27%	

N/M = Not meaningful

For the year ended December 31, 2012, compared to December 31, 2011

The increase in operating expenses was a result of increased legal expenses of $3.7 million mostly related to litigation, $1.4 million increase in professional services related to our efforts to acquire income generating assets and a $1.4 million increase in compensation related expenses.

For the year ended December 31, 2011, compared to December 31, 2010

The decrease in operating expenses was primarily driven by reduced legal fees with the resolution of the MedImmune litigation and the UCB interference proceedings.

Non-operating Expense, Net

A summary of our non-operating expense, net, for the years ended December 31, 2012, 2011 and 2010, is presented below:

(Dollars in thousands)	2012	2011	Change from Prior Year %	2010	Change from Prior Year %
Loss on retirement or conversion of convertible notes	$ —	$ (766)	N/A	$ (17,648)	(96)%
Interest and other income, net	7,113	593	1,099 %	468	27 %
Interest expense	(29,036)	(36,102)	(20)%	(43,529)	(17)%
Total non-operating expense, net	$ (21,923)	$ (36,275)	(40)%	$ (60,709)	(40)%

For the year ended December 31, 2012, compared to December 31, 2011

Non-operating expense, net, decreased primarily due to lower interest expense as a result of our quarterly repayment of the principal balance of our Non-recourse Notes, offset, in part, by increased interest expense on our Series 2012 Notes and our May 2015 Notes and increased interest income from our Notes Receivable. The increase in interest expense consisted primarily of non-cash interest expense as we were required to compute interest expense using the interest rate for similar nonconvertible instruments in accordance with the accounting guidance for convertible debt instruments that may be settled in cash or other assets on conversion. Non-cash interest expense, in accordance with the accounting guidance, for the Series 2012 Notes and May 2015 Notes was $10.2 million for the year ended December 31, 2012, and for the May 2015 Notes, February 2015 Notes, and 2012 notes was $3.9 million for the year ended December 31, 2011.

For the year ended December 31, 2011, compared to December 31, 2010

Non-operating expense, net, decreased primarily due to lower costs related to our convertible note retirement and conversions and lower interest as a result of our $110.9 million reduction in the principal balance of our Non-recourse Notes.

Income Taxes

Income tax expense for the year ended December 31, 2012, was $115.5 million, which resulted primarily from applying the federal statutory income tax rate to income before income taxes. Income tax expense for the year ended December 31, 2011, was $108.0 million, which resulted primarily from applying the federal statutory income tax rate to income before income taxes. Income tax expense for the year ended December 31, 2010, was $58.5 million, which resulted primarily from applying the federal statutory income tax rate to income before income taxes and adjusting for a portion of the loss on the retirement or conversion of our 2023 Notes that was not tax deductible.

During the years ended December 31, 2012 and 2011, we recorded no change in our liability associated with uncertain tax positions. The future impact of the unrecognized tax benefits of $32.6 million, if recognized, comprises $12.2 million which would affect the effective tax rate and $20.4 million which would result in adjustments to deferred tax assets and corresponding adjustments to the valuation allowance.

Estimated interest and penalties associated with unrecognized tax benefits increased our income tax expense in the Consolidated Statements of Income by $0.2 million during the year ended December 31, 2012, increased income tax expense by $0.5 million during the year ended December 31, 2011, and decreased income tax expense by $26,000 during the year ended December 31, 2010. Although the timing of the resolution of income tax examinations is highly uncertain, and the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year, we do not anticipate any material change to the amount of our unrecognized tax benefit over the next twelve months.

As of December 31, 2012, we had deferred tax assets in excess of our deferred tax liabilities of approximately $6.2 million. We recorded a valuation allowance to reduce our deferred tax assets to amounts that are more likely than not to be realized. As of December 31, 2012, we had a valuation allowance of $20.4 million, primarily related to net operating loss carry forwards and research and development tax credits.

Net Income per Share

Net income per share for the years ended December 31, 2012, 2011 and 2010, is presented below:

	Year Ended December 31,		
	2012	**2011**	**2010**
Net income per basic share	$ 1.52	$ 1.43	$ 0.73
Net income per diluted share	$ 1.45	$ 1.15	$ 0.54

In 2011 and early 2012, we restructured two of our convertible notes to "net share settle." As a result, we removed potentially dilutive shares from the diluted earnings per share calculation. The actual effect for the year ended December 31, 2012, as compared to the year ended December 31, 2011, was the elimination of approximately 31.2 million potentially dilutive shares.

Liquidity and Capital Resources

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

We had cash, cash equivalents and investments in the aggregate of $148.7 million and $227.9 million, excluding restricted investments, at December 31, 2012 and 2011, respectively. The decrease was primarily attributable to principal repayment on our Non-recourse Notes of $93.4 million, payment of dividends of $83.9 million, cash advanced on notes receivable of $95.3 million, purchase of a $20.0 million certificate of deposit in connection with the Merus Labs Letter of Credit, recorded as a restricted investment, and the $0.8 million incentive payment on our Series 2012 Notes exchange transaction, offset in part by net cash provided by operating activities of $210.2 million and repayment of notes receivable of $5.0 million. We believe that cash from future royalty revenues, net of operating expenses, debt service and income taxes, plus cash on hand, will be sufficient to fund our operations over the next several years. The last of our Queen et al. patents expires in December 2014, with the obligation to pay royalties under various license agreements expiring sometime thereafter, and we do not expect to receive any meaningful revenue from the inventories produced prior to the expiration of our Queen et al. patents beyond the first quarter of 2016.

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

Notes and Other Long-term Receivables

Wellstat Diagnostics Note Receivable and Credit Agreement

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

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

Under the credit agreement, Wellstat Diagnostics may prepay the credit agreement at a price that, together with interest and royalty payments already made to the Company would generate a specified internal rate of return to the Company. In the event of change of control, bankruptcy or certain other customary events of defaults, or Wellstat Diagnostics' failure to achieve specified annual revenue threshold in 2017, Wellstat Diagnostics shall be required to prepay the credit agreement at a price that, together with interest and royalty payments already made to the Company, would generate a specified internal rate of return to the Company.

The credit agreement is secured by a pledge of all of the assets of Wellstat Diagnostics and a pledge of all of Wellstat Diagnostics’ equity interests by the holders thereof.

In January 2013, the Company was informed that, as of December 31, 2012, Wellstat Diagnostics had used funds contrary to the terms of the credit agreement and breached Sections 2.1.2 and 7 of the credit agreement. PDL sent Wellstat Diagnostics a notice of default on January 22, 2013, and accelerated the amounts owed under the credit agreement. In connection with the notice of default, PDL exercised one of its available remedies and transferred approximately $8.1 million of available cash from a bank account of Wellstat Diagnostics to PDL and applied the funds to amounts due under the credit agreement. Subsequently, PDL has agreed to provide up to $7.9 million to Wellstat diagnostics to fund the business for the 120-day forbearance period under the terms of the credit agreement. On February 28, 2013, the parties entered into a forbearance agreement whereby PDL has agreed to refrain from exercising additional remedies for 120 days while Wellstat Diagnostics raises funds to capitalize the business and the parties attempt to negotiate a revised credit agreement.

As a result of the foregoing default, we prepared an impairment analysis of the Wellstat Diagnostics' note receivable as of December 31, 2012. We concluded that the note is a collateral dependent loan and evaluated impairment by reference to the fair value of the collateral. We concluded that no impairment existed as of December 31, 2012, because the estimated fair value of the collateral exceeded the carrying value of the note.

On January 27, 2012, PDL and Hyperion Catalysis International, Inc. (Hyperion) entered into a Purchase and Sale Agreement (Agreement) whereby Hyperion sold to PDL the right to receive two milestone payments due from Showa Denka K.K. in 2013 and 2014 in exchange for a lump sum payment to Hyperion. PDL received the first payment of $1.2 million on February 28, 2013. The second and final payment of $1.2 million is due in the first week of March 2014. Hyperion may opt to prepay any payment amount due to PDL at any time without penalty.

Hyperion is a mature company with proven technology, licensees and revenue streams, so there was no indication of impairment at December 31, 2012. However, Hyperion shares common equity holders with Wellstat Diagnostics. As a result of the breach by Wellstat Diagnostics of the Credit Agreement between PDL and Wellstat Diagnostics, the Company reviewed the Hyperion Agreement for impairment. While no payment is due from the Hyperion Agreement until the first week of March 2014, PDL management was concerned that the payment would not be received, given Hyperion's shareholders' breach of the credit agreement of Wellstat Diagnostics. To ensure that the Hyperion March 2013 payment of $1.2 was received, PDL included the Hyperion March 2013 payment in the Wellstat Diagnostics forbearance agreement, signed on February 28, 2013.

A discounted cash flow (DCF) analysis supports the $2.3 million carrying value of the Hyperion Agreement at December 31, 2012. Based upon the DCF and the guarantee provided in the Wellstat Diagnostics forbearance agreement, management believes that all amounts due will be received and believes there is no impairment of the Hyperion Agreement. Therefore, no adjustment or reserve was required to the $2.3 million carrying value of the Agreement as of December 31, 2012.

Merus Labs Note Receivable and Credit Agreement

In July 2012, PDL loaned $35.0 million to Merus Labs in connection with its acquisition of a commercial-stage pharmaceutical product and related assets. In addition, PDL agreed to provide a $20.0 million letter of credit on behalf of Merus Labs that the seller of the assets may draw upon on July 11, 2013, to satisfy the remaining $20.0 million purchase price obligation on July 11, 2013. Draws on the letter of credit will be funded from the proceeds of an additional loan to Merus Labs. Outstanding borrowings under the July 2012 loan bear interest at the rate of 13.5% per annum and outstanding borrowings as a result of draws on the letter of credit bear interest at the rate of 14.0% per annum. Merus Labs is required to make four periodic principal payments in respect of the July 2012 loan, with repayment of the remaining principal balance of all loans due on March 31, 2015. The borrowings are subject to mandatory prepayments upon certain asset dispositions or debt issuances upon the terms set forth in the credit agreement.

The credit agreement provides for a number of standard events of default, including payment, bankruptcy, covenant, judgment and cross-defaults.

AxoGen Revenue Interest Purchase Agreement

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

Under the Royalty Agreement, beginning on October 1, 2016, or in the event of the occurrence of a material adverse event or AxoGen's bankruptcy or material breach of the Royalty Agreement, the Company may require AxoGen to repurchase the Royalty Rights at a price that, together with payments already made by AxoGen, would generate a specified internal rate of return to the Company.

In the event of a change of control of AxoGen, it must repurchase the assigned interests from the Company for a repurchase price equal to an amount that, together with payments already made by AxoGen, would generate a specified internal rate of return to the Company. The Company concluded that the repurchase option is an embedded derivative which should be bifurcated and separately accounted for at fair value. The fair value of the repurchase option was not material on December 31, 2012.

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

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

Convertible Notes

Series 2012 Notes

In January 2012, we exchanged $169.0 million aggregate principal amount of our February 2015 Notes, for an identical principal amount of new Series 2012 Notes, plus a cash payment of $5.00 for each $1,000 principal amount tendered for a total cash incentive payment of approximately $0.8 million. Additionally, in February 2012, we entered into separate privately negotiated exchange agreements under which we exchanged an additional $10.0 million aggregate principal amount of our February 2015

Notes for an identical principal amount of our Series 2012 Notes. Our Series 2012 Notes net share settle, meaning that if a conversion occurs, the principal amount will be settled in cash and the excess, if any, will be settled in the Company's common stock. At the time of the exchange, the effect of issuing $179.0 million aggregate principal of our Series 2012 Notes with the net share settle feature in exchange for our February 2015 Notes reduced 27.8 million shares of potential dilution to our stockholders.

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

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

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

Upon conversion of Series 2012 Notes, the Company will be required to pay cash and, if applicable, deliver shares of the Company's common stock. Our Series 2012 Notes are convertible into 169.525 shares of the Company's common stock per $1,000 of principal amount or approximately $5.90 per share of our common stock, subject to further adjustment upon certain events including dividend payments. As December 31, 2012, $179.0 million of our Series 2012 Notes were outstanding and the if-converted value exceeded the principal amount by approximately $34.6 million. However, our common stock did not exceed the conversion threshold price of $7.82 for at least 20 days during the 30 consecutive trading days ended September 30, 2012; accordingly the Series 2012 Notes were not convertible at the option of the holder during the quarter ended December 31, 2012. Our common stock did not exceed the conversion threshold price of $7.67 for at least 20 days during the 30 consecutive trading days ended December 31, 2012; accordingly the Series 2012 Notes are not convertible at the option of the holder during the quarter ending March 31, 2013.

May 2015 Notes

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

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

Upon conversion of the May 2015 Notes, the Company will be required to pay cash, and if applicable, deliver shares of the Company's common stock. Our May 2015 Notes are convertible into 148.3827 shares of the Company's common stock per $1,000 of principal amount, or approximately $6.74 per share of our common stock, subject to further adjustment upon certain events including dividend payments. As of December 31, 2012, $155.3 million of our May 2015 Notes were outstanding and the if-converted value exceeded the principal amount by approximately $6.9 million. However, our common stock price did not exceed the threshold price of $8.94 per common share for at least 20 days during the 30 consecutive trading days ended September 30, 2012; accordingly, the May 2015 Notes were not convertible at the option of the holder during the quarter ended December 31, 2012. Our common stock did not exceed the conversion threshold price of $8.76 for at least 20 days during the 30 consecutive trading days ended December 31, 2012; accordingly the May 2015 Notes are not convertible at the option of the holder during the quarter ending March 31, 2013.

Purchased Call Options and Warrants

In connection with the issuance of our May 2015 Notes, we entered into purchased call option transactions with two hedge counterparties. We paid an aggregate amount of $20.8 million, plus legal fees, for the purchased call options with terms substantially similar to the embedded conversion options in our May 2015 Notes. The purchased call options cover, subject to anti-dilution and certain other customary adjustments substantially similar to those in our May 2015 Notes, approximately 23.0 million shares of our common stock at a strike price of approximately $6.74, which corresponds to the conversion price of our May 2015 Notes. We may exercise the purchased call options upon conversion of our May 2015 Notes and require the hedge counterparty to deliver shares to the Company in an amount equal to the shares required to be delivered by the Company to the note holder for the excess conversion value. The purchased call options expire on May 1, 2015, or the last day any of our May 2015 Notes remain outstanding.

In addition, we sold to the hedge counterparties warrants exercisable, on a cashless basis, for the sale of rights to receive up to 27.5 million shares of common stock underlying our May 2015 Notes, at a current strike price of approximately $7.93 per share, subject to additional anti-dilution and certain other customary adjustments. We received an aggregate amount of $10.9 million for the sale from the two counterparties. The warrant counterparties may exercise the warrants on their specified expiration dates that occur over a period of time ending on January 20, 2016. If the VWAP of our common stock, as defined in the warrants, exceeds the strike price of the warrants, we will deliver to the warrant counterparties shares equal to the spread between the VWAP on the date of exercise or expiration and the strike price. If the VWAP is less than the strike price, neither party is obligated to deliver anything to the other.

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

If the share price is above $6.74, but below $7.93, upon conversion of our May 2015 Notes, the purchased call options will offset the share dilution, because the Company will receive shares on exercise of the purchased call options equal to the shares that the Company must deliver to the note holders. If the share price is above $7.93, upon exercise of the warrants, the Company will deliver shares to the counterparties in an amount equal to the excess of the share price over $7.93. For example, a 10% increase in the share price above $7.93 would result in the issuance of 2.1 million incremental shares upon exercise of the warrants. As our share price continues to increase, additional dilution would occur.

While the purchased call options are expected to reduce the potential equity dilution upon conversion of our May 2015 Notes, prior to conversion or exercise, our May 2015 Notes and the warrants could have a dilutive effect on the Company's earnings per share to the extent that the price of the Company's common stock during a given measurement period exceeds the respective exercise prices of those instruments. As of December 31, 2012 and 2011, the market price condition for convertibility of our May 2015 Notes was not met and there were no related purchased call options or warrants exercised.

The purchased call options and warrants are considered indexed to PDL stock, require net-share settlement, and met all criteria for equity classification at inception and at December 31, 2012 and 2011. The purchased call options cost, including legal fees, of $20.8 million, less deferred taxes of $7.2 million, and the $10.9 million received for the warrants were recorded as adjustments to additional paid-in capital. Subsequent changes in fair value will not be recognized as long as the purchased call options and warrants continue to meet the criteria for equity classification.

February 2015 Notes

As of December 31, 2012, $1.0 million of our February 2015 Notes were outstanding and met the criteria for conversion into shares of our common stock. In January and February 2012, we exchanged $179.0 million of our February 2015 Notes for an identical amount of our new Series 2012 Notes. Our February 2015 Notes are due February 15, 2015, and are convertible at any time, at the holders' option, into our common stock at a conversion price of 169.525 shares of common stock per $1,000 principal amount or $5.90 per share of common stock, subject to further adjustment upon certain events including dividend payments. Our February 2015 Notes bear interest at a rate of 2.875% per annum, payable semiannually in arrears on February 15 and August 15 of each year. Our February 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. Our February 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.

Non-recourse Notes Retirement

In November 2009, we completed a $300.0 million securitization transaction in which we monetized 60% of the net present value of the estimated five year royalties from sales of Genentech Products including Avastin, Herceptin, Lucentis, Xolair and future products, if any, under which Genentech may take a license under our related agreements with Genentech. We used most of the proceeds from this securitization to pay stockholders a special dividend in December 2009. Our Non-recourse Notes due March 15, 2015, bore interest at 10.25% per annum and were issued in a non-registered offering by QHP, a Delaware limited liability company and newly formed, wholly-owned subsidiary of PDL. The amount of quarterly repayment of the principal of our Non-recourse Notes varied based upon the amount of future quarterly Genentech Royalties received. In September 2012, our Non-recourse Notes were paid in full and retired.

Off-Balance Sheet Arrangements

As of December 31, 2012, we did not have any off-balance sheet arrangements, as defined under SEC Regulation S-K Item 303(a)(4)(ii).

Contractual Obligations

As of December 31, 2012, our contractual obligations consisted primarily of our Series 2012 Notes, May 2015 Notes and our February 2015 Notes, which in the aggregate totaled $335.3 million in principal. Our Series 2012 and our May 2015 Notes are not puttable by the note holders other than in the context of a fundamental change.

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

Material contractual obligations including interest under lease and debt agreements for the next five years and thereafter are:

	Payments Due by Period			
(In thousands)	**Less Than 1 Year**	**1-3 Years**	**More than 3 Years**	**Total**
Operating leases [(1)]	$ 285	$ 84	$ —	$ 369
Convertible notes [(2)]	10,997	348,834	—	359,831
Total contractual obligations	$ 11,282	$ 348,918	$ —	$ 360,200

(1) Amounts represent the lease for our headquarters in Incline Village, Nevada and operating leases for office equipment.

(2) Amounts represent principal and cash interest payments due on the convertible notes.

Lease Guarantee

In connection with the Spin-Off of Facet, we entered into amendments to the leases for our former facilities in Redwood City, California, under which Facet was added as a co-tenant, and a Co-Tenancy Agreement, under which Facet agreed to indemnify us for all matters related to the leases attributable to the period after the Spin-Off date. 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 December 31, 2012, the total lease payments for the duration of the guarantee, which runs through December 2021, are approximately $100.3 million, and has not been included in the table above. If Facet were to default, we could also be responsible for lease related costs including utilities, property taxes and common area maintenance which may be as much as the actual lease payments. We have recorded a liability of $10.7 million on our Consolidated Balance Sheets as of December 31, 2012, and 2011, related to this guarantee.

Indemnification

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Risk

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

We hedge Euro-denominated risk exposures related to our licensees' product sales with Euro forward contracts, and in 2011, Euro forward and option contracts. In general, these contracts are intended to offset the underlying Euro market risk in our royalty revenues. Our current contracts extend through the fourth quarter of 2014 and are all classified for accounting purposes as cash flow hedges. We continue to monitor the change in the Euro exchange rate and regularly purchase additional forward contracts to achieve hedged rates that approximate the average exchange rate of the Euro over the year, which we anticipate will better offset potential changes in exchange rates than simply entering into larger contracts at a single point in time.

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

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

Gains or losses on our cash flow hedges are recognized in the same period that the hedged transaction impacts earnings as an adjustment to royalty revenue. Ineffectiveness, if any, resulting from the change in fair value of the modified 2012 hedge or lower than forecasted Euro-based royalties will be reclassified from other comprehensive income (loss) and recorded as interest and

other income, net, in the period it occurs. The following table summarizes the notional amounts, Euro exchange rates and fair values of our outstanding Euro contracts designated as hedges at December 31, 2012 and 2011:

Euro Forward Contracts			December 31, 2012 *(in thousands)*		December 31, 2011 *(in thousands)*	
Currency	Settlement Price ($ per Euro)	Type	Notional Amount	Fair Value	Notional Amount	Fair Value
Euro	1.400	Sell Euro	$ —	$ —	$ 25,150	$ 1,837
Euro	1.200	Sell Euro	—	—	117,941	(9,783)
Euro	1.230	Sell Euro	27,553	(2,036)	—	—
Euro	1.240	Sell Euro	10,850	(726)	—	—
Euro	1.270	Sell Euro	44,450	(1,950)	—	—
Euro	1.281	Sell Euro	36,814	(1,331)	—	—
Euro	1.300	Sell Euro	91,000	(1,538)	—	—
Total			$ 210,667	$ (7,581)	$ 143,091	$ (7,946)

Euro Option Contracts			December 31, 2012 *(in thousands)*		December 31, 2011 *(in thousands)*	
Currency	Strike Price ($ per Euro)	Type	Notional Amount	Fair Value	Notional Amount	Fair Value
Euro	1.510	Purchased call option	$ —	$ —	$ 27,126	$ —
Euro	1.315	Purchased call option	—	—	129,244	5,001
Total			$ —	$ —	$ 156,370	$ 5,001

Interest Rate Risk

Our investment portfolio was approximately $140.8 million at December 31, 2012, and $224.8 million at December 31, 2011, and consisted of investments in Rule 2a-7 money market funds, certificate of deposits, corporate debt securities, commercial paper, U.S. government sponsored agency bonds and U.S. treasury securities. If market interest rates were to have increased by 1% in either of these years, there would have been no material impact on the fair value of our portfolio.

The aggregate fair value of our convertible notes was estimated to be $410.5 million at December 31, 2012, and $347.6 million at December 31, 2011, based on available pricing information. At December 31, 2012, our convertible notes consisted of our Series 2012 Notes, with a fixed interest rate of 2.875%, our May 2015 Notes, with a fixed interest rate of 3.75%, and our February 2015 Notes, with a fixed interest rate of 2.875%. At December 31, 2011, our convertible notes consisted of our May 2015 Notes, with a fixed interest rate of 3.75% and our February 2015 Notes, with a fixed interest rate of 2.875%. These obligations are subject to interest rate risk because the fixed interest rates under these obligations may exceed current interest rates.

The following table presents information about our material debt obligations that are sensitive to changes in interest rates. The table presents principal amounts and related weighted-average interest rates by year of expected maturity for our debt obligations or the earliest year in which the note holders may put the debt to us. Our convertible notes may be converted to common stock prior to the maturity date.

(In thousands)	2013	2014	2015	Total	Fair Value
Convertible notes					
Fixed Rate	$ —	$ —	$ 335,250	$ 335,250	$ 410,487 (1)
Average Interest Rate	3.28%	3.28%	3.28%		

(1) The fair value of the remaining payments under our convertible notes was estimated based on the trading value of these notes at December 31, 2012.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

PDL BIOPHARMA, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except par value)

	December 31,	
	2012	**2011**
Assets		
Current assets:		
Cash and cash equivalents	$ 131,212	$ 168,544
Restricted investment	20,000	—
Short-term investments	17,477	42,301
Receivables from licensees	366	600
Deferred tax assets	1,613	10,054
Notes receivable	7,504	—
Prepaid and other current assets	4,813	12,014
Total current assets	182,985	233,513
Property and equipment, net	59	22
Long-term investments	—	17,101
Notes and other long-term receivables	85,704	—
Long-term deferred tax assets	4,552	11,481
Other assets	6,666	7,354
Total assets	$ 279,966	$ 269,471
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	$ 1,074	$ 528
Accrued legal settlement	—	27,500
Accrued liabilities	9,400	11,609
Current portion of non-recourse notes payable	—	93,370
Total current liabilities	10,474	133,007
Convertible notes payable	309,952	316,615
Other long-term liabilities	27,662	24,122
Total liabilities	348,088	473,744
Commitments and contingencies (Note 11)		
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; 139,816 and 139,680 shares issued and outstanding at December 31, 2012 and 2011, respectively	1,398	1,397
Additional paid-in capital	(234,066)	(161,750)
Accumulated other comprehensive loss	(5,088)	(1,885)
Retained earnings (accumulated deficit)	169,634	(42,035)
Total stockholders' deficit	(68,122)	(204,273)
Total liabilities and stockholders' deficit	$ 279,966	$ 269,471

See accompanying notes.

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

	Year Ended December 31,		
	2012	**2011**	**2010**
Revenues:			
Royalties	$ 374,525	$ 351,641	$ 343,475
License and other	—	10,400	1,500
Total revenues	374,525	362,041	344,975
Operating expenses:			
General and administrative	25,469	18,338	41,396
Legal settlement	—	—	92,500
Total operating expenses	25,469	18,338	133,896
Operating income	349,056	343,703	211,079
Non-operating expense, net			
Loss on retirement or conversion of convertible notes	—	(766)	(17,648)
Interest and other income, net	7,113	593	468
Interest expense	(29,036)	(36,102)	(43,529)
Total non-operating expense, net	(21,923)	(36,275)	(60,709)
Income before income taxes	327,133	307,428	150,370
Income tax expense	115,464	108,039	58,496
Net income	$ 211,669	$ 199,389	$ 91,874
Net income per share			
Basic	$ 1.52	$ 1.43	$ 0.73
Diluted	$ 1.45	$ 1.15	$ 0.54
Weighted average shares outstanding			
Basic	139,711	139,663	126,578
Diluted	146,403	177,441	178,801
Cash dividends declared per common share	$ 0.60	$ 0.60	$ 1.00

See accompanying notes.

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

	Year Ended December 31,		
	2012	**2011**	**2010**
Net income	$ 211,669	$ 199,389	$ 91,874
Other comprehensive income (loss), net of tax			
Unrealized gains (losses) on investments in available-for-sale securities[a]	(22)	30	(1)
Unrealized gains (losses) on cash flow hedges[b]	(3,181)	(5,134)	3,220
Total other comprehensive income (loss), net of tax	(3,203)	(5,104)	3,219
Comprehensive income	$ 208,466	$ 194,285	$ 95,093

[a] Net of ($12), $16 and ($1) for the years ended 2012, 2011 and 2010, respectively.
[b] Net of ($1,713), ($2,765) and $1,734 for the years ended 2012, 2011 and 2010, respectively.

See accompanying notes.

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

	Year Ended December 31,		
	2012	**2011**	**2010**
Cash flows from operating activities			
Net income	$ 211,669	$ 199,389	$ 91,874
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of convertible notes offering costs	12,481	5,386	1,682
Amortization of non-recourse notes offering costs	1,226	4,533	7,238
Other amortization and depreciation expense	946	1,405	330
Loss on retirement or conversion of convertible notes	—	766	17,648
Hedge adjustment - ineffectiveness and reclassifications from OCI for transactions not probable to occur	(257)	—	—
Stock-based compensation expense	937	387	662
Tax benefit (expense) from stock-based compensation arrangements	—	(120)	12,818
Net excess tax benefit from stock-based compensation	(27)	—	(12,924)
Deferred income taxes	11,338	31,217	(5,677)
Changes in assets and liabilities:			
Receivables from licensees	234	(131)	581
Prepaid and other current assets	4,138	(199)	1,445
Notes receivable	(2,882)	—	—
Other assets	(1,162)	(6,639)	182
Accounts payable	546	(2,012)	2,170
Accrued legal settlement	(27,500)	(37,500)	65,000
Accrued liabilities	62	239	(26,229)
Other long-term liabilities	(1,533)	(26,939)	27,500
Net cash provided by operating activities	210,216	169,782	184,300
Cash flows from investing activities			
Purchases of investments	(29,898)	(74,744)	(46,668)
Maturities of investments	50,831	50,696	9,772
Issuance of notes receivable	(95,300)	—	—
Repayment of notes receivable	5,000	—	—
Purchase of property and equipment	(51)	—	—
Net cash used in investing activities	(69,418)	(24,048)	(36,896)
Cash flows from financing activities			
Retirement of convertible notes	—	(133,851)	(108,247)
Repayment of non-recourse notes	(93,370)	(110,900)	(95,730)
Payment of debt issuance costs	(845)	—	—
Net proceeds from the issuance of convertible notes	—	149,712	82,039
Purchase of call options	—	(20,765)	—
Proceeds from issuance of warrants	—	10,868	—
Cash dividends paid	(83,942)	(83,828)	(130,043)
Excess tax benefit from stock-based compensation	27	—	12,924
Net cash used in financing activities	(178,130)	(188,764)	(239,057)
Net decrease in cash and cash equivalents	(37,332)	(43,030)	(91,653)
Cash and cash equivalents at beginning of the year	168,544	211,574	303,227
Cash and cash equivalents at end the year	$ 131,212	$ 168,544	$ 211,574

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

	Year Ended December 31,		
	2012	2011	2010
Supplemental cash flow information			
Cash paid for income taxes	$ 99,000	$ 83,000	$ 69,000
Cash paid for interest	$ 15,754	$ 25,627	$ 40,622
Supplemental disclosures of non-cash financing activities			
Conversion of convertible notes	$ —	$ —	$ 111,680

See accompanying notes

PDL BIOPHARMA, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
(In thousands, except share amounts)

	Common Stock		Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Deficit
	Shares	Amount				
Balance at December 31, 2009	119,522,885	$ 1,195	$ (83,850)	$ (333,298)	$ —	$ (415,953)
Issuance of common stock for convertible debt	19,969,069	200	112,675	—	—	112,875
Issuance of common stock under employee benefit plans	148,198	1	(1)	—	—	—
Stock-based compensation expense for employees	—	—	662	—	—	662
Tax benefit from employee stock options	—	—	12,818	—	—	12,818
Dividends declared	—	—	(129,677)	—	—	(129,677)
Comprehensive income:						
Net income	—	—	—	91,874	—	91,874
Change in unrealized gains and losses on investments in available-for-sale securities, net of tax	—	—	—	—	(1)	(1)
Change in unrealized gains on cash flow hedges, net of tax	—	—	—	—	3,220	3,220
Total comprehensive income						95,093
Balance at December 31, 2010	139,640,152	1,396	(87,373)	(241,424)	3,219	(324,182)
Issuance of common stock under employee benefit plans	39,600	1	—	—	—	1
Issuance of convertible debt	—	—	11,870	—	—	11,870
Purchase of purchased call options, net of tax	—	—	(13,522)	—	—	(13,522)
Proceeds from the sale of warrants	—	—	10,868	—	—	10,868
Stock-based compensation expense	—	—	387	—	—	387
Tax expense from stock options	—	—	(120)	—	—	(120)
Dividends declared	—	—	(83,860)	—	—	(83,860)
Comprehensive income:						
Net income	—	—	—	199,389	—	199,389
Change in unrealized gains and losses on investments in available-for-sale securities, net of tax	—	—	—	—	30	30
Changes in unrealized gains and losses on cash flow hedges, net of tax	—	—	—	—	(5,134)	(5,134)
Total comprehensive income						194,285
Balance at December 31, 2011	139,679,752	1,397	(161,750)	(42,035)	(1,885)	(204,273)
Issuance of common stock under employee benefit plans	136,507	1	(1)	—	—	—
Issuance of convertible debt	—	—	10,692	—	—	10,692
Stock-based compensation expense	—	—	937	—	—	937
Dividends declared	—	—	(83,944)	—	—	(83,944)
Comprehensive income:						
Net income	—	—	—	211,669	—	211,669
Change in unrealized gains and losses on investments in available-for-sale securities, net of tax	—	—	—	—	(22)	(22)
Changes in unrealized gains and losses on cash flow hedges, net of tax	—	—	—	—	(3,181)	(3,181)
Total comprehensive income						208,466
Balance at December 31, 2012	139,816,259	$ 1,398	$ (234,066)	$ 169,634	$ (5,088)	$ (68,122)

See accompanying notes.

PDL BIOPHARMA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012

1. Organization and Business

PDL BioPharma Inc. (we, us, our, PDL and the Company) pioneered humanization of monoclonal antibodies and, by doing so, enabled the discovery of a new generation of targeted treatments for cancer, immunologic diseases and other conditions. Today, PDL is focused on intellectual property asset management, investing in income generating assets and maximizing the value of its patent portfolio and related assets. 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 our licensing agreements, we are entitled to receive a flat-rate or tiered royalty based upon our licensees' net sales of covered antibodies. We have also entered into licensing agreements under which we have licensed certain rights for development stage products that have not yet reached commercialization including products that are currently in Phase 3 clinical trials.

In the year ended December 31, 2012, we received royalties on sales of the seven humanized antibody products listed below, all of which are currently approved for use by the FDA and other regulatory agencies outside the United States. In the years ended December 31, 2012, 2011 and 2010, we received approximately $374.5 million, $351.6 million and $343.5 million, respectively, of royalty revenues under license agreements.

Licensee	Product Names
Genentech	Avastin®
	Herceptin®
	Xolair®
	Lucentis®
	Perjeta®
Elan	Tysabri®
Chugai	Actemra®

We have also entered into licensing agreements under which we have licensed certain rights under our patents for development-stage products that have not yet reached commercialization including products that are currently in Phase 3 clinical trials.

Until December 2008, our business included biotechnology operations which were focused on the discovery and development of novel antibodies which we spun off to Facet Biotech Corporation. In April 2010, Abbott Laboratories acquired Facet and later renamed the company Abbott Biotherapeutics Corp., and in January 2013, Abbott Biotherapeutics, Corp. was renamed AbbVie Biotherapeutics, Inc. and spun off from Abbott as a subsidiary of AbbVie Inc.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles and under the rules and regulations of the Securities and Exchange Commission.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, QHP Royalty Sub LLC. All material intercompany balances and transactions are eliminated in consolidation. Our consolidated financial statements are prepared in accordance with GAAP, and the rules and regulations of the SEC.

Management Estimates

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

Segment Disclosures

Our chief operating decision-maker consists of our executive management. Our chief operating decision-maker reviews our operating results and operating plans and makes resource allocation decisions on a company-wide, therefore, we operated as one segment.

Cash Equivalents and Investments

We consider all highly liquid investments with initial maturities of three months or less at the date of purchase to be cash equivalents. We place our cash, cash equivalents and investments with high credit quality financial institutions and in U.S. government securities, U.S. government agency securities and investment grade corporate debt securities and, by policy, limit the amount of credit exposure in any one financial instrument. Available-for-sale securities are reported at fair value, with unrealized gains and losses recorded in accumulated other comprehensive income (loss). See Note 5.

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. The assets and liabilities are categorized and disclosed in one of the following three categories:

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

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

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

We do not estimate the fair value of our royalty assets for financial statement reporting purposes.

Notes and Other Long-Term Receivables

Notes receivable and loans originated by us are initially recorded at the amount advanced to the borrower. Notes receivable and loan origination and commitment fees, net of certain origination costs, are recorded as an adjustment to the carrying value of the notes receivable and loans and are amortized over the term of the related financial asset under the effective interest method. Certain of our notes receivable and loans require the borrower to make variable payments which are dependent upon the borrower's sales of specific products. We have elected to use the prospective interest method to account for these notes receivable and loans subsequent to their initial recognition. Under this approach, we recognize the impact of any variations from the expected returns in the period when received. From time to time, we will re-evaluate the expected cash flows and may adjust the effective interest rate with effect prospective from the date of assessment, if the impact of such adjustment could be material to our financial statements. Determining initial effective interest rate and subsequent re-assessment of the effective interest rate for notes receivable and loans with variable cash flows requires judgment and is based on significant assumptions related to estimates of the amounts and timing of future product sales by the borrowers.

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

Foreign Currency Hedging

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

We hedge certain Euro-denominated currency exposures related to our licensees' product sales with Euro forward contracts and, in 2011, Euro forward and option contracts. In general, these contracts are intended to offset the underlying Euro market risk in our royalty revenues. These contracts extend through the fourth quarter of 2014. We designate foreign currency exchange contracts used to hedge royalty revenues based on underlying Euro-denominated sales 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 Euro contracts is estimated using pricing models with readily observable inputs from actively quoted markets and is disclosed on a gross basis. The aggregate unrealized gain or loss, net of tax, on the effective component of the hedge is recorded in stockholders' deficit as accumulated other comprehensive income (loss). Gains or losses on cash flow hedges are recognized as an adjustment to royalty revenue in the same period that the hedged transaction impacts earnings as royalty revenue. Any gain or loss on the ineffective portions is reported in other income in the period the ineffectiveness occurs.

During the third quarter of 2012, we de-designated and terminated a portion of our cash flow hedges. The gain realized was reclassified from other comprehensive income (loss) to other income in the third quarter. See Note 6 for additional information on our foreign currency hedge transactions.

Revenue Recognition

Royalty Revenues

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

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

Comprehensive Income (Loss)

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

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization were computed using the straight-line method over the following estimated useful lives:

Leasehold improvements	Shorter of asset life or term of lease
Computer and office equipment	3 years
Furniture and fixtures	7 years

Recent Accounting Pronouncements

In December 2011, the FASB issued ASU 2011-11 requiring new disclosures associated with offsetting financial instruments and derivative instruments on the balance sheet that will enable users to evaluate the effect on an entity's financial position. The ASU will be effective in the first quarter of 2013, but is not expected to have a material impact on our financial statements.

In the first quarter of 2012, we adopted FASB ASU 2011-05, and have presented the components of other comprehensive income (loss) in the Consolidated Statements of Comprehensive Income. We have applied this guidance retrospectively to all periods presented. The adoption of the guidance was a change to the presentation of other comprehensive income (loss) and had no effect on our condensed consolidated financial statements. See Note 18 for our discussion of accumulated other comprehensive income (loss).

3. Net Income per Share

	Year Ended December 31,		
(In thousands, except per share amounts)	**2012**	**2011**	**2010**
Numerator			
Net income	$ 211,669	$ 199,389	$ 91,874
Add back interest expense for convertible notes, net of estimated tax of $25,000, $3.0 million and $2.7 million, for the years ended December 31, 2012, 2011 and 2010, respectively (see Note 12)	46	5,544	5,087
Income used to compute net income per diluted share	$ 211,715	$ 204,933	$ 96,961
Denominator			
Total weighted-average shares used to compute net income per basic share	139,711	139,663	126,578
Effect of dilutive stock options	95	13	9
Restricted stock outstanding	17	25	103
Assumed conversion of Series 2012 notes	4,944	—	—
Assumed conversion of 2012 notes	—	9,790	29,870
Assumed conversion of February 2015 notes	631	27,950	4,229
Assumed conversion of May 2015 notes	1,005	—	—
Assumed conversion of 2023 notes	—	—	18,012
Shares used to compute net income per diluted share	146,403	177,441	178,801
Net income per basic share	$ 1.52	$ 1.43	$ 0.73
Net income per diluted share	$ 1.45	$ 1.15	$ 0.54

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

We compute net income per diluted share using the sum of the weighted-average number of common and common equivalent shares outstanding. Common equivalent shares used in the computation of net income per diluted share include shares that may be issued under our stock options and restricted stock awards, our February 2015 Notes, our Series 2012 Notes, our May 2015 notes, in 2011 and 2010, our 2012 Notes, and in 2010, our 2023 Notes, on a weighted average basis for the period that the notes were outstanding, including the effect of adding back interest expense and the underlying shares using the if-converted method. Our 2023 Notes were fully retired as of September 14, 2010. Our 2012 Notes were fully retired as of June 30, 2011. In the first quarter of 2012, $179.0 million aggregate principal of our February 2015 Notes was exchanged for our Series 2012 Notes.

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

We excluded 19.6 million and 13.3 million shares of potential dilution for our warrants for the years ended December 31, 2012 and 2011, respectively, for our warrants issued in 2011, because the exercise price of the warrants exceeded the average market price of our common stock and thus, for the periods presented, no stock was issuable upon conversion. These securities could be

dilutive in future periods. Our purchased call options, issued in 2011, will always be anti-dilutive and therefore 23.0 million and 13.3 million shares were excluded for the years ended December 31, 2012 and 2011, respectively, because they have no effect on diluted net income per share under GAAP. For information related to the conversion rates on our convertible debt, see Note 12.

For the year ended December 31, 2012, we excluded approximately 157,000 and 1,000 shares underlying outstanding stock options and restricted stock awards, respectively and for the years ended December 31, 2011 and 2010, we excluded approximately, 193,000 and 330,000 shares underlying outstanding stock options, calculated on a weighted average basis, from our net income per diluted share calculations because their effect was anti-dilutive.

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 pay to transfer a liability in an orderly transaction between market participants at the measurement date or exit price. The following table presents the fair value of our financial instruments measured at fair value on a recurring basis by level of input within the fair value hierarchy defined in Note 2:

	December 31, 2012			December 31, 2011		
(In thousands)	**Level 1**	**Level 2**	**Total**	**Level 1**	**Level 2**	**Total**
Assets:						
Money market funds	$ 121,095	$ —	$ 121,095	$ 163,368	$ —	$ 163,368
Certificates of deposit	—	26,128	26,128	—	—	—
Corporate debt securities	—	13,572	13,572	—	44,877	44,877
Commercial paper	—	—	—	—	8,996	8,996
U.S. government sponsored agency bonds	—	—	—	2,015	—	2,015
U.S. treasury securities	—	—	—	5,513	—	5,513
Foreign currency hedge contracts	—	—	—	—	6,838	6,838
Total	$ 121,095	$ 39,700	$ 160,795	$ 170,896	$ 60,711	$ 231,607
Liabilities:						
Foreign currency hedge contracts	$ —	$ 7,581	$ 7,581	$ —	$ 9,783	$ 9,783

The fair value of the certificates of deposit is determined using quoted market prices for similar instruments and non-binding market prices that are corroborated by observable market data. The certificates of deposit include a $20 million certificate of deposit that is restricted as it was purchased to collateralize the line of credit for Merus Labs; see Note 7.

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

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

The fair value of commercial paper is estimated based on observable inputs of the comparable securities.

There has been no transfers between levels during the years ended December 31, 2012 and 2011. The Company recognizes transfers between levels on the date of the event or change in circumstances that caused the transfer.

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

	December 31, 2012			December 31, 2011		
	Carrying Value	Level 2	Level 3	Carrying Value	Level 2	Level 3
(In thousands)						
Assets:						
Wellstat Diagnostics note receivable	$ 41,098	$ —	$ 41,098	$ —	$ —	$ —
Merus Labs note receivable	30,000	30,000	—	—	—	—
AxoGen note receivable	22,110	—	22,110	—	—	—
Total	$ 93,208	$ 30,000	$ 63,208	$ —	$ —	$ —
Liabilities:						
Series 2012 Notes	$ 165,528	$ 227,187	$ —	$ —	$ —	$ —
May 2015 Notes	143,433	182,031	—	138,952	156,123	—
February 2015 Notes	991	1,269	—	177,663	191,475	—
Non-recourse Notes	—	—	—	93,370	95,237	—
Total	$ 309,952	$ 410,487	$ —	$ 409,985	$ 442,835	$ —

As of December 31, 2012, the fair values of our Wellstat Diagnostic note receivable, Merus Labs note receivable, and AxoGen note receivable were determined using one or more discounted cash flow models, incorporating expected payments and the interest rate extended on the notes with fixed interest rates and incorporating expected payments for notes with a variable rate of return.

On December 31, 2012, the carrying value of the AxoGen note approximates its fair value. We determined the estimated fair value of the note to be Level 3, as our valuation utilized significant unobservable inputs, including estimates of Axogen's future revenues, expectations about settlement and required yield. To provide support for the fair value measurement, we considered forward looking performance related to AxoGen, current measures associated with high yield indices, and reviewed the terms and yields of notes placed by specialty finance and venture firms both across industries and in a similar sector. Additionally, we reviewed market yield indices for changes since the issuance of the note. We observed no material events with AxoGen or in the market in which it participates since the placement.

On December 31, 2012, the carrying value of the note receivable from Wellstat Diagnostics approximates its fair value. Due to breach of the credit agreement as of December 31, 2012, as discussed in Note 7, we considered the fair value of the collateral when estimating fair value of the note. The note is collateralized by all assets and equity interest in Wellstat Diagnostics. The fair value of the collateral was determined by using a discounted cash flow analysis related to the underlying technology included in the collateral. The discounted cash flow was based upon expected income from sales of planned products over a 15 year period. The terminal value was estimated using selected market multiples based on sales and EBITDA. We determined that this note is a Level 3 asset, as our valuation of collateral utilized significant unobservable inputs including estimates of discount rate of 35%, terminal value EBITDA multiple of 17.5, terminal value sales multiple of 3.0 and future revenue and expenses related to commercialization of the borrower's technology.

The fair values of our convertible notes and our Non-recourse Notes were determined using quoted market pricing or dealer quotes of our then outstanding notes.

5. Cash Equivalents and Investments

As of December 31, 2012, we had invested our excess cash balances primarily in money market funds, a certificate of deposit, and corporate debt securities, and in 2011, commercial paper, U.S. government sponsored agency bonds and U.S. treasury securities. Our securities are classified as available-for-sale and are carried at estimated fair value, with unrealized gains and losses reported in accumulated other comprehensive income (loss) in stockholders’ deficit, net of estimated taxes. See Note 4 for fair value measurement information. The cost of securities sold is based on the specific identification method. To date, we have not experienced credit losses on investments in these instruments and we do not require collateral for our investment activities.

Summary of Cash and Available-For-Sale Securities	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Restricted Investment	Short-Term Marketable Securities	Long-Term Marketable Securities
(In thousands)								
December 31, 2012								
Cash	$ 7,894	$ —	$ —	$ 7,894	$ 7,894	$ —	$ —	$ —
Money market funds	121,095	—	—	121,095	121,095	—	—	—
Certificates of deposit	26,128	—	—	26,128	2,223	20,000	3,905	—
Corporate debt securities	13,562	10	—	13,572	—	—	13,572	—
Total	$ 168,679	$ 10	$ —	$ 168,689	$ 131,212	$ 20,000	$ 17,477	$ —
December 31, 2011								
Cash	$ 3,177	$ —	$ —	$ 3,177	$ 3,177	$ —	$ —	$ —
Money market funds	163,368	—	—	163,368	163,368	—	—	—
Corporate debt securities	44,863	57	(43)	44,877	—	—	27,776	17,101
Commercial paper	8,997	—	(1)	8,996	1,999	—	6,997	—
U.S. government sponsored agency bonds	2,003	12	—	2,015	—	—	2,015	—
U.S. treasury securities	5,494	19	—	5,513	—	—	5,513	—
Total	$ 227,902	$ 88	$ (44)	$ 227,946	$ 168,544	$ —	$ 42,301	$ 17,101

We recognized approximately $13,000 of gains on sales of available-for-sale securities in the year ended December 31, 2012. We did not recognize any gains or losses on sales of available-for-sale securities during 2011 and 2010.

Cash and Available-For-Sale Securities by Contractual Maturity	December 31, 2012		December 31, 2011	
(In thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Less than one year	$ 168,679	$ 168,689	$ 210,807	$ 210,845
Greater than one year but less than five years	—	—	17,095	17,101
Total	$ 168,679	$ 168,689	$ 227,902	$ 227,946

The unrealized gain on investments included in other comprehensive income (loss), net of estimated taxes, was approximately $7,000 and $29,000 as of December 31, 2012 and 2011, respectively. 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 December 31, 2012 and 2011, as we have the ability and the intent to hold these investments to maturity.

6. Foreign Currency Hedging

We designate the foreign currency exchange contracts used to hedge our royalty revenues based on underlying Euro-denominated sales as cash flow hedges. Euro forward contracts are presented on a net basis on our Consolidated Balance Sheets as we have entered into a netting arrangement with the counterparty. As of December 31, 2012 and 2011, all outstanding Euro forward contracts and option contracts were classified as cash flow hedges.

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

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

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

Euro Forward Contracts			December 31, 2012		December 31, 2011	
			(In thousands)		*(In thousands)*	
Currency	Settlement Price ($ per Euro)	Type	Notional Amount	Fair Value	Notional Amount	Fair Value
Euro	1.400	Sell Euro	$ —	$ —	$ 25,150	$ 1,837
Euro	1.200	Sell Euro	—	—	117,941	(9,783)
Euro	1.230	Sell Euro	27,553	(2,036)	—	—
Euro	1.240	Sell Euro	10,850	(726)	—	—
Euro	1.270	Sell Euro	44,450	(1,950)	—	—
Euro	1.281	Sell Euro	36,814	(1,331)	—	—
Euro	1.300	Sell Euro	91,000	(1,538)	—	—
Total			$ 210,667	$ (7,581)	$ 143,091	$ (7,946)

Euro Option Contracts			December 31, 2012		December 31, 2011	
			(In thousands)		*(In thousands)*	
Currency	Strike Price ($ per Euro)	Type	Notional Amount	Fair Value	Notional Amount	Fair Value
Euro	1.510	Purchased call option	$ —	$ —	$ 27,126	$ —
Euro	1.315	Purchased call option	—	—	129,244	5,001
Total			$ —	$ —	$ 156,370	$ 5,001

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

		December 31,	
Cash Flow Hedge	Location	2012	2011
(In thousands)			
Euro contracts	Prepaid and other current assets	$ —	$ 1,837
Euro contracts	Accrued liabilities	$ 3,574	$ 4,134
Euro contracts	Other long-term liabilities	$ 4,007	$ 648

The effect of our derivative instruments in our Consolidated Statements of Income and our Consolidated Statements of Comprehensive Income were:

	Year Ended December 31,		
	2012	2011	2010
(In thousands)			
Net gain (loss) recognized in OCI, net of tax [1]	$ (5,040)	$ (4,470)	$ 5,134
Gain (loss) reclassified from accumulated OCI into royalty revenue, net of tax [2]	$ (1,859)	$ 664	$ 1,914
Net loss recognized in interest and other income, net -- cash flow hedges [3]	$ (169)	$ (19)	$ —
Net gain recognized in interest and other income, net -- non-designated contracts [4]	$ 391	$ —	$ —
Amount excluded from effectiveness testing	$ —	$ —	$ —

(1) Net change in the fair value of the effective portion of cash flow hedges classified in other comprehensive income (loss) (OCI)
(2) Effective portion classified as royalty revenue
(3) Ineffectiveness from excess hedge was approximately $8,000 and $19,000 for the years ended December 31, 2012 and 2011, respectively. Net loss from restructuring hedges was approximately $161,000 and zero for the years ended December 31, 2012 and 2011, respectively.
(4) Gain on de-designation classified as interest and other income, net

A loss of approximately $2.1 million, net of tax, is expected to be reclassified from other comprehensive income (loss) against earnings in the next 12 months.

7. Notes and Other Long-term Receivables

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

Wellstat Diagnostics Note Receivable and Credit Agreement

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

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

Under the credit agreement, Wellstat Diagnostics may prepay the credit agreement at a price that, together with interest and royalty payments already made to the Company would generate a specified internal rate of return to the Company. In the event of change of control, bankruptcy or certain other customary events of defaults, or Wellstat Diagnostics' failure to achieve specified annual revenue threshold in 2017, Wellstat Diagnostics shall be required to prepay the credit agreement at a price that, together with interest and royalty payments already made to the Company, would generate a specified internal rate of return to the Company.

The credit agreement is secured by a pledge of all of the assets of Wellstat Diagnostics and a pledge of all of Wellstat Diagnostics’ equity interests by the holders thereof.

In January 2013, the Company was informed that, as of December 31, 2012, Wellstat Diagnostics had used funds contrary to the terms of the credit agreement and breached Sections 2.1.2 and 7 of the credit agreement. PDL sent Wellstat Diagnostics a notice of default on January 22, 2013, and accelerated the amounts owed under the credit agreement. In connection with the notice of default, PDL exercised one of its available remedies and transferred approximately $8.1 million of available cash from a bank account of Wellstat Diagnostics to PDL and applied the funds to amounts due under the credit agreement. Subsequently, PDL has agreed to provide up to $7.9 million to Wellstat diagnostics to fund the business for the 120-day forbearance period under the terms of the credit agreement. On February 28, 2013, the parties entered into a forbearance agreement whereby PDL has agreed to

refrain from exercising additional remedies for 120 days while Wellstat Diagnostics raises funds to capitalize the business and the parties attempt to negotiate a revised credit agreement.

As a result of the foregoing default, we prepared an impairment analysis of the Wellstat Diagnostics' note receivable as of December 31, 2012. The note is collateralized by all assets and equity interest in Wellstat Diagnostics. Therefore, we evaluated impairment by assessing the estimated fair value of the collateral. We concluded that no impairment existed as of December 31, 2012, because the estimated fair value of the collateral exceeded the carrying value of the note.

On January 27, 2012, PDL and Hyperion Catalysis International, Inc. (Hyperion) entered into a Purchase and Sale Agreement (Agreement) whereby Hyperion sold to PDL the right to receive two milestone payments due from Showa Denka K.K. in 2013 and 2014 in exchange for a lump sum payment to Hyperion. PDL received the first payment of $1.2 million on February 28, 2013. The second and final payment of $1.2 million is due in the first week of March 2014. Hyperion may opt to prepay any payment amount due to PDL at any time without penalty.

Hyperion is a mature company with proven technology, licensees and revenue streams, so there was no indication of impairment at December 31, 2012. However, Hyperion shares common equity holders with Wellstat Diagnostics. As a result of the breach by Wellstat Diagnostics of the Credit Agreement between PDL and Wellstat Diagnostics, the Company reviewed the Hyperion Agreement for impairment. While no payment is due from the Hyperion Agreement until the first week of March 2014, PDL management was concerned that the payment would not be received, given Hyperion's shareholders' breach of the credit agreement of Wellstat Diagnostics. To ensure that the Hyperion March 2013 payment of $1.2 was received, PDL included the Hyperion March 2013 payment in the Wellstat Diagnostics forbearance agreement, signed on February 28, 2013.

A discounted cash flow (DCF) analysis supports the $2.3 million carrying value of the Hyperion Agreement at December 31, 2012. Based upon the DCF and the guarantee provided in the Wellstat Diagnostics forbearance agreement, management believes that all amounts due will be received and believes there is no impairment of the Hyperion Agreement. Therefore, no adjustment or reserve was required to the $2.3 million carrying value of the Agreement as of December 31, 2012.

Merus Labs Note Receivable and Credit Agreement

In July 2012, PDL loaned $35.0 million to Merus Labs in connection with its acquisition of a commercial-stage pharmaceutical product and related assets. In addition, PDL agreed to provide a $20.0 million letter of credit on behalf of Merus Labs that the seller of the assets may draw upon on July 11, 2013, to satisfy the remaining $20.0 million purchase price obligation on July 11, 2013. Draws on the letter of credit will be funded from the proceeds of an additional loan to Merus Labs. Outstanding borrowings under the July 2012 loan bear interest at the rate of 13.5% per annum and outstanding borrowings as a result of draws on the letter of credit bear interest at the rate of 14.0% per annum. Merus Labs is required to make four periodic principal payments in respect of the July 2012 loan, with repayment of the remaining principal balance of all loans due on March 31, 2015. The borrowings are subject to mandatory prepayments upon certain asset dispositions or debt issuances upon the terms set forth in the credit agreement.

The credit agreement provides for a number of standard events of default, including payment, bankruptcy, covenant, judgment and cross-defaults.

AxoGen Note Receivable and Revenue Interest Purchase Agreement

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

Under the Royalty Agreement, beginning on October 1, 2016, or in the event of the occurrence of a material adverse event or AxoGen's bankruptcy or material breach of the Royalty Agreement, the Company may require AxoGen to repurchase the Royalty Rights at a price that, together with payments already made by AxoGen, would generate a specified internal rate of return to the Company.

In the event of a change of control of AxoGen, it must repurchase the assigned interests from the Company for a repurchase price equal to an amount that, together with payments already made by AxoGen, would generate a specified internal rate of return to the Company. The Company concluded that the repurchase option is an embedded derivative which should be bifurcated and separately accounted for at fair value. The fair value of the repurchase option was not material on December 31, 2012.

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

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

For carrying value and fair value information related to our Notes and Other Long-term Receivables, see Note 4.

8. Prepaid and Other Current Assets

	December 31,	
(In thousands)	**2012**	**2011**
Non-recourse Notes issuance costs	$ —	$ 1,226
Foreign currency exchange	—	1,837
Prepaid income taxes	3,351	8,297
Other	1,462	654
Total	$ 4,813	$ 12,014

For further information about our Non-recourse Notes, see Note 12.

9. Property and Equipment

	December 31,	
(In thousands)	**2012**	**2011**
Leasehold improvements	$ 127	$ 112
Computer and office equipment	8,993	8,989
Furniture and fixtures	38	38
Total	9,158	9,139
Less accumulated depreciation and amortization	(9,131)	(9,117)
Construction in progress	32	—
Property and equipment, net	$ 59	$ 22

10. Accrued Liabilities

(In thousands)	December 31, 2012	2011
Compensation	$ 594	$ 1,341
Interest	2,925	3,351
Deferred revenue	—	1,713
Foreign currency hedge	3,574	4,134
Dividend payable	53	52
Legal	2,020	673
Other	234	345
Total	$ 9,400	$ 11,609

11. Commitments and Contingencies

Operating Leases

We currently occupy a leased facility in Incline Village, Nevada, with a lease term through May 2014. We also lease certain office equipment under operating leases. Rental expense under these arrangements totaled $0.2 million, $0.2 million and $0.1 million for the years ended December 31, 2012, 2011 and 2010, respectively.

Future minimum operating lease payments for the years ended December 31, were as follows:

(In thousands)	
2013	$ 285
2014	84
Total	$ 369

12. Convertible Notes and Non-recourse Notes

Convertible and Non-recourse Notes activity for the years ended December 31, 2012 and 2011:

(In thousands)	2012 Notes	Series 2012 Notes	May 2015 Notes	February 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	—	—	—	—	(110,900)	(110,900)
Repurchase	(133,464)	—	—	—	—	(133,464)
Discount amortization	—	—	2,639	699	—	3,338
Balance at December 31, 2011	—	—	138,952	177,663	93,370	409,985
Issuance and exchange	—	176,679	—	(176,679)	—	—
Payment	—	—	—	—	(93,370)	(93,370)
Non-cash discount	—	(16,833)	—	—	—	(16,833)
Discount amortization	—	5,682	4,481	7	—	10,170
Balance at December 31, 2012	$ —	$ 165,528	$ 143,433	$ 991	$ —	$ 309,952

Series 2012 Notes

In January 2012, we exchanged $169.0 million aggregate principal of new Series 2012 Notes for an identical principal amount of our February 2015 Notes, plus a cash payment of $5.00 for each $1,000 principal amount tendered, totaling approximately $845,000. The cash incentive payment was allocated to deferred issue costs of $765,000, additional paid-in capital of $52,000 and

deferred tax assets of $28,000. The deferred issue costs will be recognized over the life of the Series 2012 Notes as interest expense. In February 2012, we entered into separate privately negotiated exchange agreements under which we exchanged an additional $10.0 million aggregate principal amount of the new Series 2012 Notes for an identical principal amount of our February 2015 Notes. At the conclusion of these transactions, $1.0 million of our February 2015 Notes remained outstanding.

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

Third party transaction costs of approximately $813,000 related to the exchange transactions have been recognized within general and administrative expense, of which $216,000 was recognized in the first quarter of 2012 and $597,000 was recognized during the year ended December 31, 2011.

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

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

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

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

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

	December 31,	
(In thousands)	**2012**	**2011**
Principal amount of the Series 2012 Notes	$ 179,000	$ —
Unamortized discount of liability component	(13,472)	—
Net carrying value of the Series 2012 Notes	$ 165,528	$ —

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

	Year ended December 31,		
(In thousands)	**2012**	**2011**	**2010**
Contractual coupon interest	$ 5,122	$ —	$ —
Amortization of debt issuance costs	1,107	—	—
Amortization of debt discount	5,682	—	—
Total	$ 11,911	$ —	$ —

As of December 31, 2012, our Series 2012 Notes are convertible into 169.525 shares of the Company's common stock per $1,000 of principal amount, or approximately $5.90 per common share, subject to further adjustment upon certain events including dividend payments. As of December 31, 2012, the remaining discount amortization period was 2.1 years.

Our common stock did not exceed the conversion threshold price of $7.82 for at least 20 days during 30 consecutive trading days ended September 30, 2012; accordingly, the Series 2012 Notes were not convertible at the option of the holder during the quarter ended December 31, 2012. Our common stock price did not exceed the conversion threshold price of $7.67 per common share for at least 20 days during the 30 consecutive trading days ended December 31, 2012; accordingly the Series 2012 Notes are not convertible at the option of the holder during the quarter ending March 31, 2013. At December 31, 2012, the if-converted value of our Series 2012 Notes exceeded their principal amount by approximately $34.6 million.

May 2015 Notes

On May 16, 2011, we issued $155.3 million in aggregate principal amount, at par, of our May 2015 Notes in an underwritten public offering, for net proceeds of $149.7 million. Our May 2015 Notes are due May 1, 2015, and are convertible into 148.3827 shares of the Company's common stock per $1,000 of principal amount, or approximately $6.74 per share, subject to further adjustment upon certain events including dividend payments. We pay interest at 3.75% on our May 2015 Notes semiannually in arrears on May 1 and November 1 of each year, beginning November 1, 2011. Proceeds from our May 2015 Notes, net of amounts used for purchased call option transactions and provided by the warrant transactions described below, were used to redeem our 2012 Notes. Upon the occurrence of a fundamental change, as defined in the indenture, holders have the option to require PDL to repurchase their May 2015 Notes at a purchase price equal to 100% of the principal, plus accrued interest.

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

- During any fiscal quarter ending after the quarter ending June 30, 2011, if the last reported sale price of our common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter exceeds 130% of the conversion price for the notes on the last day of such preceding fiscal quarter;

- During the five business-day period immediately after any five consecutive trading-day period, which we refer to as the measurement period, in which the trading price per $1,000 principal amount of notes for each trading day of that measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate for the notes for each such day;

- Upon the occurrence of specified corporate events as described further in the indenture; or

- At any time on or after November 1, 2014.

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 the Company's common stock. Our common stock did not exceed the conversion threshold price of $8.94 for at least 20 days during 30 consecutive trading days ended September 30, 2012; accordingly, the May 2015 Notes were not convertible at the option of the holder during the quarter ending December 31, 2012. Our common stock price did not exceed the conversion threshold price of $8.76 per common share for at least 20 days during the 30 consecutive trading days ended December 31, 2012; accordingly the May 2015 Notes are not convertible at the option of the holder during the quarter ended March 31, 2013. At December 31, 2012, the if-converted value of our May 2015 Notes exceeded their principal amount by approximately $6.9 million.

In accordance with the accounting guidance for convertible debt instruments that may be settled in cash or other assets on conversion, we were required to separately account for the liability component of the instrument in a manner that reflects the market interest rate for a similar nonconvertible instrument at the date of issuance. As a result, we separated the principal balance of our May 2015 Notes between the fair value of the debt component and the fair value of the common stock conversion feature. Using an assumed borrowing rate of 7.5%, which represents the estimated market interest rate for a similar nonconvertible instrument available to us on the date of issuance, we recorded a total debt discount of $18.9 million, allocated $12.3 million to additional paid-in capital and $6.6 million to deferred tax liability. The discount is being amortized to interest expense over the term of our May 2015 Notes and increases interest expense during the term of our May 2015 Notes from the 3.75% cash coupon interest rate to an effective interest rate of 7.5%. As of December 31, 2012, the remaining discount amortization period is 2.3 years.

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

	December 31,	
(In thousands)	**2012**	**2011**
Principal amount of the May 2015 Notes	$ 155,250	$ 155,250
Unamortized discount of liability component	(11,817)	(16,298)
Net carrying value of the May 2015 Notes	$ 143,433	$ 138,952

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

	Year Ended December 31,		
(In thousands)	**2012**	**2011**	**2010**
Contractual coupon interest	$ 5,822	$ 3,639	$ —
Amortization of debt issuance costs	1,193	727	—
Amortization of debt discount	4,481	2,639	—
Total	$ 11,496	$ 7,005	$ —

Purchased Call Options and Warrants

In connection with the issuance of our May 2015 Notes, we entered into purchased call option transactions with two hedge counterparties. We paid an aggregate amount of $20.8 million, plus legal fees, for the purchased call options with terms substantially similar to the embedded conversion options in our May 2015 Notes. The purchased call options cover, subject to anti-dilution and certain other customary adjustments substantially similar to those in our May 2015 Notes, approximately 23.0 million shares of our common stock at a strike price of approximately $6.74, which corresponds to the conversion price of our May 2015 Notes. We may exercise the purchased call options upon conversion of our May 2015 Notes and require the hedge counterparty to deliver shares to the Company in an amount equal to the shares required to be delivered by the Company to the note holder for the excess conversion value. The purchased call options expire on May 1, 2015, or the last day any of our May 2015 Notes remain outstanding.

In addition, we sold to the hedge counterparties warrants exercisable, on a cashless basis, for the sale of rights to receive up to 27.5 million shares of common stock underlying our May 2015 Notes, at a current strike price of approximately $7.93 per share, subject to additional anti-dilution and certain other customary adjustments. We received an aggregate amount of $10.9 million for the sale from the two counterparties. The warrant counterparties may exercise the warrants on their specified expiration dates that

occur over a period of time ending on January 20, 2016. If the VWAP of our common stock, as defined in the warrants, exceeds the strike price of the warrants, we will deliver to the warrant counterparties shares equal to the spread between the VWAP on the date of exercise or expiration and the strike price. If the VWAP is less than the strike price, neither party is obligated to deliver anything to the other.

The purchased call option transactions and warrant sales effectively serve to reduce the potential dilution associated with conversion of our May 2015 Notes. The strike prices are approximately $6.74 and $7.93, subject to further adjustment upon certain events including dividend payments, for the purchased call options and warrants, respectively.

If the share price is above $6.74, but below $7.93, upon conversion of our May 2015 Notes, the purchased call options will offset the share dilution, because the Company will receive shares on exercise of the purchased call options equal to the shares that the Company must deliver to the note holders. If the share price is above $7.93, upon exercise of the warrants, the Company will deliver shares to the counterparties in an amount equal to the excess of the share price over $7.93. For example, a 10% increase in the share price above $7.93 would result in the issuance of 2.1 million incremental shares upon exercise of the warrants. As our share price continues to increase, additional dilution would occur.

While the purchased call options are expected to reduce the potential equity dilution upon conversion of our May 2015 Notes, prior to conversion or exercise, our May 2015 Notes and the warrants could have a dilutive effect on the Company's earnings per share to the extent that the price of the Company's common stock during a given measurement period exceeds the respective exercise prices of those instruments. As of December 31, 2012 and 2011, the market price condition for convertibility of our May 2015 Notes was not met and there were no related purchased call options or warrants exercised.

The purchased call options and warrants are considered indexed to PDL stock, require net-share settlement, and met all criteria for equity classification at inception and at December 31, 2012 and 2011. The purchased call options cost, including legal fees, of $20.8 million, less deferred taxes of $7.2 million, and the $10.9 million received for the warrants were recorded as adjustments to additional paid-in capital. Subsequent changes in fair value will not be recognized as long as the purchased call options and warrants continue to meet the criteria for equity classification.

February 2015 Notes

On November 1, 2010, we completed an exchange of $92.0 million in aggregate principal of our 2012 Notes in separate, privately negotiated transactions with the note holders. In the exchange transactions, the note holders received $92.0 million in aggregate principal of our February 2015 Notes, and we recorded a net gain of $1.1 million. As part of the transaction, we placed an additional $88.0 million in aggregate principal of our February 2015 Notes. In January 2012, we completed an exchange transaction where we exchanged and subsequently retired approximately $169.0 million aggregate principal amount of our February 2015 Notes for approximately $169.0 million aggregate principal amount of new Series 2012 Notes, plus a cash payment of $5.00 for each $1,000 principal amount tendered for a total cash incentive payment of approximately $0.8 million. In February 2012, we entered into separate privately negotiated exchange agreements under which we retired an additional $10.0 million aggregate principal amount of our February 2015 Notes for $10.0 million aggregate principal amount of our Series 2012 Notes. Following settlement of the exchanges on February 2, 2012, $1.0 million of our February 2015 Notes and $179.0 million of our Series 2012 Notes were outstanding.

Our February 2015 Notes bear interest at 2.875% per annum, are due February 15, 2015, and are convertible at any time, at the holders' option, into our common stock at a conversion price of 169.525 shares of common stock per $1,000 principal amount, or $5.90 per share, subject to further adjustment in certain events including dividend payments. We pay interest on our February 2015 Notes semiannually in arrears on February 15 and August 15 of each year. Our February 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. Our February 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. Our February 2015 Notes issuance was not registered under the Securities Act of 1933, as amended, in reliance on exemption from registration thereunder. As of December 31, 2012 and 2011, our February 2015 Notes aggregate principal outstanding was $1.0 million and $180.0 million, respectively.

As of December 31, 2012 and 2011, our February 2015 Notes unamortized issuance costs, included as a component of Other Assets on the Consolidated Balance Sheets, were approximately $12,000 and $3.2 million, respectively. As of December 31, 2012 and 2011, the unamortized discount on our February 2015 Notes was approximately $9,000 and $2.3 million, respectively. The

issuance cost and discount are being amortized to interest expense over the term of our February 2015 Notes, with a remaining amortization period as of December 31, 2012, of approximately 2.1 years.

Non-recourse Notes Retirement

In November 2009, we completed a $300.0 million securitization transaction in which we monetized 60% of the net present value of the estimated five year royalties from sales of Genentech products including Avastin®, Herceptin®, Lucentis®, Xolair® and future products, if any, under which Genentech may take a license under our related agreements with Genentech. Our QHP PhaRMA℠ Senior Secured Notes due 2015 bore interest at 10.25% per annum and were issued in a non-registered offering by QHP, a Delaware limited liability company, and a newly formed, wholly-owned subsidiary of PDL. Concurrent with the securitization transaction and under the terms of a purchase and sale agreement, we sold, transferred, conveyed, assigned, contributed and granted to QHP, certain rights under our non-exclusive license agreements with Genentech including the right to receive the Genentech Royalties in exchange for QHP's proceeds from our Non-recourse Notes issuance. As of December 31, 2012, there was no remaining balance on our Non-recourse Notes, as they were fully repaid and retired on September 17, 2012. The indenture has ceased to be of further effect and all of the security interests in the collateral have terminated, including the pledge by PDL to the trustee of its equity interest in QHP. There are no further restrictions on the Genentech Royalties.

As of December 31, 2012 and 2011, PDL was in compliance with all applicable debt covenants, and embedded features of all debt agreements were evaluated and did not need to be accounted for separately.

As of December 31, 2012, the future minimum principal payments under our Series 2012 Notes, May 2015 Notes and February 2015 Notes were:

(In thousands)	Series 2012 Notes	May 2015 Notes	February 2015 Notes	Total
2013	$ —	$ —	$ —	$ —
2014	—	—	—	—
2015	179,000	155,250	1,000	335,250
Total	$ 179,000	$ 155,250	$ 1,000	$ 335,250

13. Other Long-Term Liabilities

	December 31,	
(In thousands)	**2012**	**2011**
Accrued lease liability	$ 10,700	$ 10,700
Uncertain tax position	12,955	12,774
Foreign currency hedge	4,007	648
Total	$ 27,662	$ 24,122

In connection with the Spin-Off, we entered into amendments to the leases for our former facilities in Redwood City, California, under which Facet was added as a co-tenant under the leases, and a Co-Tenancy Agreement, under which Facet agreed to indemnify us for all matters related to the leases attributable to the period after the Spin-Off date. Should Facet default under its lease obligations, we 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 December 31, 2012, the total lease payments for the duration of the guarantee, which runs through December 2021, are approximately $100.3 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 were to default. In April 2010, Abbott acquired Facet and later renamed the company Abbott Biotherapeutics Corp., and in January 2013, Abbott Biotherapeutics, Corp. was renamed AbbVie Biotherapeutics, Inc. and spun off from Abbott as a subsidiary of AbbVie Inc.

As of December 31, 2012 and 2011, we had a liability of $10.7 million on our Consolidated Balance Sheets for the estimated liability resulting from this guarantee. In future periods, we may increase the recorded liability for this obligation if we conclude that a loss, which is larger than the amount recorded, is both probable and estimable.

14. Stock-Based Compensation

We recognize compensation expense using a fair-value based method for costs associated with all share-based awards issued to our directors, employees and outside consultants under our stock plan. The value of the portion of the award that is ultimately expected to vest is recognized as expense on a straight-line basis over the requisite service periods in our Consolidated Statements of Income.

We have adopted the simplified method to calculate the beginning balance of the additional paid-in capital pool of the excess tax benefit and to determine the subsequent effect on the APIC pool and Consolidated Statements of Cash Flows of the tax effects of employee stock-based compensation awards that were outstanding upon our adoption.

We calculate stock-based compensation expense based on the number of awards ultimately expected to vest, net of estimated forfeitures. We estimate forfeiture rates at the time of grant and revise such rates, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The stock-based compensation expense was determined using the Black-Scholes option valuation model.

Stock-based compensation expense for employees and directors and non-employees for the years ended December 31, 2012, 2011 and 2010, is presented below:

	Year Ended December 31,		
Stock-based Compensation	**2012**	**2011**	**2010**
(In thousands)			
Employees and directors	$ 650	$ 337	$ 662
Non-employees	287	50	—
Total	$ 937	$ 387	$ 662

Stock-Based Incentive Plans

We currently have one active stock-based incentive plan under which we may grant stock-based awards to our employees, directors and consultants.

The total number of shares of common stock authorized for issuance, shares of common stock issued upon exercise of options or grant of restricted stock, shares of common stock subject to outstanding awards and available for grant under this plan as of December 31, 2012, is:

Title of Plan	Total Shares of Common Stock Authorized	Total Shares of Common Stock Issued	Total Shares of Common Stock Subject to Outstanding Awards	Total Shares of Common Stock Available for Grant
2005 Equity Incentive Plan[1]	5,200,000	610,579	—	4,589,421
2002 Outside Directors Stock Option Plan[2]	157,000	140,750	16,250	—
1999 Non-statutory Stock Option Plan[2]	5,072,683	4,966,183	106,500	—
1999 Stock Option Plan[2]	3,726,719	3,653,150	73,569	—

(1) As of December 31, 2012, there were 120,436 shares of unvested restricted stock awards outstanding.
(2) Plan terminated in 2009, subject to options outstanding under the plan.

Under our 2005 Equity Incentive Plan, we are authorized to issue a variety of incentive awards, including stock options, stock appreciation rights, restricted stock awards, restricted stock unit awards, performance share and performance unit awards, deferred compensation awards and other stock-based or cash-based awards.

In 2009, our Compensation Committee terminated the 1991 Nonstatutory Stock Option Plan. Additionally our Compensation Committee terminated the 1999 Outside Director Stock Option Plan, the 1999 Nonstatutory Stock Option Plan and the 2002 Outside Directors Stock Option Plan, subject to any outstanding options. Also in June 2009, our stockholders approved amendments to the Company’s 2005 Equity Incentive Plan to expand persons eligible to participate in the plan to include our outside directors.

Stock Option Activity

A summary of our stock option activity is presented below:

	2012		2011		2010	
	Number of shares (in thousands)	Weighted-Average Exercise Price	Number of shares (in thousands)	Weighted-Average Exercise Price	Number of shares (in thousands)	Weighted-Average Exercise Price
Outstanding at beginning of year	231	$ 16.62	274	$ 17.25	1,564	$ 19.82
Expired	(35)	$ 18.83	(43)	$ 20.67	(1,290)	$ 20.36
Outstanding at end of year	196	$ 16.22	231	$ 16.62	274	$ 17.25
Exercisable at end of year	196	$ 16.22	231	$ 16.62	274	$ 17.25

As of December 31, 2012, the aggregate intrinsic value of our outstanding and exercisable stock options was $0.1 million and the weighted-average remaining contractual life was 1.65 years. The aggregate intrinsic value represents the total pre-tax intrinsic value, based on the closing prices of our common stock of $7.04 on December 31, 2012, which would have been received by the option holders had option holders exercised their options as of that date. All stock options were fully vested as of 2010 and at December 31, 2012, had a range of exercise price of $5.41 to $22.60.

Restricted Stock

Restricted stock has the same rights as other issued and outstanding shares of the Company's common stock, including, in some cases, the right to accrue dividends, and is held in escrow until the award vests. The compensation expense related to these awards is determined using the fair market value of the Company's common stock on the date of the grant, and the compensation expense is recognized ratably over the vesting period. Restricted stock awards typically vest over twelve to 24 months. In addition to service requirements, vesting of restricted stock awards may be subject to the achievement of specified performance goals set by the Compensation Committee of the Company's Board of Directors. If the performance goals are not met, no compensation expense is recognized and any previously recognized compensation expense is reversed.

A summary of our restricted stock activity is presented below:

	2012		2011		2010	
	Number of shares (in thousands)	Weighted-average grant-date fair value per share	Number of shares (in thousands)	Weighted-average grant-date fair value per share	Number of shares (in thousands)	Weighted- average grant-date fair value per share
Nonvested at beginning of year	137	$ 6.09	40	$ 5.05	148	$ 6.54
Awards granted	139	$ 6.49	155	$ 6.15	40	$ 5.05
Awards vested	(137)	$ 6.09	(40)	$ 5.05	(148)	$ 6.54
Forfeited	(19)	$ 6.35	(18)	$ 6.59	—	
Nonvested at end of year	120	$ 6.51	137	$ 6.09	40	$ 5.05

Stock-based compensation expense associated with our restricted stock for the years ended December 31, 2012, 2011 and 2010, was $0.9 million, $0.4 million and $0.6 million, respectively. As of December 31, 2012, the aggregate intrinsic value of non-vested restricted stock was $0.8 million. Total unrecognized compensation costs associated with non-vested restricted stock as of December 31, 2012, was $0.5 million, excluding forfeitures, which we expect to recognize over a weighted-average period of ten months.

15. Cash Dividends

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

On January 18, 2012, our board of directors declared regular quarterly dividends of $0.15 per share of common stock, which were paid on March 14, June 14, September 14 and December 14 of 2012 to stockholders of record on March 7, June 7, September 7 and December 7 of 2012, the record dates for each of the dividend payments, respectively. We paid $83.9 million in dividends in 2012.

On February 25, 2011, our board of directors declared regular quarterly dividends of $0.15 per share of common stock, which were paid 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 payment dates, respectively. We paid $83.8 million in dividends in 2011.

In January 2010, our board of directors declared two special cash dividends of $0.50 per share of common stock payable on April 1, 2010, and October 1, 2010. We paid $59.9 million to our stockholders on April 1, 2010, and $69.8 million to our stockholders on October 1, 2010.

16. Customer Concentration

The percentage of total revenue earned from licensees net sales, which individually accounted for 10% or more of our total revenues:

	Year Ended December 31,		
	2012	**2011**	**2010**
Licensees			
Genentech	85%	86%	86%
Elan	13%	12%	10%

Total revenues by geographic area are based on the country of domicile of the counterparty to the agreement:

	Year Ended December 31,		
(In thousands)	**2012**	**2011**	**2010**
United States	$ 133,824	$ 137,269	$ 130,070
Europe	240,626	224,472	213,677
Other	75	300	1,228
Total revenues	$ 374,525	$ 362,041	$ 344,975

17. Income Taxes

The provision for income taxes consisted of the following:

	Year Ended December 31,		
(In thousands)	**2012**	**2011**	**2010**
Current income tax expense			
Federal	$ 104,152	$ 83,569	$ 91,325
State	1	1	11
Total current	104,153	83,570	91,336
Deferred income tax expense (benefit)	11,311	24,469	(32,840)
Total provision	$ 115,464	$ 108,039	$ 58,496

A reconciliation of the income tax provision computed using the U.S. statutory federal income tax rate compared to the income tax provision for income included in the Consolidated Statements of Income is:

	Year Ended December 31,		
(In thousands)	**2012**	**2011**	**2010**
Tax at U.S. statutory rate on income before income taxes	$ 114,496	$ 107,600	$ 52,630
Change in valuation allowance	—	—	296
State taxes	1	1	11
Non-deductible loss on retirement or conversion of convertible notes	—	—	4,960
Other	967	438	599
Total	$ 115,464	$ 108,039	$ 58,496

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 our net deferred tax assets and liabilities are:

	December 31,	
(In thousands)	**2012**	**2011**
Deferred tax assets:		
Net operating loss carryforwards	$ 6,686	$ 7,308
Research and other tax credits	15,205	5,743
Intangible assets	5,487	7,403
Stock-based compensation	222	273
Reserves and accruals	229	10,087
Deferred revenue	—	600
Unrealized loss on foreign currency hedge contracts	2,740	1,031
Other	227	974
Total deferred tax assets	30,796	33,419
Valuation allowance	(20,392)	(10,930)
Total deferred tax assets, net of valuation allowances	10,404	22,489
Deferred tax liabilities:		
Deferred gain on repurchase of convertible notes	(954)	(954)
Debt modifications	(3,285)	—
Total deferred tax liabilities	(4,239)	(954)
Net deferred tax assets	$ 6,165	$ 21,535

As of December 31, 2012 and 2011, we had federal net operating loss carryforwards of $41.1 million and $42.9 million, respectively. We also had California net operating loss carryforwards of $215.5 million as of December 31, 2012 and 2011. The federal net operating loss carryforwards will expire in the year 2023 and the California net operating loss carryforwards will expire in 2019, if not utilized. As of December 31, 2012 and 2011, we had $20.0 million of state tax credit carryforwards that will expire in 2028, if not utilized. The net operating loss carryforwards and tax credit carryforwards which resulted from exercises of stock options were not recorded on the Consolidated Balance Sheet.

Utilization of the federal and state net operating loss 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 net operating losses and credits before utilization. We have an annual limitation on the utilization of our federal operating losses of $1.8 million for each of the years ending December 31, 2013 to 2022, and $1.3 million for the year ending December 31, 2023. As of December 31, 2012, we estimate that at least $22.0 million of the $41.1 million of federal net operating loss carryforwards and $18.7 million of the $18.7 million state net operating losses will expire unutilized.

A reconciliation of our unrecognized tax benefits, excluding accrued interest and penalties, for 2012 and 2011 is:

	December 31,	
(In thousands)	**2012**	**2011**
Balance at the beginning of the year	$ 23,061	$ 23,061
Increases related to tax positions from prior fiscal years	4,029	—
Increases related to tax positions taken during current fiscal year	5,557	—
Expiration of statute of limitations for the assessment of taxes	—	—
Balance at the end of the year	$ 32,647	$ 23,061

The future impact of the unrecognized tax benefit of $32.6 million, if recognized, is as follows: $12.2 million would affect the effective tax rate and $20.4 million would result in adjustments to deferred tax assets and corresponding adjustments to the valuation allowance. We periodically evaluate our exposures associated with our tax filing positions. During 2012, as a result of the evaluation of our uncertain tax positions, we increased the unrecognized tax benefits by $9.6 million primarily related to our tax attributes.

Estimated interest and penalties associated with unrecognized tax benefits increased income tax expense in the Consolidated Statements of Income by $0.2 million during the year ended December 31, 2012, $0.5 million during the year ended December 31, 2011, and decreased income tax expense by approximately $26,000 during the year ended December 31, 2010. In general, our income tax returns are subject to examination by U.S. federal, state, and local tax authorities for tax years 1996 forward. Interest and penalties associated with unrecognized tax benefits accrued on the balance sheet were $0.7 million and $0.6 million as of December 31, 2012 and 2011, respectively. In May 2012, PDL received a “no-change” letter from the Internal Revenue Service (IRS) upon completion of an examination of the Company's 2008 Federal tax return. We are currently under income tax examination in the state of California for tax years 2009 and 2008.

Although the timing of the resolution of income tax examinations is highly uncertain, and the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year, we do not anticipate any material change to the amount of our unrecognized tax benefits over the next twelve months.

18. Accumulated Other Comprehensive Income (Loss)

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

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

	Unrealized gain (loss) on available-for-sale securities	Unrealized gain (loss) on cash flow hedges	Total Accumulated Other Comprehensive Income (Loss)
(In thousands)			
Beginning Balance at December 31, 2009	$ —	$ —	$ —
Activity for the year ended December 31, 2010	(1)	3,220	3,219
Balance at December 31, 2010	(1)	3,220	3,219
Activity for the year ended December 31, 2011	30	(5,134)	(5,104)
Balance at December 31, 2011	29	(1,914)	(1,885)
Activity for the year ended December 31, 2012	(22)	(3,181)	(3,203)
Ending Balance at December 31, 2012	$ 7	$ (5,095)	$ (5,088)

19. Legal Proceedings

Resolution of Past Challenges to the Queen et al. Patents in the United States and Europe

MedImmune Settlement

On February 10, 2011, we entered into a definitive settlement agreement with MedImmune resolving all legal disputes with them, including those relating to MedImmune's product Synagis® and PDL's patents known as the Queen et al. patents. Under the settlement agreement, PDL paid MedImmune $65.0 million on February 15, 2011, and an additional $27.5 million on February 9, 2012, for a total of $92.5 million. No further payments will be owed by MedImmune to PDL under its license to the Queen et al. patents as a result of past or future Synagis sales and MedImmune will cease any support, financial or otherwise, of any party involved in the appeal proceeding before the European Patent Office relating to the opposition against our '216B Patent including the opposition owned by BioTransplant.

Settlement with UCB

On February 2, 2011, we reached a settlement with UCB. Under the settlement agreement, PDL provided UCB a covenant not to sue UCB for any royalties regarding UCB's Cimzia® product under the Queen et al. patents in return for a lump sum payment of $10.0 million to PDL and termination of pending patent interference proceedings before the U.S. Patent and Trademark office involving our U.S. Patent No. 5,585,089 patent and our U.S. Patent No. 6,180,370 in PDL's favor. UCB also agreed to formally withdraw its opposition appeal challenging the validity of the '216B Patent.

Settlement with Novartis

On February 25, 2011, we reached a settlement with Novartis. Under the settlement agreement, PDL agreed to dismiss its claims against Novartis in its action in Nevada state court which also includes Genentech and Roche as defendants. Novartis agreed to withdraw its opposition appeal in the EPO challenging the validity of the '216B Patent. Under the settlement agreement with Novartis, we will pay Novartis certain amounts based on net sales of Lucentis made by Novartis during calendar year 2011 and beyond. The settlement does not affect our claims against Genentech and Roche in the Nevada state court action. We do not currently expect such amount to materially impact our total annual revenues.

European Opposition to ‘216B Patent

Termination of European Opposition to ‘216B Patent

Pursuant to our settlements with UCB, MedImmune and Novartis, and as a result of our acquisition of BioTransplant and subsequent withdrawal of BioTransplant’s appeal, all of the active appellants in the EPO opposition have formally withdrawn their participation in the appeal proceeding. Accordingly, the EPO has canceled the appeal proceeding and terminated the opposition proceeding in its entirety, with the result that the 2007 EPO decision upholding the claims of our ‘216B Patent as valid will become the final decision of the EPO. In the year ending December 31, 2012, approximately 38% of our royalty revenues were derived from sales of products that were made in Europe and sold outside of the United States.

Genentech / Roche Matter

Communications with Genentech regarding European SPCs

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

Genentech’s letter does not suggest that any of the Genentech Products do not infringe PDL’s U.S. patents to the extent that such Genentech Products are made, used or sold in the United States. Genentech’s quarterly royalty payments received in August and November of 2010 after receipt of the letter included royalties generated on all worldwide sales of the Genentech Products.

If Genentech is successful in asserting this position, then under the terms of our license agreements with Genentech, it would not owe us royalties on sales of Avastin, Herceptin, Lucentis and Xolair that are both manufactured and sold outside of the United States. Royalties on sales of Avastin, Herceptin, Lucentis and Xolair that are made and sold outside of the United States accounted for approximately 38% of our royalty revenues for the year ended December 31, 2012.

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.

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

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

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

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

The court has scheduled trial to commence on October 7, 2013. The outcome of this litigation is uncertain and we may not be successful in our allegations.

20. Subsequent Event

On February 28, 2013, PDL and Wellstat Diagnostics entered in a forbearance agreement whereby PDL has agreed to refrain from exercising available remedies in connection with the default of the credit agreement dated November 2, 2012, for 120 days while Wellstat Diagnostics raises funds to capitalize the business and the parties attempt to negotiate a revised credit agreement. The Company also agreed to provided up to $7.9 million to Wellstat Diagnostics to fund the business for the 120-day forbearance period under the terms of the credit agreement. The notes are payable on demand and bear interest at 20% per annum and are secured by the assets and equity interest in Wellstat Diagnostics.

21. Quarterly Financial Data (Unaudited)

	2012 Quarter Ended			
(In thousands, except per share data)	**December 31**	**September 30**	**June 30**	**March 31**
Revenues	$ 86,046	$ 85,231	$ 125,904	$ 77,344
Net income	$ 49,408	$ 48,575	$ 73,502	$ 40,184
Net income per basic share	$ 0.35	$ 0.35	$ 0.53	$ 0.29
Net income per diluted share	$ 0.34	$ 0.32	$ 0.52	$ 0.29

	2011 Quarter Ended			
(In thousands, except per share data)	**December 31**	**September 30**	**June 30**	**March 31**
Revenues	$ 72,808	$ 83,770	$ 122,127	$ 83,336
Net income	$ 38,942	$ 45,916	$ 69,986	$ 44,545
Net income per basic share	$ 0.28	$ 0.33	$ 0.50	$ 0.32
Net income per diluted share	$ 0.24	$ 0.28	$ 0.38	$ 0.25

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of PDL BioPharma, Inc.

We have audited the accompanying consolidated balance sheets of PDL BioPharma, Inc. as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, stockholders' deficit and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PDL BioPharma, Inc. at December 31, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), PDL BioPharma, Inc.'s internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 1, 2013 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Redwood City, California

March 1, 2013

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our Chief Executive 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 Annual Report. Based on this evaluation, our Chief Executive Officer, Acting Chief Financial Officer, has concluded that, as of December 31, 2012, our disclosure controls and procedures were effective to ensure the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Management's Annual Report on Internal Control over Financial Reporting

PDL, under the supervision and with the participation of our management, including our Chief Executive Officer, Acting Chief Financial Officer, is responsible for the preparation and integrity of our Consolidated Financial Statements, establishing and maintaining adequate internal control over financial reporting and all related information appearing in this Annual Report. We evaluated the effectiveness of our internal controls over financial reporting under the Internal Control-Integrated Framework founded by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control-Integrated Framework, our management has assessed our internal control over financial reporting to be effective as of December 31, 2012.

Changes in Internal Controls

On November 30, 2012, Bruce Tomlinson resigned his position as Vice President and Chief Financial Officer of PDL. The board of directors appointed John McLaughlin, Chief Executive Officer, as Acting Chief Financial Officer. This management change did not materially affect our internal control over financial reporting.

There were no changes in our internal controls over financial reporting during the quarter ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls

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

Our independent registered public accountants, Ernst & Young LLP, audited the Consolidated Financial Statements included in this Annual Report and have issued an audit report on the effectiveness of our internal control over financial reporting. The report on the audit of internal control over financial reporting appears below, and the report on the audit of the Consolidated Financial Statements appears in Part II, Item 8 of this Annual Report.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of PDL BioPharma, Inc.

We have audited PDL BioPharma, Inc.'s internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). PDL BioPharma, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, PDL BioPharma, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria**.**

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of PDL BioPharma, Inc. as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, stockholders' deficit and cash flows for each of the three years in the period ended December 31, 2012 of PDL BioPharma, Inc. and our report dated March 1, 2013 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Redwood City, California

March 1, 2013

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item 10 will be contained in the Proxy Statement for our 2013 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item 11 will be contained in the Proxy Statement for our 2013 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item 12 will be contained in the Proxy Statement for our 2013 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item 13 will be contained in the Proxy Statement for our 2013 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item 14 will be contained in the Proxy Statement for our 2013 Annual Meeting of Stockholders and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report:

(1) Index to financial statements

Our financial statements and the Report of the Independent Registered Public Accounting Firm are included in Part II, Item 8.

(2) The financial statement schedules are omitted because the information is inapplicable or presented in our Consolidated Financial Statements or notes.

(3) Index to Exhibits

Exhibit Number	Exhibit Title
2.1	Separation and Distribution Agreement, dated December 17, 2008, between the Company and Facet Biotech Corporation (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed December 23, 2008)
2.2	Amendment No. 1 to Separation and Distribution Agreement, dated January 20, 2009, between the Company and Facet Biotech Corporation (incorporated by reference to Exhibit 2.2 to Annual Report on Form 10-K filed March 2, 2009)
3.1	Restated Certificate of Incorporation effective March 23, 1993 (incorporated by reference to Exhibit 3.1 to Annual Report on Form 10-K filed March 31, 1993)
3.2	Certificate of Amendment of Certificate of Incorporation effective August 21, 2001 (incorporated by reference to Exhibit 3.3 to Annual Report on Form 10-K filed March 14, 2002)
3.3	Certificate of Amendment of Certificate of Incorporation effective January 9, 2006 (incorporated by reference to Exhibit 99.1 to Current Report on Form 8-K filed January 10, 2006)
3.4	Certificate of Designation, Preferences and Rights of the Terms effective August 25, 2006 (incorporated by reference to Exhibit 3.4 to Registration Statement on Form 8-A filed September 6, 2006)
3.5	Amended and Restated Bylaws effective June 4, 2009 (incorporated by reference to Exhibit 99.1 to Current Report on Form 8-K filed June 10, 2009)
4.1	Indenture between the Company and J.P. Morgan Trust Company, National Association, dated February 14, 2005 (incorporated by reference to Exhibit 4.1 to Current Report on Form 8-K filed February 16, 2005)
4.2	Indenture between wholly-owned subsidiary QHP Royalty Sub LLC and U.S. Bank National Association, dated November 2, 2009 (incorporated by reference to Exhibit 99.1 to Current Report on Form 8-K filed November 6, 2009)
4.3	Indenture between the Company and The Bank of New York Mellon, N.A., dated November 1, 2010 (incorporated by reference to Exhibit 4.1 to Quarterly Report on Form 10-Q filed November 9, 2010)
4.4	Indenture between the Company and The Bank of New York Mellon, N.A., dated May 16, 2011 (incorporated by reference to Exhibit 4.1 to Quarterly Report on Form 10-Q filed July 29, 2011)
4.5	Supplemental Indenture between the Company and The Bank of New York Mellon, N.A., dated May 16, 2011 (incorporated by reference to Exhibit 4.1 to Current Report on Form 8-K filed May 16, 2011)
4.6	Indenture between the Company and The Bank of New York Mellon, N.A., dated January 5, 2012 (incorporated by reference to Exhibit 4.1 to Current Report on Form 8-K filed January 6, 2012)
10.1*	1999 Stock Option Plan (incorporated by reference to Exhibit 10.1 to Quarterly Report on Form 10-Q filed August 9, 2006)
10.2*	1999 Nonstatutory Stock Option Plan, as amended through February 20, 2003 (incorporated by reference to Exhibit 10.3 to Quarterly Report on Form 10-Q filed August 9, 2006)
10.3*	Form of Notice of Grant of Stock Option under the 1999 Stock Option Plan (incorporated by reference to Exhibit 10.2 to Quarterly Report on Form 10-Q filed August 14, 2002)
10.4*	Form of Stock Option Agreement (incentive stock options) under the 1999 Stock Option Plan (incorporated by reference to Exhibit 10.4 to Quarterly Report on Form 10-Q filed August 9, 2006)
10.5*	Form of Stock Option Agreement (nonstatutory stock options) under the 1999 Stock Option Plan (incorporated by reference to Exhibit 10.5 to Quarterly Report on Form 10-Q filed August 9, 2006)
10.6*	Form of Notice of Grant of Stock Option under the 1999 Nonstatutory Stock Option Plan (incorporated by reference to Exhibit 10.3 to Quarterly Report on Form 10-Q/A filed November 14, 2007)

10.7*	Form of Stock Option Agreement under the 1999 Nonstatutory Stock Option Plan (incorporated by reference to Exhibit 10.6 to Quarterly Report on Form 10-Q filed August 9, 2006)
10.8*	2002 Outside Directors Stock Option Plan, as amended June 8, 2005 (incorporated by reference to Exhibit 99.2 to Current Report on Form 8-K filed June 14, 2005)
10.9*	Form of Nonqualified Stock Option Agreement under the 2002 Outside Directors Plan (incorporated by reference to Exhibit 10.2 to Quarterly Report on Form 10-Q/A filed November 14, 2007)
10.10*	Amended and Restated 2005 Equity Incentive Plan effective June 4, 2009 (incorporated by reference to Exhibit 10.1 to Quarterly Report on Form 10-Q filed July 31, 2009)
10.11*	Form of Notice of Grant of Stock Option under the 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.7 to Quarterly Report on Form 10-Q filed August 9, 2006)
10.12*	Form of Stock Option Agreement under the 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.8 to Quarterly Report on Form 10-Q filed August 9, 2006)
10.13*	Form of Notice of Grant of Restricted Stock Award under the 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.9 to Quarterly Report on Form 10-Q filed August 9, 2006)
10.14*	Form of Restricted Stock Agreement under the 2005 Equity Incentive Plan (for the officers of the Company) (incorporated by reference to Exhibit 10.10 to Quarterly Report on Form 10-Q filed August 9, 2006)
10.15*	Form of Director and Officer Indemnification Agreement (incorporated by reference to Exhibit 10.1 to Registration Statement on Form S-1 filed December 16, 1991)
10.16*	Offer Letter between the Company and John McLaughlin, dated November 4, 2008 (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed November 10, 2008)
10.17*	Offer Letter between the Company and Christine Larson, dated December 15, 2008 (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed December 19, 2008)
10.18	Tax Sharing and Indemnification Agreement, dated December 18, 2008, between the Company and Facet Biotech Corporation (incorporated by reference to Exhibit 10.3 to Current Report on Form 8-K filed December 23, 2008)
10.19	Patent Licensing Master Agreement between the Company and Genentech, Inc., dated September 25, 1998 (incorporated by reference to Exhibit 10.10 to Quarterly Report on Form 10-Q filed November 16, 1998)†
10.20	Amendment No. 1 to Patent Licensing Master Agreement between the Company and Genentech, Inc., dated September 18, 2003 (incorporated by reference to Exhibit 10.45 to Annual Report on Form 10-K filed March 8, 2004)†
10.21	Amendment No. 2 to Patent Licensing Master Agreement between the Company and Genentech, Inc., dated December 18, 2003 (incorporated by reference to Exhibit 10.45 to Annual Report on Form 10-K filed March 2, 2009)
10.22	Amendment No. 1 to the Herceptin® License Agreement between the Company and Genentech, Inc., dated December 18, 2003 (incorporated by reference to Exhibit 10.47 to Annual Report on Form 10-K filed March 8, 2004)
10.23	Patent License Agreement, dated July 17, 1997, between the Company and MedImmune Inc. (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed January 24, 2011)†
10.24	Patent License Agreement, dated April 24, 1998, between the Company and Elan International Services Ltd. (incorporated by reference to Exhibit 10.45 to Annual Report on Form 10-K filed March 2, 2009) †
10.25*	Offer Letter between the Company and Christopher Stone, dated December 30, 2008 (incorporated by reference to Exhibit 10.29 to Annual Report on Form 10-K filed March 1, 2010)
10.26	Purchase and Sale Agreement, dated November 2, 2009, between PDL and wholly-owned subsidiary QHP Royalty Sub LLC (incorporated by reference to Exhibit 99.2 to Current Report on Form 8-K filed November 6, 2009)
10.27	Pledge and Security Agreement, dated November 2, 2009, between PDL and wholly-owned subsidiary QHP Royalty Sub LLC (incorporated by reference to Exhibit 99.3 to Current Report on Form 8-K filed November 6, 2009)

10.28	Bill of Sale, dated November 2, 2009, between PDL and wholly-owned subsidiary QHP Royalty Sub LLC (incorporated by reference to Exhibit 99.4 to Current Report on Form 8-K filed November 6, 2009)
10.29*	Company 2010 Annual Bonus Plan (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on April 19, 2010)
10.30	Settlement Agreement between the Company and Genentech, Inc., dated December 18, 2003 (incorporated by reference to Exhibit 10.1 to Quarterly Report on Form 10-Q filed November 9, 2010) †
10.31	Amended and Restated Patent Licensing master Agreement between the Company and Genentech, Inc., dated July 27, 2009 (incorporated by reference to Exhibit 10.2 to Quarterly Report on Form 10-Q filed November 9, 2010) †
10.32	Amendments to Product Licenses and Settlement Agreement between the Company and Genentech, Inc. dated July 27, 2009 (incorporated by reference to Exhibit 10.3 to Quarterly Report on Form 10-Q filed November 9, 2010)
10.33	Form of Exchange Agreement between the Company and certain holders of the Company’s 2.75% Convertible Subordinated Notes due 2023 (incorporated by reference to Exhibit 10.1 to Current Report Form 8-K filed August 5, 2010)
10.34	Form of Exchange Agreement between the Company and certain holders of the Company’s 2.00% Convertible Senior Notes due 2012 (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed October 27, 2010)
10.35	Form of Purchase Agreement between the Company and certain holders of the Company’s 2.00% Convertible Senior Notes due 2012 (incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed October 27, 2010)
10.36	Form of Exchange and Purchase Agreement between the Company and certain holders of the Company’s 2.00% Convertible Senior Notes due 2012 (incorporated by reference to Exhibit 10.3 to Current Report on Form 8-K filed October 27, 2010)
10.37*	Offer Letter between the Company and Caroline Krumel, dated January 6, 2011 (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed January 25, 2011)
10.38*	Company 2011 Annual Bonus Plan (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed January 26, 2011)
10.39*	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)
10.40*	Form of Executive Officer Severance Agreement (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed May 26, 2011)
10.41*	2012 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.3 to Quarterly Report on Form 10-Q filed July 29, 2011)
10.42*	Separation Agreement between the Company and Christine Larson, dated December 9, 2011 (incorporated by reference to Exhibit 10.46 to Annual Report on Form 10-K filed February 23, 2012)
10.43*	2013 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.47 to Annual Report on Form 10-K filed February 23, 2012)
10.44*	2012 Annual Bonus Plan (Incorporated by reference to Exhibit 10.48 to Annual Report on Form 10-K filed February 23, 2012)
10.45	Form of Exchange Agreement between the Company and certain holders of the Company's 2.875% Convertible Senior Notes due February 15, 2015 (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed February 2, 2012)

10.46	Lease Agreement between 932936, LLC and the Company, dated April 17, 2012 (incorporated by reference to Exhibit 10.1 to Quarterly Report on Form 10-Q filed May 3, 2012)
10.47*	Offer Letter between the Company and Bruce Tomlinson, dated April 20, 2012 (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed April 27, 2012)
10.48	Credit Agreement between the Company and Merus Labs International, Inc., dated July 10, 2012 (incorporated by reference to Exhibit 10.1 to Quarterly Report on form 10Q filed August 2, 2012)†
10.49#	Revenue Interests Purchase Agreement between the Company and AxoGen, Inc., dated October 5, 2012†
10.50#	Credit Agreement between the Company and Wellstat Diagnostics, LLC, dated November 2, 2012†
10.51*#	Separation Agreement between the Company and Bruce Tomlinson, dated November 30, 2012
12.1#	Ratio of Earnings to Fixed Charges
14.1#	Code of Business Conduct
21.1#	Subsidiaries of the Registrant
23.1#	Consent of Independent Registered Public Accounting Firm
31.1#	Certification of Principal Executive Officer and Acting 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 Acting Principal Financial Officer, as required by Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350)
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

Filed herewith.

* Management contract or compensatory plan or arrangement.

† Certain information in this exhibit has been omitted and filed separately with the Securities and Exchange Commission pursuant to a confidential treatment request under 17 C.F.R. Sections 200.80(b)(4) and 24b-2.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

PDL BIOPHARMA, INC. (REGISTRANT)

By: /S/ JOHN P. MCLAUGHLIN

John P. McLaughlin

President, Chief Executive Officer, Acting Chief Financial Officer and Acting Principal Accounting Officer

Date: March 1, 2013

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/S/ JOHN P. MCLAUGHLIN **(John P. McLaughlin)**	President and Chief Executive Officer (Principal Executive Officer, Acting Chief Financial Officer and Acting Principal Accounting Officer)	March 1, 2013
/S/ JODY S. LINDELL **(Jody S. Lindell)**	Director	March 1, 2013
/S/ PAUL W. SANDMAN **(Paul W. Sandman)**	Director	March 1, 2013
/S/ HAROLD E. SELICK **(Harold E. Selick)**	Director	March 1, 2013

Exhibit 10.49

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

REVENUE INTERESTS PURCHASE AGREEMENT

Dated as of October 5, 2012

between

AxoGen, Inc.

and

PDL BioPharma, Inc.

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EXHIBITS

Exhibit A - Form of Guarantee and Collateral Agreement
Exhibit B - Form of Assignment of Interests
Exhibit C - Form of Deposit Agreement
Exhibit D - Form of Legal Opinion

REVENUE INTERESTS PURCHASE AGREEMENT

This **REVENUE INTERESTS PURCHASE AGREEMENT** (as amended, supplemented or otherwise modified from time to time, this "Agreement") is made and entered into as of October 5, 2012, by and between AxoGen, Inc., a Minnesota corporation (the "Company"), and PDL BioPharma, Inc., a Delaware corporation ("Purchaser").

WHEREAS, the Company wishes to obtain financing in respect of the commercialization of the Product (as hereinafter defined) and to sell, assign, convey and transfer to Purchaser in consideration for its payment of the Purchase Price (as hereinafter defined), and Purchaser wishes to purchase from the Company, the Assigned Interests (as hereinafter defined), all upon and subject to the terms and conditions hereinafter set forth;

WHEREAS, the Company and Purchaser entered into that certain Interim Royalty Purchase Agreement, dated August 14, 2012 ("Interim Royalty Purchase Agreement"), pursuant to which, Purchaser paid $1,750,000.00 (the "Interim Payment") for the acquisition of certain of the Company's revenue rights; and

WHEREAS, the parties desire for this Agreement to amend, restate and replace the Interim Royalty Purchase Agreement in its entirety.

NOW, THEREFORE, in consideration of the mutual covenants, agreements representations and warranties set forth herein, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

Section 1.01 Definitions.

The following terms, as used herein, shall have the following meanings:

"2013 Annual Meeting" shall have the meaning set forth in Section 5.15.

"Accounts" shall mean, collectively, the Deposit Account, the Joint Concentration Account, the Company Concentration Account and the Purchaser Concentration Account, each established and maintained pursuant to the Deposit Agreement.

"Affiliate" shall mean any Person that controls, is controlled by, or is under common control with another Person. For purposes of this definition, "control" shall mean (i) in the case of corporate entities, direct or indirect ownership of at least fifty percent (50%) of the stock or shares having the right to vote for the election of directors, and (ii) in the case of non-corporate entities, direct or indirect ownership of at least fifty percent (50%) of the equity interest with the power to direct the management and policies of such non-corporate entities.

"Aggregate Deposit Funds" shall mean any and all financial assets, funds, monies, checks or other items deposited into the Deposit Account.

"Agreement" shall have the meaning set forth in the first paragraph hereof.

"Applicable Percentage" shall mean * * *.

"Assigned Interests" shall mean the following amounts of the Company's Net Revenues:

(a) from the Closing Date until September 30, 2014, an amount equal to the product of the Applicable Percentage multiplied by the Company's Net Revenues;

(b) for each of the following twenty-four (24) Fiscal Quarters, the greater of (i) an amount equal to the Applicable Percentage of the Company's Net Revenues for such Fiscal Quarter or (ii) the following amounts:

(i) for the quarter ending December 31, 2014, * * *;
(ii) for the quarter ending March 31, 2015* * *;
(iii) for the quarter ending June 30, 2015, * * *;
(iv) for the quarter ending September 30, 2015, * * *;
(v) for the quarter ending December 31, 2015, * * *;
(vi) for the quarter ending March 31, 2016, * * *;
(vii) for the quarter ending June 30, 2016, * * *;
(viii) for the quarter ending September 30, 2016, * * *;
(ix) for the quarter ending December 31, 2016, * * *;
(x) for the quarter ending March 31, 2017, * * *;
(xi) for the quarter ending June 30, 2017, * * *;
(xii) for the quarter ending September 30, 2017, * * *;
(xiii) for the quarter ending December 31, 2017, * * *;
(xiv) for the quarter ending March 31, 2018, * * *;
(xv) for the quarter ending June 30, 2018, * * *;
(xvi) for the quarter ending September 30, 2018, * * *;
(xvii) for the quarter ending December 31, 2018, * * *;
(xviii) for the quarter ending March 31, 2019, * * *;
(xix) for the quarter ending June 30, 2019, * * *;
(xx) for the quarter ending September 30, 2019, * * *;

(xxi) for the quarter ending December 31, 2019, * * *;
(xxii) for the quarter ending March 31, 2020, * * *;
(xxiii) for the quarter ending June 30, 2020, * * *; and
(xxiv) for the quarter ending September 30, 2020, * * *.

"Assigned Interests Collateral" shall mean the property included in the definition of "Collateral" in the Guarantee and Collateral Agreement.

"Assignment of Interests" shall mean the Assignment of Interests pursuant to which the Company shall assign to Purchaser all of its rights and interests in and to the Assigned Interests purchased hereunder, which Assignment of Interests shall be substantially in the form of Exhibit B.

"Audit Costs" shall mean, with respect to any audit of the books and records of the Company with respect to amounts payable or paid under this Agreement, the reasonable out-of-pocket cost of such audit, including all fees, costs and expenses incurred in connection therewith.

"Bankruptcy Event" shall mean the occurrence of any of the following:

(a) the Company shall commence any case, proceeding or other action (i) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization, relief of debtors or the like, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts, or (ii) seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or any portion of its assets, or the Company shall make a general assignment for the benefit of its creditors;

(b) there shall be commenced against the Company any case, proceeding or other action of a nature referred to in clause (a) above which remains undismissed, undischarged or unbonded for a period of sixty (60) days;

(c) there shall be commenced against the Company any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against (i) all or any substantial portion of its assets and/or (ii) the Product or any substantial portion of the Intellectual Property related to the Product, which results in the entry of an order for any such relief which shall not have been vacated, discharged, stayed, satisfied or bonded pending appeal within sixty (60) days from the entry thereof;

(d) the failure of the Company to take action to object to any of the acts set forth in clause (b) or (c) above within ten (10) days of the Company receiving written notice of such act; or

(e) the Company shall generally not, or shall be unable to, or shall admit in writing its inability to, pay its respective debts as they become due.

"BLA" shall mean a biologics license application and all amendments and supplements thereto, submitted to the FDA with respect to Avance® Nerve Graft.

"Board" shall mean the Board of Directors of the Company.

"Business Day" shall mean any day other than a Saturday, a Sunday, any day which is a legal holiday under the laws of the State of New York, or any day on which banking institutions located in the State of New York are required by law or other governmental action to close.

"Call Closing Date" shall have the meaning set forth in Section 5.07(c).

"Call Option" shall have the meaning set forth in Section 5.07(c).

"Change of Control" shall mean:

(a) the acquisition by any Person or group (within the meaning of Sections 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended) of beneficial ownership of any capital stock of the Company, if after such acquisition, such Person or group would be the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended), directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the combined voting power of the Company's then outstanding securities entitled to vote generally in the election of directors;

(b) a merger or consolidation of the Company, with any other Person, other than a merger or consolidation which would result in the Company's voting securities outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than fifty percent (50%) of the combined voting power of the Company's voting securities or such surviving entity's voting securities outstanding immediately after such merger or consolidation;

(c) during any period of two (2) consecutive years, measured from the first Business Day after the Purchaser Designee appointed pursuant to Section 5.15 hereof takes office, individuals who at the beginning of such period constitute the board of directors of the Company (together with any new directors (other than a director designated by a Person who has entered into an agreement with the Company to effect a transaction described in clause (a) or (b) of this definition of "Change of Control"), whose election by such board of directors or nomination for election by the Company's stockholders, as applicable, was approved by a vote of a majority of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute at least a majority of the board of directors of the Company then in office, provided that for purposes of determining a Change of Control pursuant to this clause (c), the directorship held by the Purchaser Designee shall be disregarded.

(d) the bona fide sale, lease, transfer, exclusive license or other disposition, in a single transaction or series of related transactions, by the Company or any of its Subsidiaries of all or substantially all the assets of the Company and its Subsidiaries, taken as a whole, or the sale or disposition (whether by merger or otherwise) of one or more Subsidiaries of the Company if substantially all of the assets of the Company and its Subsidiaries, taken as a whole, are held

by such Subsidiary or Subsidiaries, except where such sale, lease, transfer, exclusive license or other disposition is to a wholly owned (direct or indirect) Subsidiary of the Company.

"Change of Control Payment" shall mean the sum of (i) an amount that, when paid to Purchaser, would generate an IRR to Purchaser of * * * on all payments made by Purchaser pursuant to the Interim Royalty Purchase Agreement and Section 2.03 of this Agreement as of the date of the Change of Control Payment, taking into account the amount and timing of all payments made by the Company to Purchaser (and retained by Purchaser) pursuant to Sections 2.02 and 5.08 of this Agreement and, if applicable, the Interim Royalty Purchase Agreement, prior to and as of the date of payment of the Change of Control Payment, plus (ii) any Delinquent Assigned Interests Payment owed (it being understood and agreed that in calculating the Change of Control Payment, in no event shall Purchaser be required to repay any amounts previously paid to Purchaser pursuant to Sections 2.02 and 5.08 of this Agreement if such payments exceed the IRR required pursuant to this definition).

"Closing" shall have the meaning set forth in Section 2.03(a).

"Closing Date" shall have the meaning set forth in Section 2.03(a).

"Company" shall have the meaning set forth in the first paragraph hereof.

"Company Concentration Account" shall mean a segregated account established and maintained at the Deposit Bank pursuant to the terms of the Deposit Agreement and this Agreement. The Company Concentration Account shall be the account into which the funds remaining in the Joint Concentration Account after payment therefrom of the amounts payable to Purchaser pursuant to this Agreement are swept in accordance with the terms of this Agreement and the Deposit Agreement.

"Company Indemnified Party" shall have the meaning set forth in Section 7.05(b).

"Confidential Information" shall mean, as it relates to the Company and its Affiliates and the Product, the Intellectual Property, confidential business information, financial data and other like information (including ideas, research and development, know-how, formulas, schematics, compositions, technical data, specifications, customer and supplier lists, pricing and cost information, and business and marketing plans and proposals), inventory, ideas, algorithms, processes, computer software programs or applications (in both source code and object code form), client lists and tangible or intangible proprietary information or material, or such other information that either party identifies to the other as confidential or the nature of which or the circumstances of the disclosure of which would reasonably indicate that such information is confidential. Notwithstanding the foregoing definition, Confidential Information shall not include information that (a) is already in the public domain at the time the information is disclosed, (b) thereafter becomes lawfully obtainable from other sources who, to the knowledge of the recipient, have no obligation of confidentiality, (c) can be shown to have been independently developed by the recipient or its representatives without reference to any Confidential Information of the other party, or (d) is required to be disclosed under securities laws, rules and regulations applicable to the Company or its Affiliates or the Purchaser or its Affiliates, as the case may be, or pursuant to the rules and regulations of any securities exchange

or trading system or pursuant to any other laws, rules or regulations of any Governmental Authority having jurisdiction over the Company and its Affiliates or Purchaser and its Affiliates.

"Controlled" or "Control" shall mean, with respect to Intellectual Property, the right, possession of the right, whether directly or indirectly, and whether by ownership, license or otherwise, to grant a license, sublicense or other right to or under such Intellectual Property without violating the terms of any agreement with a third party related to such Intellectual Property.

"Daily Amount" shall have the meaning set forth in Section 2.02(b).

"Default" shall mean the occurrence of any event or circumstance that would, with the giving of notice, lapse of time, or both, be an Event of Default.

"Delinquent Assigned Interests Payment" shall mean, with respect to any Assigned Interests Payment and, if owed by the Company to Purchaser, any payment due under Section 5.08(g)(iii) that is not paid when due shall, in each case, be an amount equal to the product of the amount so owed multiplied by the lower of (i) the highest rate permitted by applicable law, and (ii) one and one-half percent (1.5%) per month, compounded monthly.

"Deposit Account" shall mean collectively, any deposit and segregated deposit account established and maintained at the Deposit Bank pursuant to a Deposit Agreement and this Agreement. The Deposit Account shall be the account into which all payments made to the Company in respect of the sale of the Product are to be remitted.

"Deposit Agreement" shall mean the agreement entered into by a Deposit Bank, the Company and Purchaser, substantially in the form of Exhibit C attached hereto, pursuant to which, among other things, the Deposit Account, the Joint Concentration Account, the Purchaser Concentration Account and the Company Concentration Account shall be established and maintained.

"Deposit Bank" shall mean Silicon Valley Bank or such other bank or financial institution approved by each of Purchaser and the Company and a party to any Deposit Agreement (it being understood that the parties intend to engage a new bank within 120 days of the date hereof).

"Dispute" shall have the meaning set forth in Section 3.12(e).

"Event of Default" shall mean the occurrence of any Put Option Event (other than pursuant to clause of (a) of said definition) and any material breach by the Company of the Transaction Documents, whether or not constituting a Put Option Event.

"Excluded Liabilities and Obligations" shall have the meaning set forth in Section 2.04.

"Existing Agent" shall mean Midcap Financial SBIC LP, in its capacity as agent for the lenders under the Existing Credit Agreement.

"Existing Credit Agreement" shall mean that certain Loan and Security Agreement, dated as of September 30, 2011 among the Company, its Subsidiary, the Existing Agent and the

lenders party thereto, as amended, restated, supplemented or otherwise modified from time to time.

"FDA" shall mean the United States Food and Drug Administration or any successor federal agency thereto.

"Financial Statements" shall mean (a) the audited consolidated balance sheets of the Company and its Subsidiary as of December 31, 2012 and 2011, and the related audited consolidated statements of operations, cash flows and shareholders' equity for the Fiscal Years then ended and (b) the unaudited consolidated balance sheet of the Company and its Subsidiary as of June 30, 2012, and the related unaudited consolidated statements of operations, cash flows and shareholders' equity for the three (3) and six (6) month period then ended.

"Fiscal Quarter" shall mean each three (3) month period commencing January 1, April 1, July 1 or October 1, provided however that (a) the first Fiscal Quarter of the Term shall extend from the Closing Date to the end of the first full Fiscal Quarter thereafter, and (b) the last Fiscal Quarter of the Term shall end upon the expiration of this Agreement.

"Fiscal Year" shall mean the calendar year.

"GAAP" shall mean generally accepted accounting principles in the United States in effect from time to time.

"Governmental Authority" shall mean any government, court, regulatory or administrative agency or commission, or other governmental authority, agency or instrumentality, whether foreign, federal, state or local (domestic or foreign), including the United States Patent and Trademark Office, the FDA, or the United States National Institutes of Health.

"Gross Product Revenues" means, for any period of determination, the sum of the following for such period: (a) the amounts invoiced and recognized as revenue in accordance with GAAP by the Company, its Subsidiaries or any of their Affiliates with respect to the sale of Product to a Third Party by the Company, its Subsidiaries or any of their Affiliates, (b) the amounts invoiced and recognized as revenue in accordance with GAAP by the Company, its Subsidiaries or any of their Affiliates from a Third Party with respect to the sale, distribution or other use of the Product by such Third Party in connection with any marketing, royalty, manufacturing, co-promotion, co-development, equity investment, cost sharing or other strategic arrangements, and (c) any collections in respect of write-offs or allowances for bad debts in respect of items described in the preceding clauses (a) and (b). For purposes of prevention of duplication, "Gross Product Revenue" shall not include amounts invoiced by distributors, wholesalers or other Persons acting in similar capacities**.**

"Guarantee and Collateral Agreement" shall mean the Guarantee and Collateral Agreement between the Company and Purchaser providing for, among other things, the grant by the Company in favor of Purchaser of a valid continuing, perfected lien on and security interest in, the Assigned Interests and the other Assigned Interests Collateral described therein, which Guarantee and Collateral Agreement shall be substantially in the form of Exhibit A.

"Intellectual Property" shall mean all proprietary information; technical data; laboratory notebooks; clinical data; priority rights; trade secrets; know-how; confidential information; inventions (whether patentable or unpatentable and whether or not reduced to practice or claimed in a pending patent application) and improvements thereto; Patents; registered or unregistered trademarks, trade names, service marks, including all goodwill associated therewith; registered and unregistered copyrights and all applications thereof; in each case that are owned, Controlled by, generated by, issued to, licensed to, licensed by or hereafter acquired by or licensed by the Company, in each case relating to, or otherwise relevant or desirable, now or in the future, for the manufacture and sale of the Product.

"Interim Payment" shall have the meaning set forth in the Recitals.

"Interim Royalty Purchase Agreement" shall have the meaning set forth in the Recitals.

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

"Joint Concentration Account" shall mean a segregated account, subject to a control agreement in favor of Purchaser, established for the benefit of the Company and Purchaser and maintained at the Deposit Bank pursuant to the terms of the Deposit Agreement and this Agreement. The Joint Concentration Account shall be the account into which the Deposit Bank sweeps the funds held in the Deposit Account.

"Knowledge" shall mean the actual knowledge, or that which would or should have been known after reasonable inquiry, of any officer, director or employee of the Company or its Subsidiaries relating to a particular matter.

"License Agreement" shall mean any existing or future license, commercialization, co-promotion, collaboration, distribution, marketing or partnering agreement entered into before or during the Revenue Interest Period by the Company or any of its Affiliates relating to the Product and/or under the Intellectual Property.

"Licensees" shall mean, collectively, the licensees, sublicensees or distributors under the License Agreements; each a "Licensee".

"Liens" shall mean any lien, hypothecation, charge, instrument, license, preference, priority, security agreement, security interest, interest, mortgage, deed of trust, option, privilege, pledge, liability, covenant, order, tax, right of recovery, trust or deemed trust (whether contractual, statutory or otherwise arising) or any encumbrance, right or claim of any other person of any kind whatsoever whether choate or inchoate, filed or unfiled, noticed or unnoticed, recorded or unrecorded, contingent or non-contingent, material or non-material, known or unknown, including, without limitation, any conditional sale or other title retention agreement, any lease having the same financial effect as any of the foregoing, and the filing of, or agreement to give, any financing statement under the UCC.

"Losses" shall mean collectively, any and all claims, damages, losses, judgments, awards, penalties, liabilities, costs and expenses (including reasonable expenses of investigation and reasonable attorneys' fees and expenses incurred in connection with investigating, preparing for or defending any action, suit or proceeding).

"Major Countries" shall mean the United States.

"Material Adverse Change" shall mean, with respect to the Company and its Subsidiaries, any event, change, circumstance, occurrence, effect or state of facts that has caused or is reasonably likely to cause a material adverse change on the business, operations, assets, condition (financial or otherwise), results of operations or prospects of the Company and its Subsidiaries, taken as a whole.

"Material Adverse Effect" shall mean (a) the effect of a Material Adverse Change, (b) a material adverse effect on the validity or enforceability of any of the Transaction Documents, (c) material adverse effect on the ability of the Company to perform any of its obligations under the Transaction Documents, (d) the inability or failure of Company to make payment of the Assigned Interests or any other amounts in violation of this Agreement, and (e) any material adverse effect on the Product or the ability of the Company to distribute, market and/or sell the Product.

"Material Contract" shall mean: (a) any marketing agreement, co-promotion agreement or partnering agreement related to the manufacture, sale or distribution of the Product in any of the Major Countries; or (b) any agreement relating to any Material Patent, including any license, assignment, or agreement related to Control of such Material Patent.

"Net Revenues" shall mean, for any period of determination, the difference of

(a) Gross Product Revenues for such period, less

(b) the sum, with respect to the items described in clauses (i) and (ii) of the definition of Gross Product Revenues, of

i. cash, trade discounts and rebates actually granted or paid Third Parties in accordance with customary industry standards,

ii. allowances and adjustments actually credited to customers for Product that is spoiled, damaged, outdated, obsolete, returned or otherwise recalled, but only if and to the extent the same are in accordance with sound business practices and not in excess of customary industry standards,

iii. charges for freight, postage, shipping, delivery, service and insurance charges, to the extent invoiced,

iv. taxes, duties or other governmental charges to the extent invoiced,

v. write-offs or allowances for bad debts,

vi. rebates and chargebacks and other price reduction programs granted to managed care entities, Governmental Authorities, group purchasing organizations or pharmaceutical benefit management companies, and

vii. other payments required by law to be made under Medicaid, Medicare or other government special medical assistance programs.

Net Revenues shall be determined in accordance with GAAP as applied by the Company and its Subsidiary on the date of this Agreement.

"New Securities" shall mean, collectively, equity securities of the Company, whether or not currently authorized, as well as rights, options, or warrants to purchase such equity securities, or securities of any type whatsoever that are, or may become, convertible or exchangeable into or exercisable for such equity securities.

"Obligations" shall mean any and all obligations of the Company under the Transaction Documents.

"Offer Notice" shall have the meaning set forth in Section 5.16(a).

"Patents" shall mean all patents, patent rights, patent applications, patent disclosures and invention disclosures issued or filed, together with all reissues, divisions, continuations, continuations-in-part, revisions, term extensions, substitutes, supplementary protection certificates and reexaminations, including the inventions claimed in any of the foregoing and any priority rights arising therefrom, covering or related to the manufacture, use and sale of the Product that are issued or filed as of the date hereof or during the Revenue Interest Period, including, without limitation, those identified in Schedule 3.12 in each case, which are owned, Controlled by, issued to, licensed to or licensed by the Company, its Subsidiary or any of its Affiliates.

"Person" shall mean an individual, corporation, partnership, limited liability company, association, trust or other entity or organization, but not including a government or political subdivision or any agency or instrumentality of such government or political subdivision.

"Product" shall mean Avance® Nerve Graft, AXOGUARD® Nerve Protector and AXOGUARD® Nerve Connector, regardless of the purpose for which such products are marketed or sold, and any and all future iterations of such products developed or licensed by the Company as a solution to repair or protect nerves as marketed in any jurisdiction.

"Purchase Price" shall mean $20,800,000 less the Interim Payment and any additional amounts due and payable under the Interim Royalty Purchase Agreement as of the Closing Date.

"Purchaser" shall have the meaning set forth in the first paragraph hereof.

"Purchaser Concentration Account" shall mean a segregated account established for the benefit of Purchaser and maintained at a bank specified in writing by Purchaser pursuant to the terms of the Deposit Agreement and this Agreement. The Purchaser Concentration Account shall be the account into which the funds held in the Joint Concentration Account which are payable to Purchaser pursuant to this Agreement are swept by the Deposit Bank in accordance with the terms of this Agreement and the Deposit Agreement.

"Purchaser Designee" shall have the meaning set forth in Section 5.15(a).

"Purchaser Indemnified Party" shall have the meaning set forth in Section 7.05(a).

"Put Option" shall have the meaning set forth in Section 5.07(b).

"Put Option Closing Date" shall have the meaning set forth in Section 5.07(b).

"Put Option Event" shall mean any one of the following events:

(a) the anniversary of four (4) years from the Closing Date;

(b) any Bankruptcy Event;

(c) occurrence of a Material Adverse Effect;

(d) any Transfer by the Company of its interests in the Revenue Interests or substantially all of its interest in the Product; or

(e) any material breach of any representation or warranty made by the Company in this Agreement or any material breach of or default under any covenant or agreement by the Company pursuant to a Transaction Document, which breach is not cured within thirty (30) days after the earlier of (1) written notice thereof being delivered by Purchaser to the Company and (2) the date the Company becomes aware of such material breach.

"Put Price" shall mean the sum of (i) an amount that, when paid to Purchaser, would generate an IRR to Purchaser of * * * on all payments made by Purchaser pursuant to the Interim Royalty Purchase Agreement and Section 2.03 of this Agreement as of the date of payment of the Put Price, taking into account the amount and timing of all payments made by the Company to Purchaser (and retained by Purchaser) pursuant to Sections 2.02 and 5.08 of this Agreement and, if applicable, the Interim Royalty Purchase Agreement, prior to and as of the date of payment of the Put Price, plus (ii) any Delinquent Assigned Interests Payment owed (it being understood and agreed that in calculating the Put Price, in no event shall Purchaser be required to repay any amounts previously paid to Purchaser pursuant to Sections 2.02 and 5.08 of this Agreement if such payments exceed the IRR required pursuant to this definition).

"Quarterly Report" shall mean, with respect to the relevant Fiscal Quarter of the Company, (a) a report showing Gross Profit Revenues for such quarter and the adjustments and other reconciliations used to arrive at Net Revenues for such quarter, reconciled, in each case, to the most applicable line item in the Company's consolidated statements of operations as most recently filed or to be filed with the Securities and Exchange Commission or furnished to Purchaser pursuant to Section 5.02(h) and (b) a reconciliation of all payments made by the Company to Purchaser pursuant to this Agreement during such quarter, including all amounts deposited into the Purchaser Concentration Account during such quarter.

"Regulatory Agency" shall mean a Governmental Authority with responsibility for the approval of the marketing and sale of pharmaceuticals in the United States or other regulation of pharmaceuticals.

"Regulatory Approval" shall mean all approvals (including, without limitation, where applicable, pricing and reimbursement approval and schedule classifications), product and/or establishment licenses, registrations or authorizations of any Governmental Authority necessary for the manufacture, use, storage, import, export, transport, offer for sale, or sale of the Product in a regulatory jurisdiction.

"Revenue Interest Period" shall mean the period from and including the Closing Date through the earliest of:

(a) expiration of eight (8) complete years following the Closing Date;
(b) payment of the Put Price; or
(c) payment of the Change of Control Payment.

"Revenue Interests" shall mean all of the Company's interest in the Gross Product Revenues.

"Secretary's Certificate" shall mean the duly executed Secretary's and Officer's Certificate, dated as of the Closing Date, in form and substance reasonably satisfactory to Purchaser, (W) attaching certified copies of the Company's organizational documents (together with any and all amendments thereto); (X) attaching certified copies of the resolutions adopted by the board of directors of the Company authorizing and approving the execution, delivery and performance by the Company of the Agreement and the Assignment of Interests and the transactions contemplated herein and therein; (Y) setting forth the incumbency of the officer or officers of the Company who have executed and delivered the Agreement and the Assignment of Interests; and (Z) attaching copies, certified by such officer as true and complete, of a certificate of the appropriate Governmental Authority of the Company's jurisdiction of formation, stating that the Company is in good standing under the laws of the State of Minnesota.

"Subsidiary" shall mean, with respect to any Person, any other Person controlled by such first Person, directly or indirectly, through one or more intermediaries.

"Tax" or "Taxes" shall mean any federal, state, local or foreign tax, levy, impost, duty, assessment, fee, deduction or withholding or other charge, including all excise, sales, use, value added, transfer, stamp, documentary, filing, recordation and other fees imposed by any taxing authority (and interest, fines, penalties and additions related thereto).

"Tax Return" shall mean any report, return, form (including elections, declarations, statements, amendments, claims for refund, schedules, information returns or attachments thereto) or other information supplied or required to be supplied to a Governmental Authority with respect to Taxes.

"Term" shall have the meaning set forth in Section 6.01.

"Term Sheet" shall mean the Term Sheet between the Company and Purchaser, dated July 26, 2012.

"Third Party" shall mean any Person other than the Company.

"Transaction Documents" shall mean, collectively, this Agreement, the Assignment of Interests, the Guarantee and Collateral Agreement, the UCC Financing Statements, the Deposit Agreement, the Secretary's Certificate and any related ancillary documents or agreements.

"Transfer" shall mean any sale, conveyance, assignment, disposition, pledge, hypothecation or transfer.

"True-Up Amount" shall have the meaning set forth in Section 5.08(g)(i).

"True-Up Statement" shall have the meaning set forth in Section 5.08(g)(i).

"UCC" shall mean the Uniform Commercial Code (or any similar or equivalent legislation) as in effect in any applicable jurisdiction.

"UCC Financing Statements" shall mean the UCC-1 financing statements, in form and substance reasonably satisfactory to Purchaser, that shall be filed at or promptly following the Closing, as well as any additional UCC-1 financing statements or amendments thereto as reasonably requested from time to time, to perfect Purchaser's security interest in the Assigned Interests Collateral.

"United States" shall mean the United States of America.

"Year-to-Date Assigned Interests" shall have the meaning set forth in Section 5.08(g)(i).

"Year-to-Date Net Revenues" shall have the meaning set forth in Section 5.08(g)(i).

ARTICLE II
PURCHASE OF INTERESTS

Section 2.01 Purchase.

(a) Upon the terms and subject to the conditions set forth in this Agreement, the Company agrees to sell, assign, transfer and convey to Purchaser, and Purchaser agrees to purchase from the Company, free and clear of all Liens (except those Liens created in favor of Purchaser pursuant to the Guarantee and Collateral Agreement, the Assignment of Interests and any other Transaction Document), all of the Company's rights and interests in and to the Assigned Interests on the Closing Date. Purchaser's ownership interest in each of the Assigned Interests so acquired shall vest immediately upon the Company's receipt of payment for such Assigned Interests pursuant to Section 2.03(a).

(b) The Company and Purchaser intend and agree that the sale, assignment and transfer of the Assigned Interests under this Agreement is a true sale by the Company to Purchaser that provides Purchaser with the full benefits of ownership of the Assigned Interests. The Company waives any right to contest or otherwise assert that this Agreement is other than a true sale by the Company to Purchaser in any bankruptcy or insolvency proceeding relating to the Company.

(c) The Company hereby consents to Purchaser recording and filing, at Purchaser's sole cost and expense, the UCC Financing Statements and other financing statements in the appropriate filing offices under the UCC (and continuation statements with respect to such financing statements when applicable) meeting the requirements of applicable law in such manner and in such jurisdictions as are necessary or appropriate to perfect the purchase by Purchaser of the Assigned Interests.

Section 2.02 Payments by the Company.

(a) Payments in Respect of the Assigned Interests. In connection with the assignment of the Assigned Interest, Purchaser shall be entitled to receive (i) the Assigned Interests in respect of Net Revenues earned during the Revenue Interest Period and (ii) any Delinquent Assigned Interests Payment, as and when due.

(b) Interim Payments into Deposit Accounts. Subject to Section 5.08(a), within 120 days of the date hereof, the Applicable Percentage of the Aggregate Deposit Funds in each Fiscal Year shall be swept from the Deposit Account into the Purchaser Concentration Account on a daily basis (the "Daily Amount") pursuant to Section 5.08. Prior to the establishment of Purchaser Concentration Account as contemplated by Section 5.08(a), the Company shall promptly pay to Purchaser upon demand the aggregate Daily Amount.

(c) Payment Procedure. Other than payments made pursuant to the Deposit Agreement, any payments to be made by the Company to Purchaser hereunder or under any other Transaction Document shall be made by wire transfer of immediately available funds.

Section 2.03 Closing; Payment Purchase Price; Closing Deliveries.

(a) Closing. The closing of the purchase of the Assigned Interests pursuant to this Agreement (the "Closing") will take place concurrently with the execution of this Agreement on the date hereof (the "Closing Date") and will be held at the offices of PDL.

(b) Payment of Purchase Price. At the Closing, Purchaser shall pay to the Company the Purchase Price by wire transfer of immediately available funds to the account designated by the Company prior to the date hereof.

(c) Closing Deliveries.

(i) At the Closing, the Company will deliver to Purchaser:

A. its duly executed counterpart to each of the Transaction Documents to which the Company is a party;

B. a duly executed Secretary's Certificate, dated as of the Closing Date;

C. a payoff letter in form and substance reasonably satisfactory to Purchaser and duly executed and delivered by the Company and the Existing Agent which provides for the payment in full of the obligations owing under the Existing Credit Agreement and release of the liens thereunder;

D. copies of the UCC Financing Statements in respect of the Assigned Interests Collateral in form for filing in each appropriate jurisdiction; and

E. a legal opinion reasonably satisfactory to Purchaser from Morgan, Lewis & Bockius LLP addressing such matters with respect to the Transaction Documents as set forth on Exhibit D hereto.

(ii) At the Closing, the Purchaser will deliver to the Company:

A. payment of the Purchase Price consistent with Section 2.03(b); and
B. its duly executed counterpart to each of the Transaction Documents to which Purchaser is a party.

Section 2.04 No Assumed Obligations.

Notwithstanding any provision in this Agreement or any other writing to the contrary, Purchaser is acquiring only the Assigned Interests and is not assuming any liability or obligation of the Company or any of its Affiliates of whatever nature, whether presently in existence or arising or asserted hereafter, whether under any Transaction Document or otherwise. All such liabilities and obligations shall be retained by and remain obligations and liabilities of the Company or its Affiliates (the "Excluded Liabilities and Obligations").

ARTICLE III
REPRESENTATIONS AND WARRANTIES OF COMPANY

For purposes of all the representations and warranties contained in Article III, the term "Product" shall mean Avance® Nerve Graft, AXOGUARD® Nerve Protector and AXOGUARD® Nerve Connector as such products currently exist and are marketed in any jurisdiction, and no broader definition shall be implied. The Company hereby represents and warrants to Purchaser, as of the Closing Date, the following:

Section 3.01 Organization.

Each of the Company and its Subsidiary is a corporation duly incorporated, validly existing and in good standing under the laws of the States of Minnesota and Delaware, respectively, and has all corporate powers and all licenses, authorizations, consents and approvals required to carry on its respective business as now conducted and as proposed to be conducted in connection with the transactions contemplated by the Transaction Documents. Each of the Company and its Subsidiary is duly qualified to do business as a foreign corporation and is in good standing in every jurisdiction in which the failure to do so would have a Material Adverse Effect. The Company has no direct or indirect Subsidiaries, other than AxoGen Corporation, a Delaware corporation.

Section 3.02 Authorization.

The Company has all necessary power and authority to enter into, execute and deliver the Transaction Documents and to perform all of the obligations to be performed by it hereunder and thereunder and to consummate the transactions contemplated hereunder and thereunder. The Transaction Documents have been duly authorized, executed and delivered by the Company and each Transaction Document constitutes the valid and binding obligation of the Company, enforceable against the Company in accordance with their respective terms, subject, as to enforcement of remedies, to bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally or general equitable principles.

Section 3.03 Governmental Authorization.

The execution and delivery by the Company of the Transaction Documents, and the performance by the Company of its obligations hereunder and thereunder, does not require any notice to, action or consent by, or in respect of, or filing with, any Governmental Authority, except for the filing of the UCC Financing Statements.

Section .04 Ownership.

(a) The Company owns, Controls, or holds a valid license under, all of the Intellectual Property and the Regulatory Approvals which it currently purports to own related to the Product free and clear of all Liens, and no license or covenant not to sue under any Intellectual Property has been granted to or exists in any Third Party. Neither the Company nor its Subsidiary has granted, nor does there exist, any Lien on the Revenue Interests, the Assigned Interests or any other Collateral (except those Liens created in favor of Purchaser pursuant to the Guarantee and Collateral Agreement, the Assignment of Interests and any other Transaction Document).

(b) The Company, immediately prior to the purchase of the Assigned Interests, owns, and is the sole holder of, all the Revenue Interests; and the Company owns, and is the sole holder of, and/or has and holds a valid, enforceable and subsisting license to, all of those other assets that are required to produce or receive any payments from any Licensee or payor under and pursuant to, and subject to the terms of any License Agreement, in each case free and clear of any and all Liens, except those Liens created in favor of Purchaser pursuant to the Guarantee and Collateral Agreement, the Assignment of Interests and any other Transaction Document. The Company has not transferred, sold, or otherwise disposed of, or agreed to transfer, sell, or otherwise dispose of any portion of the Revenue Interests other than under the Interim Royalty Purchase Agreement or as contemplated by this Agreement. No Person other than the Company has any right to receive the payments payable under any License Agreement, other than Purchaser's rights with respect to the Assigned Interests, from and after the Closing Date. The Company has the full right to sell, transfer, convey and assign to Purchaser all of the Company's rights and interests in and to the Assigned Interests being sold, transferred, conveyed and assigned to Purchaser pursuant to this Agreement without any requirement to obtain the consent of any Person. By the delivery to Purchaser of the executed Assignment of Interests, the Company shall transfer, convey and assign to Purchaser all of the Company's rights and interests in and to the Assigned Interests being sold, transferred, conveyed and assigned to Purchaser pursuant to this Agreement, free and clear of any Liens, except those Liens created in favor of Purchaser pursuant to the Guarantee and Collateral Agreement, the Assignment of Interests and any other Transaction Document. At the Closing, and upon the delivery of the Assignment of Interests to Purchaser by the Company, Purchaser shall have acquired good and valid rights and interests of the Company in and to the Assigned Interests being sold, transferred, conveyed and assigned to Purchaser pursuant to this Agreement, free and clear of any and all Liens, except those Liens created in favor of Purchaser pursuant to the Guarantee and Collateral Agreement, the Assignment of Interests and any other Transaction Document.

(c) As of the Closing Date and upon the Company's execution and delivery of the Guarantee and Collateral Agreement, Purchaser shall have valid, continuing, first perfected lien on and security interest in the Revenue Interests, the Assigned Interests and the other Assigned Interests Collateral described in the Guarantee and Collateral Agreement.

Section 3.05 Financial Statements.

The Financial Statements are complete and accurate in all material respects, were prepared in conformity with GAAP and present fairly in all material respects the financial position and the financial results of the Company and its Subsidiary as of the dates and for the periods covered thereby.

Section 3.06 No Undisclosed Liabilities.

Except for those liabilities (a) specifically identified on the face of the Financial Statements, (b) incurred by the Company in the ordinary course of business since June 30, 2012, or (c) in connection with the Obligations under the Transaction Documents, there are no material liabilities of the Company or its Subsidiary of any kind whatsoever, whether accrued, contingent, absolute, determined or determinable.

Section 3.07 Solvency.

The Company and its Subsidiary, taken as a whole, are not insolvent as defined in any statute of the United States Bankruptcy Code or in the fraudulent conveyance or fraudulent transfer statutes of the States of Delaware, Florida, Minnesota or New York. Assuming consummation of the transactions contemplated by the Transaction Documents, (a) the present fair saleable value of the Company's and its Subsidiary's assets and the fair value of the Company's and its Subsidiary's assets are each greater than the total amount of liabilities (including contingent and unliquidated liabilities) of the Company and its Subsidiary as such liabilities mature, (b) neither the Company nor its Subsidiary has unreasonably small capital with which to engage in its respective business, and (c) neither the Company nor its Subsidiary has incurred, nor does either have present plans to or intend to incur, debts or liabilities beyond their respective ability to pay such debts or liabilities as they become absolute and matured.

Section 3.08 Litigation.

There is no (a) action, suit, arbitration proceeding, claim, investigation or other proceeding pending or, to the Knowledge of the Company, threatened against the Company or its Subsidiary or (b) any governmental inquiry pending or, to the Knowledge of the Company, threatened against the Company or its Subsidiary, in each case with respect to clauses (a) and (b) above, which, if adversely determined, would question the validity of, or could adversely affect the transactions contemplated by any of the Transaction Documents or could reasonably be expected to have a Material Adverse Effect. There is no action, suit, arbitration proceeding, claim, investigation or other proceeding pending or, to the Knowledge of the Company, threatened against the Company, its Subsidiary or any other Person relating to the Product, the Intellectual Property, the Regulatory Approvals, the Revenue Interests or the Assigned Interests.

Section 3.09 Compliance with Laws.

Neither the Company nor its Subsidiary (a) is in violation of, has violated, or to the Knowledge of the Company, is under investigation with respect to, and, (b) has been threatened to be charged with or been given notice of any violation of any law, rule, ordinance or regulation of, or any judgment, order, writ, decree, permit or license entered by any Governmental

Authority applicable to the Company, the Assigned Interests or the Revenue Interests which would reasonably be expected to have a Material Adverse Effect.

Section 3.10 Conflicts.

Neither the execution and delivery of any of this Agreement or the other Transaction Documents to which the Company is a party nor the performance or consummation of the transactions contemplated hereby or thereby will: (a) contravene, conflict with, result in a breach or violation of, constitute a default under, or accelerate the performance provided by, in any material respects any provisions of: (i) any law, rule, ordinance or regulation of any Governmental Authority, or any judgment, order, writ, decree, permit or license of any Governmental Authority, to which the Company or its Subsidiary or any of their respective assets or properties may be subject or bound; or (ii) any contract, agreement, commitment or instrument to which the Company or its Subsidiary is a party or by which the Company or its Subsidiary or any of their respective assets or properties is bound or committed; (b) contravene, conflict with, result in a breach or violation of, constitute a default under, or accelerate the performance provided by, any provisions of the articles or certificate of incorporation or bylaws (or other organizational or constitutional documents) of the Company or its Subsidiary; (c) except for the filing of the UCC Financing Statements required hereunder and filings with the United States Patent and Trademark Office, require any notification to, filing with, or consent of, any Person or Governmental Authority; (d) give rise to any right of termination, cancellation or acceleration of any right or obligation of the Company, its Subsidiary or any other Person or to a loss of any benefit relating to the Revenue Interests or the Assigned Interests; or (e) other than pursuant to the Guarantee and Collateral Agreement, the Assignment of Interests, or any other Transaction Document, result in the creation or imposition of any Lien on (i) the assets or properties of the Company or its Subsidiary or (ii) the Assigned Interests, the Revenue Interests, or any other Assigned Interests Collateral, except, in the case of the foregoing clauses (a), (c), (d) or (e), for any such breaches, defaults or other occurrences that would not, individually or in the aggregate, have a Material Adverse Effect.

Section 3.11 Subordination.

The claims and rights of Purchaser created by any Transaction Document in and to the Assigned Interests, the Revenue Interests and any other Assigned Interests Collateral are not and shall not be subordinated to any creditor of the Company or any other Person.

Section 3.12 Intellectual Property.

(a) Schedule 3.12(a) sets forth an accurate, true and complete list of all (i) Patents and utility models, (ii) trade names, registered trademarks, registered service marks, and applications for trademark registration or service mark registration, (iii) registered copyrights and (iv) domain name registrations and websites, in each case with respect to clauses (i), (ii), (iii) and (iv) above in this subsection (a) that the Company owns or licenses and which are necessary to make, have made, use, sell, have sold, offer for sale, import, develop, promote, market, distribute, manufacture, commercialize or otherwise exploit the Product in the jurisdictions where the Product marketed and sold. For each item of Intellectual Property listed on Schedule 3.12(a), the Company has identified (x) the owner, (y) the countries in which such listed item is patented or registered or in which an application for Patent or registration is pending and (z) the application

number, the Patent number or registration number. To the Company's Knowledge, except as disclosed therein, each Patent and trademark listed on Schedule 3.12(a) is valid, enforceable and subsisting and none has lapsed, expired, been cancelled or become abandoned. The Patent applications listed in Schedule 3.12(a) have been prosecuted by competent patent counsel in a diligent manner. After due inquiry, the Company has determined that there are no published patents, patent applications, articles, prior art references, public uses, undisclosed information (including best mode) or other grounds, factors or circumstances that could adversely affect the validity or enforceability of any of the Patents listed in Schedule 3.12(a). After due inquiry, the Company has determined that all Persons relevant to the prosecution of any of the Material Patents or applications related thereto have complied with the duty to disclose information and/or the duty of candor, including obligations to the United States Patent and Trademark Office specified under Rule 56. To the Company's Knowledge, each of the Material Patents and Material Patent applications correctly identifies each and every inventor of the claims thereof as determined in accordance with the laws of the jurisdiction in which such Material Patent is issued or such Material Patent application is pending. To the Company's Knowledge, each Person who has or has had any rights in or to the Intellectual Property listed on Schedule 3.12(a) that are owned by, or licensed to, the Company, including, each inventor named on the Patents and Patent applications listed in Schedule 3.12(a), has executed an agreement assigning his, her or its entire right, title and interest in and to such Intellectual Property, and the inventions embodied, described and/or claimed therein, to the purported owner and no such Person has any contractual or other obligation that would preclude or conflict with any such assignment or otherwise conflict with the obligations of such Person to the applicable owner of each listed Intellectual Property. To the Company's Knowledge, all Persons having a claim to inventorship to any pending or issued claim of the Patents are currently listed as inventors with respect to such Patents, and that the Company has performed an appropriate inquiry with respect to such inventorship.

(b) Except for Intellectual Property licensed to and owned by the Company and set forth on Schedule 3.12(a), no other Intellectual Property is necessary to make, have made, offer to sell, sell, have sold, use, import, distribute, commercialize or market the Product in the Major Countries. The use, manufacture, import, export, offer for sale, distribution, marketing and sale of the Product does not infringe any patents that are owned by a Third Party in the Major Countries.

(c) The Company has the full right, power and authority to grant all of the rights and interests granted to Purchaser in this Agreement.

(d) To the Company's Knowledge, there are no unpaid maintenance, annuity or renewal fees currently overdue for any of the Patents that cover the manufacture, use or sale of the Product or which cover compositions of matter and/or processes which relate to the Product or alternatives thereto (“Material Patents”).

(e) There is, and has been, no pending, decided or settled opposition, interference proceeding, reexamination proceeding, cancellation proceeding, injunction, claim, lawsuit, declaratory judgment, administrative post-grant review proceeding, other administrative or judicial proceeding, hearing, investigation, complaint, arbitration, mediation, International Trade Commission investigation, decree, or any other filed claim (collectively referred to hereinafter as “Disputes”) related to any of the Material Patents, nor, to the Knowledge of the Company, has

any such Dispute been threatened challenging the legality, validity, enforceability or ownership of any Material Patents or which would give rise to a credit against the revenues or royalties due to the Company for the manufacture, sale, offer for sale, use, importation or exportation of the Product and the Company has no notice of any facts that would form the basis for such a Dispute. There are no Disputes by any Person or Third Party against the Company, its Licensees or its licensor, and the Company has not received any written notice or claim of any such Dispute as pertaining to the Product. Neither the Company nor its licensor has sent any notice of any such Dispute to a Third Party. The Company is not subject to any outstanding injunction, judgment, order, decree, ruling, charge, settlement or other disposition of Dispute which relates to the Product or the Patents.

(f) There is no pending or threatened action, suit, or proceeding, or any investigation or claim by any Governmental Authority to which the Company is a party (i) that would be the subject of a claim for indemnification by any Person or Third Party under any agreement, or (ii) that the marketing, sale or distribution of the Product worldwide by the Company or its by Licensees pursuant to the related License Agreement, as applicable, does or will infringe on any patent of any other Person, and there is no basis for any such action, suit, proceeding, investigation or claim of the type described in clause (i) or (ii) above. To the Company's Knowledge, there are no pending published or unpublished United States, international or foreign patent applications owned by any other Person, which, if issued, would limit or prohibit, in any material respect, the use of the Product or the licensed Intellectual Property relating to the Product.

(g) The Company has taken all commercially reasonable measures and precautions necessary to protect and maintain (i) the confidentiality of all Intellectual Property that it owns and (ii) the value of all Intellectual Property related to the Product, except where such failure to take action would not have a Material Adverse Effect.

(h) No material trade secret of the Company has been published or disclosed to any Person except pursuant to a written agreement requiring such Person to keep such trade secret confidential, except where such disclosure would not have a Material Adverse Effect.

(i) Each Product, or its manufacture or use, is covered by one or more claims of an issued Patent in the United States.

Section 3.13 Regulatory Approval.

(a) The Company and its Subsidiary have made available to Purchaser any written reports or other written communications received from a Governmental Authority that would indicate that any Regulatory Agency (A) is not likely to approve the BLA, (B) is likely to revise or revoke any current Regulatory Approval granted by any Regulatory Agency with respect to the Product, or (C) is likely to pursue any material compliance actions against the Company.

(b) The Company and its Subsidiary possess all Regulatory Approvals issued or required by the appropriate Regulatory Agencies, which Regulatory Approvals are necessary to conduct the current clinical trials relating to the Product, and neither the Company nor its Subsidiary has received any notice of proceedings relating to the revocation, suspension, termination or modification of any such Regulatory Approvals.

(c) The Company and its Subsidiary are in material compliance with, and has materially complied with, all applicable federal, state, local and foreign laws, rules, regulations, standards, orders and decrees governing its business, including all regulations promulgated by each Regulatory Agency, the failure of compliance with which could reasonably be expected to result in a Material Adverse Effect; the Company and its Subsidiary have not received any notice citing action or inaction by any of them that would constitute any material non-compliance with any applicable federal, state, local and foreign laws, rules, regulations, or standards, which could reasonably be expected to result in a Material Adverse Effect; and to the Company's Knowledge, no prospective change in any applicable federal, state, local or foreign laws, rules, regulations or standards has been adopted which, when made effective, could reasonably be expected to result in a Material Adverse Effect.

(d) Preclinical and clinical trials conducted on behalf of the Company or its Subsidiary relating to the Product were conducted in compliance with applicable laws and, in all material respects, in accordance with experimental protocols, procedures and controls pursuant to, where applicable, accepted professional and scientific standards; the descriptions of the results of such trials provided to Purchaser are accurate in all material respects. Neither the Company nor its Subsidiary has received any notices or correspondence from any Regulatory Agency or comparable authority requiring the termination, suspension, or material modification or clinical hold of any clinical trials conducted by or on behalf of the Company or its Subsidiary with respect to the Product, which termination, suspension, material modification or clinical hold could reasonably be expected to result in a Material Adverse Effect.

Section 3.14 Material Contracts.

Neither the Company nor its Subsidiary is in breach of or in default under any Material Contract which default, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Effect. To the Knowledge of the Company, nothing has occurred and no condition exists that would permit any other party thereto to terminate any Material Contract. Neither the Company nor its Subsidiary has received any notice or, to the Knowledge of the Company, any threat of termination of any such Material Contract. To the Knowledge of the Company, no other party to a Material Contract is in breach of or in default under such Material Contract. All Material Contracts are valid and binding on the Company or its Subsidiary and, to the Knowledge of the Company, on each other party thereto, and are in full force and effect. The Company is in compliance with all obligations of the Amended and Restated Standard Exclusive License Agreement with Sublicensing Terms between AxoGen Corporation and the University of Florida Research Foundation dated February 21, 2006, and the Patent License Agreement between AxoGen Corporation and the Board of Regents of The University of Texas System dated July 19, 2005.

Section 3.15 Place of Business.

The Company's principal place of business and chief executive office are set forth on Schedule 3.15.

Section 3.16 Broker's Fees.

The Company and its Subsidiary have not taken any action that would entitle any Person to any commission or broker's fee in connection with this Agreement except fees, commissions and expenses to be paid to JMP Securities LLC, all of which will be paid by the Company.

Section 3.17 Other Information.

No written statement, information, report or materials prepared by or on behalf of the Company or its Subsidiary and furnished to Purchaser by or on behalf of the Company or its Subsidiary in connection with any Transaction Document or any transaction contemplated hereby or thereby, no written representation, warranty or statement made by the Company or its Subsidiary in any Transaction Document, and no Schedule or Exhibit hereto or thereto, in each case taken in the aggregate, contains any untrue statement of a material fact or omits any statement of material fact necessary in order to make the statements made therein in light of the circumstances under which they were made not misleading.

Section 3.18 Insurance.

There are in full force and effect insurance policies maintained by the Company with an insurance company rated not less than “A-” by A.M. Best Company, Inc., with coverages and in amounts customary for companies of comparable size and condition similarly situated in the same industry as the Company, including product liability insurance, directors and officers insurance and insurance against litigation liability, subject only to such exclusions and deductible items as are usual and customary in insurance policies of such type. All material insurable risks in respect of the business and assets of the Company and its Subsidiary are covered by such insurance policies. The Company has named Purchaser as an additional insured party with respect to its general liability and product liability insurance policies. A schedule of the Company's insurance policy or insurance policies is attached hereto as Schedule 3.18.

Section 3.19 Taxes.

The Company has timely filed (taking into account all extensions of due dates) all Tax returns required to be filed by, or on behalf of, it and has timely paid all Taxes required to be paid with such returns. All Tax Returns filed by the Company (or on its behalf) have been true, correct and complete in all material respects. Except as set forth on Schedule 3.19, there is no outstanding or, to the Company's Knowledge, threatened action, claim or other examination or proceeding with respect to Taxes of the Company or its assets (including with respect to the Assigned Interests and the Revenue Interests). Except as set forth on Schedule 3.19, there are no Taxes of the Company that form or could form, individually or in the aggregate, the basis for a material encumbrance (other than encumbrances for current taxes not yet past due) on any of its assets (including the Assigned Interests and the Revenue Interests).

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF PURCHASER

Purchaser represents and warrants to the Company the following:

Section 4.01 Organization.

Purchaser is a corporation duly incorporated and validly existing under the laws of the State of Delaware.

Section 4.02 Authorization.

Purchaser has all necessary power and authority to enter into, execute and deliver the Transaction Documents and to perform all of the obligations to be performed by it hereunder and thereunder and to consummate the transactions contemplated hereunder and thereunder. The Transaction Documents have been duly authorized, executed and delivered by Purchaser and each Transaction Document constitutes the valid and binding obligation of Purchaser, enforceable against Purchaser in accordance with their respective terms, subject, as to enforcement of remedies, to bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally or general equitable principles.

Section 4.03 Broker's Fees.

Purchaser has not taken any action that would entitle any Person to any commission or broker's fee in connection with the transactions contemplated by the Transaction Documents.

Section 4.04 Conflicts.

Neither the execution and delivery of this Agreement or any other Transaction Document to which Purchaser is a party nor the performance or consummation of the transactions contemplated hereby or thereby will: (a) contravene, conflict with, result in a breach or violation of, constitute a default under, or accelerate the performance provided by, in any material respects any provisions of: (i) any law, rule or regulation of any Governmental Authority, or any judgment, order, writ, decree, permit or license of any Governmental Authority, to which Purchaser or any of its assets or properties may be subject or bound; or (ii) any contract, agreement, commitment or instrument to which Purchaser is a party or by which Purchaser or any of its assets or properties is bound or committed; (b) contravene, conflict with, result in a breach or violation of, constitute a default under, or accelerate the performance provided by, any provisions of the organizational or constitutional documents of Purchaser; or (c) require any notification to, filing with, or consent of, any Person or Governmental Authority, except, in the case of the foregoing clauses (a) or (c), for any such breaches, defaults or other occurrences that would not, individually or in the aggregate, have a material adverse effect on the ability of Purchaser to perform any of its obligations under the Transaction Documents.

ARTICLE V
COVENANTS

From the date hereof through and including the end of the Revenue Interest Period, the following covenants shall apply:

Section 5.01 Consents and Waivers.

The Company shall use its commercially reasonable efforts to obtain and maintain any required consents, acknowledgements, certificates or waivers so that the transactions contemplated by this Agreement or any other Transaction Document may be consummated and shall not result in any default or breach or termination of any of the Material Contracts.

Section 5.02 Access; Information.

(a) License Notices. Subject to any applicable confidentiality restrictions, the Company shall promptly provide Purchaser with copies of any material written notices received or given by the Company under any Material Contract, and to the extent the Company is barred from providing Purchaser with copies of such notices due to any applicable confidentiality restrictions, the Company shall (i) inform Purchaser of the existence of such notice accompanied by a written description of the substance contained in such notice and (ii) promptly seek the removal or waiver of any such confidentiality restrictions so as to permit a free exchange of information with the Purchaser regarding the substance of such notice. The Company shall promptly notify Purchaser of any breaches or alleged breaches under any Material Contracts and of any other events with respect to any Material Contract or the subject matter thereof which could reasonably be expected to have a Material Adverse Effect.

(b) Litigation or Investigations. The Company shall promptly notify Purchaser of (i) any action, demand, suit, claim, cause of action, proceeding or investigation pending or, to the best knowledge of the Company, threatened by or against the Company, or (ii) proceeding or inquiry of any Governmental Authority pending or, to the best knowledge of the Company, threatened against the Company, related to any Material Contract, the Product, the Patents or any Transaction Document.

(c) Maintenance of Books and Records. The Company shall keep and maintain, or cause to be kept and maintained, at all times accurate and complete books and records. During the Term, the Company shall keep and maintain, or cause to be kept and maintained, at all times full and accurate books of account and records adequate to correctly reflect all payments paid and/or payable with respect to the Revenue Interests and Assigned Interests and all deposits made into the applicable deposit accounts.

(d) Inspection Rights. Purchaser and any of Purchaser's representatives shall have the right, once a year (and at any other time a Default or Event of Default shall have occurred or be continuing), to visit the Company and its Subsidiaries' offices and properties where the Company and its Subsidiaries keep and maintain their books and records relating or pertaining to the Revenue Interests, the Assigned Interests and the other Assigned Interests Collateral for purposes of conducting an audit of such books and records, and to inspect, copy and audit such books and records, during normal business hours, and, upon five (5) Business Days' written notice given by Purchaser to the Company (provided one (1) Business Day's notice shall be required if a Default or Event of Default shall have occurred and be continuing), the Company will provide Purchaser and any of Purchaser's representatives reasonable access to such books and records, and shall permit Purchaser and any of Purchaser's representatives to discuss the business, operations, properties and financial and other condition of the Company or any of its Affiliates including, but not limited to, matters relating or pertaining to the Revenue Interests, the Assigned Interests and any the other Assigned Interests Collateral with officers of such parties, and with their independent certified public accountants.

(e) Audit Costs. In the event any audit of the books and records of the Company and its Subsidiaries relating to the Revenue Interests, Assigned Interests, and the other Assigned Interests Collateral by Purchaser and/or any of Purchaser's representatives reveals that the amounts paid to Purchaser hereunder for the period of such audit have been understated by more

than five percent (5%) of the amounts determined to be due for the period subject to such audit, then the Audit Costs in respect of such audit shall be borne by the Company; and in all other cases, such Audit Costs shall be borne by Purchaser.

(f) Quarterly Reports. During the Term, the Company shall, promptly after the end of each Fiscal Quarter of the Company (but in no event later than forty-five (45) days following the end of such quarter), produce and deliver to Purchaser a Quarterly Report for such quarter, together with a certificate of the Company, certifying that to the best Knowledge of the Company (i) such Quarterly Report is a true and complete copy and (ii) any statements and any data and information therein prepared by the Company are true, correct and accurate in all material respects.

(g) GAAP Accounting. The Company shall maintain a system of accounting established and administered in accordance with sound business practices to permit preparation of financial statements in conformity with GAAP.

(h) Periodic Reports. In the event that the Company is not subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, the Company shall deliver to Purchaser the following financial statements:

i. Within forty-five (45) days after the end of each Fiscal Quarter, copies of the unaudited consolidated financial statements of the Company and its Subsidiaries for such Fiscal Quarter; and

ii. Within forty-five (45) days after the end of each Fiscal Year, copies of the audited consolidated financial statements of the Company and its Subsidiaries for such Fiscal Year.

Section 5.03 Material Contracts.

The Company shall comply with all material terms and conditions of and fulfill all of its obligations under all the Material Contracts. The Company shall not amend, modify or supplement any Material Contract in a manner which would adversely affect Purchaser or issue any waivers, consents, or other approvals under any Material Contract in a manner which would adversely affect Purchaser without the prior written consent of Purchaser. Upon the occurrence of a material breach of any Material Contract by any Third Party thereto, which is not cured pursuant to the express terms as provided therein (disregarding any rights of waiver or extensions of time or other rights or consents that are excisable at the discretion of the Company), the Company shall, in its discretion but in accordance with its sound business judgment, use its commercially reasonable efforts to enforce its rights and remedies thereunder.

Section 5.04 Confidentiality; Public Announcement.

(a) All Confidential Information furnished by Purchaser to the Company or by the Company to Purchaser in connection with this Agreement and any other Transaction Document and the transactions contemplated hereby and thereby, as well as the terms, conditions and provisions of this Agreement and any other Transaction Document, shall be kept confidential by the Company and Purchaser. Notwithstanding the foregoing, the Company and Purchaser may disclose such Confidential Information to their partners, directors, employees, managers,

officers, investors, bankers, advisors, trustees and representatives, provided that such Persons shall be informed of the confidential nature of such information and shall be obligated to keep such information confidential pursuant to the terms of this Section 5.04(a). The Company will consult with Purchaser, and Purchaser will consult with the Company, on the form, content and timing of any such disclosures of Confidential Information, including, without limitation, any disclosures made pursuant to applicable securities laws or made to investment or other analysts.

(b) Except as required by law or the rules and regulations of any securities exchange or trading system or the FDA or any Governmental Authority with similar regulatory authority, or except with the prior written consent of the other party (which consent shall not be unreasonably withheld), no party shall issue any press release or make any other public disclosure with respect to the transactions contemplated by this Agreement or any other Transaction Document; provided, however, that the Company and Purchaser may jointly prepare a press release for dissemination promptly following the Closing Date.

Section 5.05 Guarantee and Collateral Agreement.

During the Revenue Interest Period, the Company shall, at all times until the Obligations are paid and performed in full, grant in favor of Purchaser a valid, continuing, first perfected lien on and security interest in the Revenue Interests, the Assigned Interests and the other Assigned Interests Collateral described in the Guarantee and Collateral Agreement.

Section 5.06 Efforts; Further Assurance.

(a) Subject to the terms and conditions of this Agreement, each of Purchaser and the Company will use its commercially reasonable efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary under applicable laws and regulations to consummate the transactions contemplated by this Agreement and any other Transaction Document. Purchaser and the Company agree to execute and deliver such other documents, certificates, agreements and other writings (including any financing statement filings requested by Purchaser) and to take such other actions as may be reasonably necessary in order to consummate or implement expeditiously the transactions contemplated by this Agreement and any other Transaction Document and to vest in Purchaser good, valid and marketable rights and interests in and to the Assigned Interests free and clear of all Liens, except those Liens created in favor of Purchaser pursuant to the Guarantee and Collateral Agreement, the Assignment of Interests and any other Transaction Document.

(b) Purchaser and the Company shall execute and deliver such additional documents, certificates and instruments, and perform such additional acts, as may be reasonably requested and necessary or appropriate to carry out and effectuate all of the provisions of this Agreement and any other Transaction Document and to consummate all of the transactions contemplated by this Agreement and any other Transaction Document.

(c) Purchaser and the Company shall cooperate and provide assistance as reasonably requested by the other party in connection with any Third Party litigation, arbitration or other Third Party proceeding (whether threatened, existing, initiated, or contemplated prior to, on or after the date hereof) to which any party hereto or any of its officers, directors, shareholders, agents or employees is or may become a party or is or may become otherwise directly or

indirectly affected or as to which any such Persons have a direct or indirect interests, in each case relating to this Agreement, any other Transaction Document, the Assigned Interests or any other Assigned Interests Collateral, or the transactions described herein or therein.

Section 5.07 Change of Control; Put Option.

(a) Change of Control. In the event that a Change of Control shall occur during the Revenue Interest Period, the Company shall repurchase the Assigned Interests from Purchaser for a repurchase price equal to the Change of Control Payment on or prior to the third Business Day after the occurrence of a Change of Control. The Change of Control Payment shall be made by wire transfer of immediately available funds to the account designated by Purchaser.

(b) Put Option. In the event that a Put Option Event shall occur during the Term, Purchaser shall have the right, but not the obligation (the "Put Option") to require the Company to repurchase from Purchaser the Assigned Interests at the Put Price. In the event Purchaser elects to exercise its Put Option, Purchaser shall deliver written notice to the Company specifying the closing date which date shall be forty-five (45) days from such notice date (the "Put Option Closing Date"), which notice must be given within sixty (60) days of Purchaser's receipt of written notice from the Company of a Put Option Event. Failure to provide notice by such times will be deemed an irrevocable waiver of the right to exercise the Put Option. On the Put Option Closing Date, the Company shall repurchase from Purchaser the Assigned Interests at the Put Price in cash, the payment of which shall be made by wire transfer of immediately available funds to the account designated by Purchaser. Notwithstanding anything to the contrary contained herein, immediately upon the occurrence of a Bankruptcy Event, Purchaser shall be deemed to have automatically and simultaneously elected to have the Company repurchase from Purchaser the Assigned Interests for the Put Price in cash and the Put Price shall be immediately due and payable without any further action or notice by any party.

(c) Call Option. At any time after the fourth anniversary following the Closing Date, the Company shall have the right (the "Call Option"), exercisable upon ten (10) days' written notice to Purchaser, to repurchase the Assigned Interests from Purchaser at a repurchase price equal to the Change of Control Payment. In order to exercise the Call Option, the Company shall deliver written notice to Purchaser of its election to so repurchase the Assigned Interests not less than ten (10) days prior to the proposed closing date (the "Call Closing Date"). On the Call Closing Date, the Company shall repurchase from Purchaser the Assigned Interests at the Change of Control Payment, the payment of which shall be made by wire transfer of immediately available funds to the account designated by Purchaser.

(d) Obligations of Purchaser. In connection with the consummation of a repurchase of the Assigned Interests pursuant to the Change of Control Payment or the Put Option, Purchaser agrees that it will (i) promptly but no later than three (3) Business Days execute and deliver to the Company such UCC termination statements and other documents as may be necessary to release Purchaser's Lien on the Assigned Interests Collateral and otherwise give effect to such repurchase and (ii) take such other actions or provide such other assistance as may be necessary to give effect to such repurchase.

Section 5.08 Remittance to Deposit Account.

(a) On the Closing Date, the parties hereto shall enter into a Deposit Agreement in form and substance reasonably satisfactory to the parties hereto and the Deposit Bank, which Deposit Agreement will provide for, among other things, the establishment and maintenance of a Deposit Account and Joint Concentration Account in accordance with the terms herein and therein. Funds deposited into the Deposit Account shall be swept by the Deposit Bank on a daily basis into the Joint Concentration Account. The parties understand and agree that the current Deposit Bank cannot accommodate multiple Deposit Accounts; and accordingly, so long as the Company has not established a separate Company Concentration Account and Purchaser Concentration Account as required pursuant to Section 5.08(b), the Company shall be responsible for computing the Daily Amount and shall retain at all times (subject to any payments of the Daily Amount paid to Purchaser, which payments shall be made promptly upon Purchaser's request) an amount equal to the aggregate Daily Amount owed to Purchaser pursuant to this Agreement.

(b) Notwithstanding any provision herein or in any other Transaction Document to the contrary, the Company shall no later than one hundred twenty (120) days after the Closing Date to enter into a new Deposit Agreement (in form and substance reasonably satisfactory to Purchaser) with a bank or financial institution approved by Purchaser, which bank or financial institution shall thereafter serve as the Deposit Bank pursuant to the terms hereof. Upon engagement of the replacement Deposit Bank and the entering into the new Deposit Agreement in accordance with the immediately preceding sentence, such Deposit Agreement shall provide for, among other things, the establishment and maintenance of a Deposit Account, a Joint Concentration Account, a Company Concentration Account and a Purchaser Concentration Account in accordance with the terms herein and therein. Any Purchaser Concentration Account shall be held solely for the benefit of Purchaser, but shall be subject to the terms and conditions of this Agreement, the Guarantee and Collateral Agreement and the other Transaction Documents. Funds deposited into the Deposit Account shall be swept by the Deposit Bank on a daily basis into the Joint Concentration Account and subsequent thereto, the Daily Amount shall be swept into the Purchaser Concentration Account. Purchaser shall have immediate and full access to any funds held in the Purchaser Concentration Account and such funds shall not be subject to any conditions or restrictions whatsoever. After the Daily Amount is swept into the Purchaser Concentration Account, the amounts remaining in the Joint Concentration Account shall then be swept, at the direction of the Company, into the Company Concentration Account. The Company shall have immediate and full access to any funds held in the Company Concentration Account and such funds shall not be subject to any conditions or restrictions whatsoever other than those of the Deposit Bank; provided, however, that nothing herein shall (i) affect or reduce the Company's obligations to pay in full all amounts due to Purchaser under this Agreement, or (ii) in any manner limit the recourse of Purchaser to the Assigned Interests Collateral to satisfy the Company's Obligations.

(c) The Company shall pay all fees, expenses and charges of the Deposit Bank (including the replacement Deposit Bank contemplated by Section 5.08(b)).

(d) The Company shall use commercially reasonable efforts to amend each License Agreement, within thirty (30) Business Days after the engagement of the replacement Deposit Bank contemplated by Section 5.08(b), to contain a provision providing for all payments in

respect of sales of the Product and in respect of royalties received from Licensees to be remitted directly by the applicable party into the Deposit Account and the Company shall cause such payments to be remitted directly by the applicable party into the Deposit Account. If the Company is unsuccessful in amending the License Agreements in accordance with the foregoing sentence and at all times prior to the engagement of the replacement Deposit Bank as contemplated by Section 5.08(b), the Company shall instruct each Licensee to such License Agreement to remit to the Deposit Account when due all applicable payments in respect of sales and licensing revenue in respect of the Product and in respect of royalties received from such Licensees. Without in any way limiting the foregoing, commencing on the Closing Date and thereafter, any and all payments in respect of sales of the Product received by the Company shall be deposited into the Deposit Account within two (2) Business Days of the Company's receipt thereof.

(e) With respect to any License Agreement (excluding License Agreement that do not call for direct payment to the Company) entered into by the Company from and after the engagement of the replacement Deposit Bank contemplated by Section 5.08(b), the Company shall (i) at the time of the execution and delivery of such agreement, instruct any party thereto under such agreement to remit to the Deposit Account when due all applicable payments in respect of sales and licensing revenue in respect of the Product and in respect of royalties received from Licensees that are due and payable to the Company in respect of or derived from such agreement during the Revenue Interest Period and (ii) deliver to Purchaser evidence of such instruction and of such applicable party's agreement thereto. Without in any way limiting the foregoing, commencing on the Closing Date and thereafter, any and all payments in respect of sales of the Product received by the Company shall be deposited into the Deposit Account within two (2) Business Days of the Company's receipt thereof.

(f) Prior to the termination of this Agreement, the Company shall not have any right to terminate the Deposit Bank without Purchaser's prior written consent. Any such consent, which Purchaser may grant or withhold in its sole and absolute discretion, shall be subject to the satisfaction of each of the following conditions to the satisfaction of Purchaser:

i. the successor Deposit Bank shall be acceptable to Purchaser;

ii. Purchaser, the Company and the successor Deposit Bank shall have entered into a deposit agreement substantially in the form of the Deposit Agreement initially entered into;

iii. all funds and items in the accounts subject to the Deposit Agreement to be terminated shall be transferred to the new accounts held at the successor Deposit Bank prior to the termination of the then existing Deposit Bank; and

iv. Purchaser shall have received evidence that all of the applicable parties making payments in respect of sales of the Product have been instructed to remit all future payments in respect of sales of the Product to the new accounts held at the successor Deposit Bank.

(g) True-Up.

i. Following the end of each Fiscal Quarter, as soon as the Company shall have determined the Net Revenues for such Fiscal Quarter and for each other Fiscal Quarter in the Fiscal Year in which the then most recently ended Fiscal Quarter occurred (the "Year-to-Date Net Revenues") and in any event no later than forty-five (45) days after the end of such Fiscal Quarter (unless such Fiscal Quarter is the last Fiscal Quarter of a Fiscal Year in which case no later than ninety (90) days after the end of such Fiscal Quarter), the Company shall present Purchaser a certificate, in reasonable detail with supporting calculations and information, detailing the Year-to-Date Net Revenues (the "True-Up Statement"). The True-Up Statement shall include a calculation of (A) the year-to-date Assigned Interests as of the end of such quarterly period, which shall be the product of the Applicable Percentage multiplied by the Year-to-Date Net Revenues, with a separate calculation taking into account any mandatory minimum payments as provided in the definition of Assigned Interests ("Year-to-Date Assigned Interests") and (B) the difference between (X) the amount Purchaser has received on or prior to the last day of the most recently ended Fiscal Quarter in payments from the Company under Section 2.02(a) or this Section 5.08 in respect of the Fiscal Year for which Year-to-Date Net Revenues is calculated less (Y) the Year-to-Date Assigned Interests (the "True-Up Amount").

ii. If the True-Up Amount calculated pursuant to clause (i) above is positive, Purchaser shall pay such amount to the Company within five (5) days of receipt by Purchaser of the True-Up Statement.

iii. If the True-Up Amount calculated pursuant to clause (i) above is negative, the Company shall pay the absolute value of such amount to Purchaser within five (5) days of the receipt by Purchaser of the True-Up Statement.

Section 5.09 Intellectual Property.

(a) The Company shall, at its sole expense, either directly or by causing any Licensee to do so, take any and all actions (including taking legal action to specifically enforce the applicable terms of any License Agreement), and prepare, execute, deliver and file any and all agreements, documents or instruments which are necessary to diligently maintain the Material Patents. The Company shall ensure that all patent applications corresponding to the Material Patents are diligently prosecuted with the intent to protect the Product. In the exercise of its reasonable business discretion, the Company shall diligently defend or assert such Intellectual Property and such Patents against infringement or interference by any other Persons, and against any claims of invalidity or unenforceability, in any jurisdiction (including, without limitation, by bringing any legal action for infringement or defending any counterclaim of invalidity or action of a Third Party for declaratory judgment of non-infringement or non-interference). The Company shall not, and shall use its commercially reasonable efforts to cause any Licensee not to, disclaim or abandon, or fail to take any action necessary or desirable to prevent the disclaimer or abandonment of, the Material Patents.

(b) In the event that the Company becomes aware that any intellectual property licensed by it to a Licensee under any License Agreement infringes or violates any Third Party intellectual property, the Company shall, in the exercise of its reasonable business discretion, use commercially reasonable efforts to attempt to secure the right to use such intellectual property on behalf of itself and the affected Licensee and shall pay all costs and amounts associated with obtaining any such license, without any reduction in the Assigned Interests.

(c) The Company shall directly, or through a Licensee, take any and all actions and prepare, execute, deliver and file any and all agreements, documents or instruments that are necessary or commercially reasonable or desirable to secure and maintain, all Regulatory Approvals in the United States.

(d) The Company shall notify PDL regarding any material developments with the Material Patents, including new filings, allowance and issuance, abandonment, or the initiation of any interference, reexamination, reissue, post-grant review proceeding and litigation, and shall provide PDL with an updated patent schedule upon request, but at least once per year.

Section 5.10 Protective Covenants.

(a) The Company shall not, without the prior written consent of Purchaser:

i. Forgive, release or compromise any amount owed to the Company or its Subsidiary and relating to the Assigned Interests outside the ordinary course of business;

ii. Waive, amend, cancel or terminate, exercise or fail to exercise, any of its material rights constituting or relating to the Revenue Interests (including any rights under any License Agreement) outside the ordinary course of business;

iii. Amend, modify, restate, cancel, supplement, terminate or waive any material provision of any Material Contract, or grant any consent thereunder, or agree to do any of the foregoing, including, without limitation, entering into any agreement with any Person under the provisions of such Material Contract;

iv. Enter into any agreement that would be reasonably expected to have a Material Adverse Effect;

v. Create, incur, assume or suffer any interference with the direction of payments set for in Section 5.08; or

vi. Create, incur, assume or suffer to exist any Lien, or exercise any right of rescission, offset, counterclaim or defense, upon or with respect to the Assigned Interests, the Revenue Interests or the other Assigned Interests Collateral, or agree to do or suffer to exist any of the foregoing, except for any Lien or agreements in favor of Purchaser granted under or pursuant to this Agreement and the other Transaction Documents.

(b) During the Term, the Company agrees that, within five (5) Business Days of any Person becoming a direct or indirect wholly owned Subsidiary of the Company, the Company shall cause such Subsidiary to deliver to Purchaser an Assumption Agreement (as defined in the Guarantee and Collateral Agreement) executed by such Subsidiary, pursuant to which such Subsidiary shall become a guarantor of the obligations hereunder and grant a security interest in the Assigned Interests Collateral.

Section 5.11 Insurance.

The Company shall (i) maintain the current insurance policies with its current insurance companies or with companies having at the least the same rating from A.M. Best Company, Inc.,

including product liability insurance and directors and officers insurance and insurance against litigation, liability, subject only to such exclusions and deductible items as are usual and customary in insurance policies of such type, and (ii) maintain Purchaser as an additional insured party with respect to its general liability and product liability insurance policies. From time to time (with reasonable frequency) the Company will revise its insurance policy so as to maintain coverage in amounts customary for companies of comparable size and condition similarly situated in the same industry as the Company.

Section 5.12 Notice.

The Company shall provide Purchaser with written notice as promptly as practicable (and in any event within two (2) Business Days) after becoming aware of any of the following:

(a) any material breach or default by the Company of any covenant, agreement or other provision of this Agreement, or any other Transaction Document;

(b) any representation or warranty made or deemed made by the Company in any of the Transaction Documents or in any certificate delivered to Purchaser pursuant hereto shall prove to be untrue, inaccurate or incomplete in any material respect on the date as of which made or deemed made;

(c) the occurrence of a Change of Control; or

(d) the occurrence of a Put Option Event.

Section 5.13 Use of Proceeds.

The Company shall use proceeds received from Purchaser in support of the business plan for the Product, including sales operation and expansion and additional clinical studies. The Company shall take commercially reasonable measures to support the sales of the Product.

Section 5.14 Taxes.

(a) The Company shall timely file (taking into account all extensions of due dates) all Tax Returns required to be filed by it and will pay all Taxes required to be paid with such returns.

(b) Each payment made by the Company pursuant to the Transaction Documents shall be payable free of any Tax, withholding or other deduction except for any Tax, withholding or deduction imposed by applicable law. The Company and Purchaser agree that to each of their knowledge such payments are not subject to any deduction or withholding under current applicable law.

Section 5.15 Board Designee.

Effective immediately after the Closing, Purchaser shall have the right to designate, and the Company shall appoint an individual designated by the Purchaser (the "Purchaser Designee"), who shall serve on the Board until the 2013 Annual Meeting of Shareholders (the "2013 Annual Meeting"). For the 2013 Annual Meeting and each annual meeting thereafter

during the Term, the Board shall nominate and recommend the Purchaser Designee as a director nominee to serve on the Board until the next annual meeting and shall include such nomination in the Company's proxy statement for the 2013 Annual Meeting and each annual meeting thereafter, provided that the election of the Purchaser Designee is subject to shareholders' approval. Should at any time there become a vacancy on the Board as a result of (1) the resignation, death or removal of the Purchaser Designee or (2) such Purchaser Designee failing to obtain the requisite approval of the Company's shareholders at any annual or special meeting of the Company's shareholders and where no other individual is elected to such vacancy, Purchaser shall have the right to designate an individual to fill such vacancy, and the Company shall take such actions necessary to appoint, such individual to the Board. The Company shall have taken all actions necessary at or prior to the Closing to ensure there is a vacancy on the Board as of the Closing to permit the appointment of the Purchaser Designee to the Board as of the Closing.

Section 5.16 Rights to Future Stock Issuances.

Subject to the terms and conditions of this Section 5.16 and applicable securities laws, if the Company proposes to offer or sell any New Securities, the Company shall first offer such New Securities to the Purchaser. The Purchaser shall be entitled to apportion the right of first offer hereby granted to it among itself and its Affiliates in such proportions as it deems appropriate.

(a) The Company shall give notice (the "Offer Notice") to the Purchaser, stating (i) its bona fide intention to offer such New Securities, (ii) the number of such New Securities to be offered, and (iii) the price and terms, if any, upon which it proposes to offer such New Securities.

(b) By notification to the Company within five (5) days after the Offer Notice is given, the Purchaser may elect to purchase or otherwise acquire, at the price and on the terms specified in the Offer Notice, up to * * * of such New Securities. The closing of any sale pursuant to this Section 5.16(b) shall occur within the later of one hundred and twenty (120) days of the date that the Offer Notice is given and the date of initial sale of New Securities pursuant to Section 5.16(c).

(c) If all New Securities referred to in the Offer Notice are not elected to be purchased or acquired as provided in Section 5.16(b), the Company may, during the ninety (90) day period following the expiration of the periods provided in Section 5.16(b), offer and sell such New Securities (including any portion of New Securities Purchaser declined to acquire pursuant to Section 5.16(b)) to any Person or Persons at a price not less than, and upon terms no more favorable to the offeree than, those specified in the Offer Notice. If the Company does not enter into an agreement for the sale of the New Securities within such period, or if such agreement is not consummated within thirty (30) days of the execution thereof, the right provided hereunder shall be deemed to be revived and such New Securities shall not be offered unless first reoffered to the Purchaser in accordance with this Section 5.16.

(d) The right of first offer in this Section 5.16 shall not be applicable to (i) issuance of options under the Company's equity compensation plans, where such plans have been approved by the Company's shareholders; and (ii) issuance of equity securities to one or more counterparties in connection with the consummation, by the Company, of a strategic partnership,

joint venture, collaboration or acquisition or license of any business products or technology (it being understood and agreed that the primary purpose of any issuance pursuant to this clause (ii) shall not be to raise capital).

(e) The Purchaser shall agree to treat the Offer Notice as confidential, and it shall not trade any securities of the Company while the terms of the Offer Notice remain as material, non-public information.

Section 5.17 Dividends.

During the period from the Closing Date to sixty (60) days after the fourth anniversary of the Closing Date (or the payment of the Put Price in the event the Put Option is exercised on or prior to 60 days after the fourth anniversary of the Closing Date), the Company shall not, nor shall it permit any Subsidiary to, declare, pay or make any dividend or distribution on any shares of the common stock or preferred stock of such Person (other than dividends or distributions payable in its stock, or split-ups or reclassifications of its stock) or apply any of its funds, property or assets to the purchase, redemption or other retirement of any common or preferred stock, or of any options to purchase or acquire any such shares of common or preferred stock of any such Person (collectively, "Restricted Payments"), except that: (a) each Subsidiary may make direct or indirect Restricted Payments to the Company; and (b) the Company and each Subsidiary may purchase, redeem or otherwise acquire Equity Interests issued by it solely with the proceeds received from the substantially concurrent issue of new shares of its common stock or other common Equity Interests. For purposes of this Agreement, "Equity Interests" of any Person means any and all shares, rights to purchase, options, warrants, general, limited or limited liability partnership interests, member interests, participation or other equivalents of or interest in (regardless of how designated) equity of such Person, whether voting or nonvoting, including common stock, preferred stock, convertible securities or any other "equity security" (as such term is defined in Rule 3a11-1 of the General Rules and Regulations promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended).

ARTICLE VI
TERMINATION

Section 6.01 Termination Date.

This Agreement shall terminate upon the earlier of expiration or termination of the Revenue Interest Period, in each case after full satisfaction of any amounts due under this Agreement by Company to the Purchaser (the "Term").

Section 6.02 Effect of Termination.

In the event of the termination of this Agreement pursuant to Section 6.01, this Agreement shall forthwith become void and have no effect without any liability on the part of any party hereto or its Affiliates, directors, officers, stockholders, partners, managers or members other than the provisions of this Section 6.02 and Sections 5.04, and Article VII hereof, which shall survive any termination as set forth in Section 6.01. Nothing contained in this Section 6.02 shall relieve any party from liability for any breach of this Agreement.

ARTICLE VII
MISCELLANEOUS

Section 7. 01 Survival.

(c) All representations and warranties made herein and in any other Transaction Document, any certificates or in any other writing delivered pursuant hereto or thereto shall survive the execution and delivery of this Agreement and shall continue to survive until the termination of this Agreement in accordance with Article VI.

(d) Any investigation or other examination that may have been made or may be made at any time by or on behalf of the party to whom representations and warranties are made shall not limit, diminish or in any way affect the representations and warranties in the Transaction Documents, and the parties may rely on the representations and warranties in the Transaction Documents irrespective of any information obtained by them by any investigation, examination or otherwise.

Section 7.02 Specific Performance; Limitations on Damages.

(e) Each of the parties hereto acknowledges that the other party will have no adequate remedy at law if it fails to perform any of its obligations under any of the Transaction Documents. In such event, each of the parties agrees that the other party shall have the right, in addition to any other rights it may have (whether at law or in equity), to specific performance of this Agreement.

(f) Notwithstanding anything to the contrary in this Agreement, in no event shall either party be liable for special, indirect, incidental, punitive or consequential damages of the other party, whether or not caused by or resulting from the actions of such party or the breach of its covenants, agreements, representations or warranties hereunder, even if such party has been advised of the possibility of such damages.

Section 7.03 Notices.

All notices, consents, waivers and communications hereunder given by any party to the other shall be in writing (including facsimile transmission) and delivered personally, by telegraph, telecopy, telex or facsimile, by a recognized overnight courier, or by dispatching the same by certified or registered mail, return receipt requested, with postage prepaid, in each case addressed:

If to Purchaser to:

PDL BioPharma, Inc.

932 Southwood Blvd.

Attention: General Counsel

Facsimile No.: (775) 832-8501

with a copy to:

Gibson, Dunn & Crutcher LLP
333 South Grand Avenue
Los Angeles, CA 90071-3197
Attention: Dhiya El-Saden
Facsimile No.: (213) 229-7520

If to the Company to:

AxoGen, Inc.
AxoGen Corporation
13859 Progress Blvd.
Alachua, FL 32615
Attention: Karen Zaderej
Fax: (386) 462-6803

with a copy to:

Morgan, Lewis & Bockius LLP
1701 Market Street
Philadelphia, Pennsylvania 19103
Attention: Fahd M.T. Riaz
Fax: (215) 963-5001

or to such other address or addresses as Purchaser or the Company may from time to time designate by notice as provided herein, except that notices of changes of address shall be effective only upon receipt. All such notices, consents, waivers and communications shall: (a) when posted by certified or registered mail, postage prepaid, return receipt requested, be effective three (3) Business Days after dispatch, unless such communication is sent trans-Atlantic, in which case they shall be deemed effective five (5) Business Days after dispatch, (b) when telegraphed, telecopied, telexed or facsimiled, be effective upon receipt by the transmitting party of confirmation of complete transmission, or (c) when delivered by a recognized overnight courier or in person, be effective upon receipt when hand delivered.

Section 7.04 Successors and Assigns.

The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. The Company shall not be entitled to assign any of its obligations and rights under the Transaction Documents without the prior written consent of Purchaser. Solely upon the consent of the Company (which consent may not be unreasonably withheld, delayed or conditioned), Purchaser may assign any of its obligations or rights under the Transaction Documents without restriction; provided, however, that Purchaser, notwithstanding such assignment, will remain liable under Section 5.08(g) (to the extent of any amount subject thereto during the Fiscal Quarter as of the date of such assignment) and Section 7.05.

Section 7.05 Indemnification.

(a) The Company hereby indemnifies and holds Purchaser and its Affiliates and any of their respective partners, directors, managers, members, officers, employees and agents (each, a "Purchaser Indemnified Party") harmless from and against any and all Losses (including all Losses in connection with any product liability claims or claims of infringement or misappropriation of any Intellectual Property rights of any Third Parties) incurred or suffered by any Purchaser Indemnified Party arising out of any breach of any representation, warranty or certification made by the Company in any of the Transaction Documents or certificates given by the Company in writing pursuant hereto or thereto or any breach of or default under any covenant or agreement by the Company pursuant to any Transaction Document, including any failure by the Company to satisfy any of the Excluded Liabilities and Obligations.

(b) Purchaser hereby indemnifies and holds the Company, its Affiliates and any of their respective partners, directors, managers, officers, employees and agents (each, a "Company Indemnified Party") harmless from and against any and all Losses incurred or suffered by a Company Indemnified Party arising out of any breach of any representation, warranty or certification made by Purchaser in any of the Transaction Documents or certificates given by Purchaser in writing pursuant hereto or thereto or any breach of or default under any covenant or agreement by Purchaser pursuant to any Transaction Document.

(c) If any claim, demand, action or proceeding (including any investigation by any Governmental Authority) shall be brought or alleged against an indemnified party in respect of which indemnity is to be sought against an indemnifying party pursuant to the preceding paragraphs, the indemnified party shall, promptly after receipt of notice of the commencement of any such claim, demand, action or proceeding, notify the indemnifying party in writing of the commencement of such claim, demand, action or proceeding, enclosing a copy of all papers served, if any; provided, that the omission to so notify such indemnifying party will not relieve the indemnifying party from any liability that it may have to any indemnified party under the foregoing provisions of this Section 7.05 unless, and only to the extent that, such omission results in the forfeiture of, or has a material adverse effect on the exercise or prosecution of, substantive rights or defenses by the indemnifying party. In case any such action is brought against an indemnified party and it notifies the indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate therein and, to the extent that it may wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel reasonably satisfactory to such indemnified party (who shall not, except with the consent of the indemnified party, be counsel to the indemnifying party), and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party will not be liable to such indemnified party under this Section 7.05 for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof other than reasonable costs of investigation. In any such proceeding, an indemnified party shall have the right to retain its own counsel, but the reasonable fees and expenses of such counsel shall be at the expense of such indemnified party unless (i) the indemnifying party and the indemnified party shall have mutually agreed to the retention of such counsel, (ii) the indemnifying party has assumed the defense of such proceeding and has failed within a reasonable time to retain counsel reasonably satisfactory to such indemnified party or (iii) the named parties to any such proceeding (including any impleaded parties) include both the indemnifying party and the indemnified party and representation of both parties by the same counsel would be inappropriate due to actual or potential conflicts of interests between them based on the advice of such counsel. It is agreed that the indemnifying party shall not, in

connection with any proceeding or related proceedings in the same jurisdiction, be liable for the reasonable fees and expenses of more than one separate law firm (in addition to local counsel where necessary) for all such indemnified parties. The indemnifying party shall not be liable for any settlement of any proceeding effected without its written consent, but if settled with such consent or if there be a final judgment for the plaintiff, the indemnifying party agrees to indemnify the indemnified party from and against any loss or liability by reason of such settlement or judgment. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened proceeding in respect of which any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party, unless such settlement includes an unconditional release of such indemnified party from all liability on claims that are the subject matter of such proceeding.

(d) To the extent that any breach by the Company of this Agreement does not trigger a Put Option Event, Purchaser's sole remedy shall be to recover any monetary damages associated with such breach, subject to the other terms and provisions contained in this Agreement.

Section 7.06 No Implied Representations and Warranties.

Each party acknowledges and agrees that, other than the representations and warranties specifically contained in any of the Transaction Documents or certificates given in writing by a party hereto or thereto, there are no representations or warranties of either party or any other Person either expressed or implied with respect to the Assigned Interests or the transactions contemplated hereby. Without limiting the foregoing, Purchaser acknowledges and agrees that (a) Purchaser and its Affiliates, together with its and its Affiliates' representatives, have made their own investigation of the Product and the Intellectual Property and are not relying on any implied warranties or upon any representation or warranty whatsoever as to the future amount or potential amount of the Assigned Interests or as to the creditworthiness of Company and (b) except as expressly set forth in any representation or warranty in a Transaction Document, Purchaser shall have no claim or right to indemnification pursuant to Section 7.05 (or otherwise) with respect to any information, documents or materials furnished to Purchaser, any of its Affiliates, or any of its or its Affiliates' representatives, including any information, documents or material made available to Purchaser and its Affiliates and its Affiliates' representatives in any data room, presentation, interview or any other form relating to the transactions contemplated hereby.

Section 7.07 Independent Nature of Relationship.

(a) The relationship between the Company and its Subsidiary, on the one hand, and Purchaser, on the other, is solely that of seller and purchaser, and neither Purchaser, on the one hand, nor the Company and its Subsidiary, on the other, has any fiduciary or other special relationship with the other or any of their respective Affiliates. Nothing contained herein or in any other Transaction Document shall be deemed to constitute the Company and its Subsidiary and Purchaser as a partnership, an association, a joint venture or other kind of entity or legal form.

(b) No officer or employee of Purchaser will be located at the premises of the Company or any of its Affiliates, except in connection with an audit performed pursuant to

Section 5.02. No officer, manager or employee of Purchaser shall engage in any commercial activity with the Company or any of its Affiliates other than as contemplated herein and in the other Transaction Documents.

(c) The Company and/or any of its Affiliates shall not at any time obligate Purchaser, or impose on Purchaser any obligation, in any manner or respect to any Person not a party hereto.

Section 7.08 Federal Tax.

Notwithstanding the accounting treatment thereof, for United States federal, state and local tax purposes, the Company and Purchaser shall treat the transactions contemplated by the Transaction Documents as debt for United States tax purposes. The parties hereto agree not to take any position that is inconsistent with the provision of this Section 7.08 on any tax return or in any audit or other administrative or judicial proceeding unless (a) the other party to this Agreement has consented to such actions, which consent shall not be unreasonably withheld, or (b) the party that contemplates taking such an inconsistent position has been advised by its tax advisor in writing that it is more likely than not (i) that there is no "reasonable basis" (within the meaning of Treasury Regulation Section 1.6662-3(b)(3)) for the position specified in this Section 7.08 or (ii) that taking such a position would otherwise subject the party to penalties under the Internal Revenue Code of 1986, as amended.

Section 7.09 Entire Agreement.

This Agreement, together with the Exhibits and Schedules hereto (which are incorporated herein by reference), and the other Transaction Documents constitute the entire agreement between the parties with respect to the subject matter hereof and supersede all prior agreements (including the Term Sheet and the Interim Revenue Interest Purchase Agreement), understandings and negotiations, both written and oral, between the parties with respect to the subject matter of this Agreement. No representation, inducement, promise, understanding, condition or warranty not set forth herein (or in the Exhibits, Schedules or other Transaction Documents) has been made or relied upon by either party hereto. None of this Agreement, nor any provision hereof, is intended to confer upon any Person other than the parties hereto any rights or remedies hereunder.

Section 7.10 Amendments; No Waivers.

(a) This Agreement or any term or provision hereof may not be amended, changed or modified except with the written consent of the parties hereto. No waiver of any right hereunder shall be effective unless such waiver is signed in writing by the party against whom such waiver is sought to be enforced.

(b) No failure or delay by either party in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by law.

Section 7.11 Interpretation.

When a reference is made in this Agreement to Articles, Sections, Schedules or Exhibits, such reference shall be to an Article, Section, Schedule or Exhibit to this Agreement unless otherwise indicated. The words “include”, “includes” and “including” when used herein shall be deemed in each case to be followed by the words “without limitation”. Neither party hereto shall be or be deemed to be the drafter of this Agreement for the purposes of construing this Agreement against one party or the other.

Section 7.12 Headings and Captions.

The headings and captions in this Agreement are for convenience and reference purposes only and shall not be considered a part of or affect the construction or interpretation of any provision of this Agreement.

Section 7.13 Counterparts; Effectiveness.

This Agreement may be executed in two or more counterparts, each of which shall be an original, but all of which together shall constitute one and the same instrument. This Agreement shall become effective when each party hereto shall have received a counterpart hereof signed by the other parties hereto. Any counterpart may be executed by facsimile or pdf signature and such facsimile or pdf signature shall be deemed an original.

Section 7.14 Severability.

If any provision of this Agreement is held to be invalid or unenforceable, the remaining provisions shall nevertheless be given full force and effect.

Section 7.15 Expenses.

The Company will pay all of its own fees and expenses in connection with entering into and consummating the transactions contemplated by this Agreement. The Company shall, promptly (and, in any event, within five (5) Business Days) upon demand, reimburse Purchaser up to * * * for its reasonable legal fees and expenses incurred in connection with the transactions contemplated by the Transaction Documents, less any amounts reimbursed in connection with the Interim Royalty Purchase Agreement, not to exceed * * * in the aggregate.

Section 7.16 Governing Law; Jurisdiction.

(a) This Agreement shall be governed by, and construed, interpreted and enforced in accordance with, the laws of the state of New York, without giving effect to the principles of conflicts of law thereof.

(b) Any legal action or proceeding with respect to this Agreement or any other Transaction Document may be brought in any state or federal court of competent jurisdiction in the State of Nevada, Washoe County and city of Reno. By execution and delivery of this Agreement, each party hereto hereby irrevocably consents to and accepts, for itself and in respect of its property, generally and unconditionally the non-exclusive jurisdiction of such courts. Each party hereto hereby further irrevocably waives any objection, including any objection to the laying of venue or based on the grounds of forum non conveniens, which it may now or hereafter

have to the bringing of any action or proceeding in such jurisdiction in respect of any Transaction Document.

(c) Each party hereto hereby irrevocably consents to the service of process out of any of the courts referred to in subsection (b) of this Section 7.16 in any such suit, action or proceeding by the mailing of copies thereof by registered or certified mail, postage prepaid, to it at its address set forth in this Agreement. Each party hereto hereby irrevocably waives any objection to such service of process and further irrevocably waives and agrees not to plead or claim in any suit, action or proceeding commenced hereunder or under any other Transaction Document that service of process was in any way invalid or ineffective. Nothing herein shall affect the right of a party to serve process on the other party in any other manner permitted by law.

Section 7.17 Waiver of Jury Trial.

Each party hereto hereby irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any action, proceeding, claim or counterclaim arising out of or relating to any Transaction Document or the transactions contemplated under any Transaction Document. This waiver shall apply to any subsequent amendments, renewals, supplements or modifications to any Transaction Document.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the date first above written.

AxoGen, Inc.

By: /s/ Karen Zaderej
Name:Karen Zaderej

Title:Chief Executive Officer

COMPANY:

PDL BIOPHARMA, INC.

By: /s/ John P. McLaughlin
Name:John P. McLaughlin

Title: President and Chief Executive Officer

PURCHASER:

Exhibit A

Form of Guarantee and Collateral Agreement

[See attached.]

Exhibit B

Form of Assignment of Interests

[See attached.]

Exhibit C

Form of Deposit Agreement

[See attached.]

Exhibit D

Form of Legal Opinion

In form and substance agreed to by the parties.

EXHIBIT A

Execution Version

GUARANTEE AND COLLATERAL AGREEMENT

DATED AS OF OCTOBER 5, 2012

BY

AXOGEN, INC.,

AND

AXOGEN CORPORATION,

AS GRANTORS

IN FAVOR OF

PDL BIOPHARMA, INC.,

AS PURCHASER

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ANNEXES

I Form of Assumption Agreement

GUARANTEE AND COLLATERAL AGREEMENT, dated as of October 5, 2012 by AXOGEN, INC., a Minnesota corporation (the "Seller"; and together with any other entity on the signature pages hereto or that may become a party hereto as a grantor as provided herein, each a "Grantor" and collectively, jointly and severally, the "Grantors"), in favor of PDL BIOPHARMA, INC., a Delaware corporation, as Purchaser (in such capacity, the "Purchaser") under the Revenue Interests Purchase Agreement, dated as of October 5, 2012 (as amended, supplemented or otherwise modified from time to time, the "Purchase Agreement") between the Seller and the Purchaser.

W IT N E S S E T H:

WHEREAS, pursuant to the Purchase Agreement, the Purchaser has agreed to purchase the Assigned Interests (as defined in the Purchase Agreement) upon the terms and conditions set forth therein; and

WHEREAS, it is a condition precedent to the purchase by Purchaser of the Assigned Interests that the Grantors shall have executed and delivered this Agreement to the Purchaser;

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

Section 1. DEFINITIONS.

1.01. Definition of Terms Used Herein Generally. Except as otherwise provided herein, all capitalized terms used herein (including in the preamble hereto) but not defined herein shall have the meanings set forth in the Purchase Agreement. Except as specifically provided herein, all terms used herein and defined in the NYUCC shall have the same definitions herein as specified therein as of the date hereof; provided, however, that if a term is defined in Article 9 of the NYUCC differently than in another Article of the NYUCC, the term has the meaning specified in Article 9 of the NYUCC as of the date hereof.

1.02. Definition of Certain Terms Used Herein. As used herein, the following terms shall have the following meanings:

"Agreement": this Guarantee and Collateral Agreement, as the same may be amended, supplemented, replaced or otherwise modified from time to time.

"Collateral": as defined in Section 3.

"Event of Default": the occurrence of any Put Option Event under the Purchase Agreement.

"Fully Satisfied": with respect to the Secured Obligations, at any time that (a) all amounts constituting Secured Obligations shall have been paid in full in cash; and (b) all fees, expenses and other amounts (including contingent obligations, including those in respect of indemnification provisions contained in the Transaction Documents, but excluding obligations in respect of such indemnification provisions for which no claim has been made and for which no notice of claim has been given) unpaid as of such time which constitute Secured Obligations shall have been paid in full in cash.

"Grantor": as defined in the preamble.

"Guarantors": the collective reference to each Grantor, other than Borrower.

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

"Person": any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

"Pledged Stock": the shares of capital stock or other equity interests owned at any time by any Person, together with any other shares, stock certificates, options, rights or security entitlements of any nature whatsoever in respect of the capital stock or other equity interests of any Person that may be issued or granted to, or held by, any Person.

"Proceeds": all "proceeds" as such term is defined in Section 9-102(64) of the NYUCC.

"Purchase Agreement": as defined in the preamble.

"Purchaser": as defined in the preamble.

"Secured Obligations": means the "Obligations" of the Seller to the Purchaser, as defined in the Purchase Agreement, and any obligations owed by a Grantor other than the Seller to the Purchaser pursuant to the terms of the Transaction Documents.

"Security Interest": the security interest granted pursuant to Section 3, as well as all other security interests created or assigned as additional security for the Secured Obligations pursuant to the provisions of this Agreement.

"Seller": as defined in the preamble. Any references herein to "each," "either" or "such" Seller or to the "applicable" Seller, or to the "the Seller" shall mean and refer to Seller.

"UCC": the Uniform Commercial Code as in effect in any jurisdiction (except as otherwise contemplated in Section 7.18). References to particular sections of Article 9 of the UCC shall be, unless otherwise indicated, references to revised Article 9 of the UCC adopted and effective in certain jurisdictions on or after July 1, 2001.

1.03. Rules of Interpretation. The rules of interpretation specified in Section 7.10 of Purchase Agreement shall be applicable to this Agreement. References to "Sections," "Exhibits" and "Schedules" shall be to Sections, Exhibits and Schedules, respectively, of this Agreement unless otherwise specifically provided. Any of the terms defined in this Section 1 may, unless the context otherwise requires, be used in the singular or the plural depending on the reference. All references to statutes and related regulations shall include (unless otherwise specifically provided herein) any amendments of same and any successor statutes and regulations.

Section 2. GUARANTEE

2.01. Guarantee. (a) Each of the Guarantors hereby, jointly and severally, unconditionally and irrevocably, guarantees to the Purchaser and its successors, indorsees, transferees and assigns, the prompt and complete payment and performance by Seller when due of the Secured Obligations.

(b) Anything herein or in any other Transaction Document to the contrary notwithstanding, the maximum liability of each Guarantor hereunder and under the other Transaction Documents shall in no event exceed the amount which can be guaranteed by such Guarantor under applicable federal, state and other laws relating to the insolvency of debtors (after giving effect to the right of contribution established in Section 2.02).

(c) Each Guarantor agrees that the Secured Obligations may at any time and from time to time exceed the amount of the liability of such Guarantor hereunder without impairing the guarantee contained in this Section 2 or affecting the rights and remedies of the Purchaser hereunder.

(d) The guarantee contained in this Section 2 shall remain in full force and effect until all the Secured Obligations shall have been Fully Satisfied notwithstanding that from time to time during the term of the Purchase Agreement Seller may be free from any Secured Obligations.

(e) No payment made by the Seller, any of the Guarantors, any other guarantor or any other Person or received or collected by the Purchaser from the Seller, any of the Guarantors, any other guarantor or any other Person by virtue of any action or proceeding or any set-off or appropriation or application at any time or from time to time in reduction of or in payment of the Secured Obligations shall be deemed to modify, reduce, release or otherwise affect the liability of any Guarantor hereunder which shall, notwithstanding any such payment, remain liable for the Secured Obligations up to the maximum liability of such Guarantor hereunder until the Secured Obligations are Fully Satisfied.

2.02. Right of Contribution. Each Guarantor hereby agrees that to the extent that a Guarantor shall have paid more than its proportionate share of any payment made hereunder, such Guarantor shall be entitled to seek and receive contribution from and against any other Guarantor hereunder which has not paid at least its proportionate share of such payment. Each Guarantor's right of contribution shall be subject to the terms and conditions of Section 2.03. The provisions of this Section 2.02 shall in no respect limit the obligations and liabilities of any Guarantor to the Purchaser and each Guarantor shall remain liable to the Purchaser for the full amount guaranteed by such Guarantor hereunder.

2.03. Subrogation. Notwithstanding any payment made by any Guarantor hereunder or any set-off or application of funds of any Guarantor by the Purchaser, (i) no Guarantor shall be entitled to be subrogated to any of the rights of the Purchaser against the Seller or any other Guarantor or Grantor or any collateral security or guarantee or right of offset held by the Purchaser for the payment of the Secured Obligations, (ii) no Guarantor shall seek or be entitled to seek any contribution or reimbursement from the Seller or any other Guarantor or Grantor in respect of payments made by such Guarantor hereunder, and (iii) each Guarantor hereby expressly and irrevocably waives any and all rights at law or in equity to subrogation, reimbursement, exoneration, contribution, indemnification or set off and any and all defenses available to a surety, guarantor or accommodation co-obligor, in each case, until all Secured Obligations are Fully Satisfied. If any amount shall be paid to any Guarantor on account of such subrogation rights at any time when all of the Secured Obligations shall not have been Fully Satisfied, such amount shall be held by such Guarantor in trust for the Purchaser, and shall, forthwith upon receipt by such Guarantor, be turned over to the Purchaser in the exact form received by such Guarantor (duly endorsed by such Guarantor to the Purchaser, if required), to be applied against the Secured Obligations, whether matured or unmatured, in such order as the

Purchaser may determine. Each Guarantor acknowledges and agrees that this waiver is intended to benefit the Purchaser and shall not limit or otherwise affect such Guarantor's liability hereunder or the enforceability of this Section 2.03, and that the Purchaser and its successors and assigns are intended third-party beneficiaries of the waivers and agreements set forth in this Section 2.03, and its rights under this Section 2.03, shall survive payment in full of the Obligations.

2.04. Amendments, etc. with respect to the Secured Obligations. Each Guarantor shall remain obligated hereunder notwithstanding that, without any reservation of rights against any Guarantor and without notice to or further assent by any Guarantor, any demand for payment of any of the Secured Obligations made by the Purchaser may be rescinded by the Purchaser and any of the Secured Obligations continued, and the Secured Obligations, or the liability of any other Person upon or for any part thereof, or any collateral security or guarantee therefor or right of offset with respect thereto, may, from time to time, in whole or in part, be renewed, extended, amended, modified, accelerated, compromised, waived, surrendered or released by the Purchaser, and the Purchase Agreement and the other Transaction Documents and any other documents executed and delivered in connection therewith may be amended, modified, supplemented or terminated, in whole or in part, as the Purchaser may deem advisable from time to time, and any collateral security, guarantee or right of offset at any time held the Purchaser for the payment of the Secured Obligations may be sold, exchanged, waived, surrendered or released. The Purchaser shall not have any obligation to protect, secure, perfect or insure any Lien at any time held by it as security for the Secured Obligations or for the guarantee contained in this Section 2 or any property subject thereto.

2.05. Guarantee Absolute and Unconditional. Each Guarantor waives any and all notice of the creation, renewal, extension or accrual of any of the Secured Obligations and notice of or proof of reliance by the Purchaser upon the guarantee contained in this Section 2 or acceptance of the guarantee contained in this Section 2; the Secured Obligations, and any of them, shall conclusively be deemed to have been created, contracted or incurred, or renewed, extended, amended or waived, in reliance upon the guarantee contained in this Section 2; and all dealings between the Seller and any of the Guarantors, on the one hand, and the Purchaser, on the other hand, likewise shall be conclusively presumed to have been had or consummated in reliance upon the guarantee contained in this Section 2. Each Guarantor waives diligence, presentment, protest, demand for payment and notice of default or nonpayment to or upon Seller or any of the Guarantors with respect to the Secured Obligations, except as required pursuant to the Purchase Agreement. Each Guarantor understands and agrees that the guarantee contained in this Section 2 shall be construed as a continuing, absolute and unconditional guarantee of payment and performance (and not of collection) without regard to (a) the validity or enforceability of the Purchase Agreement or any other Transaction Document (other than this Agreement), any of the Secured Obligations or any other collateral security therefor or guarantee or right of offset with respect thereto at any time or from time to time held by the Purchaser; (b) any defense, set-off or counterclaim (other than a defense of complete payment and performance hereunder) which may at any time be available to or be asserted by the Seller or any other Person against the Purchaser; or (c) any other circumstance whatsoever (with or without notice to or knowledge of Seller or such Guarantor) which constitutes, or might be construed to constitute, an equitable or legal discharge of Seller for the Secured Obligations, or of such Guarantor under the guarantee contained in this Section 2, in bankruptcy or in any other instance. When making any demand hereunder or otherwise pursuing its rights and remedies hereunder against any Guarantor, the Purchaser may, but shall be under no obligation to, make a similar demand on or otherwise pursue such rights and remedies as it may have against Seller, any other Guarantor or any other

Person or against any collateral security or guarantee for the Secured Obligations or any right of offset with respect thereto, and any failure by any Secured Creditor to make any such demand, to pursue such other rights or remedies or to collect any payments from Seller, any other Guarantor or any other Person or to realize upon any such collateral security or guarantee or to exercise any such right of offset, or any release of Seller, any other Guarantor or any other Person or any such collateral security, guarantee or right of offset, shall not relieve any Guarantor of any obligation or liability hereunder, and shall not impair or affect the rights and remedies, whether express, implied or available as a matter of law, of the Purchaser against any Guarantor. For the purposes hereof, "demand" shall include the commencement and continuance of any legal proceedings.

2.06. Reinstatement. The guarantee contained in this Section 2 shall continue to be effective, or be reinstated, as the case may be, if at any time payment, or any part thereof, of any of the Secured Obligations is rescinded or must otherwise be restored or returned by the Purchaser upon the insolvency, bankruptcy, dissolution, liquidation or reorganization of the Seller or any Guarantor, or upon or as a result of the appointment of a receiver, intervenor or conservator of, or trustee or similar officer for, the Seller or any Guarantor or any substantial part of its property, or otherwise, all as though such payments had not been made.

2.07. Payments. Each Guarantor hereby guarantees that payments hereunder will be paid to the Purchaser without set-off or counterclaim in Dollars in immediately available funds to the account of Purchaser and that all such payments will be subject to the provisions of the Transaction Agreement.

2.08. Waiver of Subrogation. Notwithstanding anything to the contrary in this Agreement or in any other Transaction Document, and except as set forth in Section 2.11, each Guarantor hereby expressly and irrevocably waives until all Secured Obligations have been paid in full any and all rights at law or in equity to subrogation, reimbursement, exoneration, contribution, indemnification or set off and any and all defenses available to a surety, guarantor or accommodation co-obligor. Each Guarantor acknowledges and agrees that this waiver is intended to benefit the Purchaser and shall not limit or otherwise affect such Guarantor's liability hereunder or the enforceability of this Section 2.08, and that the Purchaser and its successors and assigns are intended third-party beneficiaries of the waivers and agreements set forth in this Section 2.08, and its rights under this Section 2.08, shall survive payment in full of the Obligations. The foregoing waiver shall not be deemed to limit or prohibit the payment of indebtedness or other obligations of any Guarantor to any other Guarantor or other Person which is otherwise permitted under this Agreement or any other Transaction Document.

2.09. Election of Remedies. If the Purchaser may, under applicable law, proceed to realize its benefits under any of the Transaction Documents giving the Purchaser a Lien upon any Collateral, whether owned by any Guarantor or by any other Person, either by judicial foreclosure or by nonjudicial sale or enforcement, the Purchaser may, at its sole option, determine which of its remedies or rights it may pursue without affecting any of its rights and remedies under this Section 2. If, in the exercise of any of its rights and remedies, the Purchaser shall forfeit any of its rights or remedies, including its right to enter a deficiency judgment against any Guarantor or any other Person, whether because of any applicable laws pertaining to "election of remedies" or the like, each Guarantor hereby consents to such action by the Purchaser and waives, to the extent permitted by applicable law, any claim based upon such action, even if such action by Purchaser shall result in a full or partial loss of any rights of subrogation that each Guarantor might otherwise have had but for such action by the Purchaser. Any election of remedies that results in the denial or impairment of the right of the Purchaser to

seek a deficiency judgment against any Guarantor shall not impair any other Guarantor's obligation to pay the full amount of the Secured Obligations. In the event the Purchaser shall bid at any foreclosure or trustee's sale or at any private sale permitted by law or the Transaction Documents, the Purchaser may bid all or less than the amount of the Secured Obligations and the amount of such bid need not be paid by the Purchaser but shall be credited against the Secured Obligations. The amount of the successful bid at any such public sale, whether the Purchaser or any other party is the successful bidder, shall be conclusively deemed to be the fair market value of the Collateral and the difference between such bid amount and the remaining balance of the Secured Obligations shall be conclusively deemed to be the amount of the Secured Obligations guaranteed under this Section 2, notwithstanding that any present or future law or court decision or ruling may have the effect of reducing the amount of any deficiency claim to which the Purchaser might otherwise be entitled but for such bidding at any such sale.

2.10. Limitation. Notwithstanding any provision herein contained to the contrary, each Guarantor's liability under this Section 2 (which liability is in any event in addition to amounts for which such Guarantor is primarily liable under Section 2 of the Purchase Agreement) shall be limited to an amount not to exceed as of any date of determination the amount that could be claimed by the Purchaser from such Guarantor under this Section 2.10 without rendering such claim voidable or avoidable under Section 548 of Chapter 11 of the Bankruptcy Code or under any applicable state Uniform Fraudulent Transfer Act, Uniform Fraudulent Conveyance Act or similar statute or common law after taking into account, among other things, such Guarantor's right of contribution and indemnification from each other Guarantor under Section 2.11.

2.11. Contribution with Respect to Guaranty Obligations.

(a) To the extent that any Guarantor shall make a payment under this Section 2.11 of all or any of the Secured Obligations which it has agreed to guarantee pursuant hereto (a "Guarantor Payment") that, taking into account all other Guarantor Payments then previously or concurrently made by any other Guarantor, exceeds the amount that such Guarantor would otherwise have paid if each Guarantor had paid the aggregate Secured Obligations satisfied by such Guarantor Payment in the same proportion that such Guarantor's Allocable Amount (as defined below) (as determined immediately prior to such Guarantor Payment) bore to the aggregate Allocable Amounts of each of the Guarantors as determined immediately prior to the making of such Guarantor Payment, then, following indefeasible payment in full in cash of the Secured Obligations, such Guarantor shall be entitled to receive contribution and indemnification payments from, and be reimbursed by, each other Guarantor for the amount of such excess, pro rata based upon their respective Allocable Amounts in effect immediately prior to such Guarantor Payment.

(b) As of any date of determination, the "Allocable Amount" of any Guarantor shall be equal to the maximum amount of the claim that could then be recovered from such Guarantor under this Section 2 without rendering such claim voidable or avoidable under Section 548 of Chapter 11 of the Bankruptcy Code or under any applicable state Uniform Fraudulent Transfer Act, Uniform Fraudulent Conveyance Act or similar statute or common law.

(c) This Section 2.11 is intended only to define the relative rights of Guarantors and nothing set forth in this Section 2.11 is intended to or shall impair the obligations of Guarantors, jointly and severally, to pay any amounts as and when the same shall become due and payable in accordance with the terms of this Agreement, including Section 2.01. Nothing contained in this

Section 2.11 shall limit the liability of Seller to pay the payments owing from it to the Purchaser for which Seller shall be primarily liable.
(d) The parties hereto acknowledge that the rights of contribution and indemnification hereunder shall constitute assets of the Guarantor to which such contribution and indemnification is owing.

(e) The rights of the indemnifying Guarantors against other Grantors under this Section 2.11 shall be exercisable upon the full and indefeasible payment of the Secured Obligations.

Section 3. GRANT OF SECURITY INTEREST.

Each Grantor hereby grants to the Purchaser a security interest in, and mortgage on, all of the following property now owned or at any time hereafter acquired by such Grantor or in which such Grantor now has, or at any time in the future may acquire, any right, title or interest (collectively, the "Collateral"), as collateral security for the prompt and complete payment and performance when due (whether at the stated maturity, by acceleration or otherwise) of the Secured Obligations:

a. all accounts, including health-care receivables, all instruments, chattel paper, and promissory notes evidencing such accounts and all Pledged Stock delivered to a Grantor in respect of settlement of any account;

b. all deposit accounts, all claims now or hereafter arising therefrom, all funds now or hereafter held therein, all amounts now or hereafter credited thereto and all certificates and instruments, if any, from time to time representing or evidencing such bank accounts; and

c. all cash, provided that such shall exclude any deposits given for security of any lease.

Section 4. AUTHORIZATION TO FILE FINANCING STATMENTS.

Each Grantor hereby irrevocably authorizes the Purchaser at any time and from time to time to file in any jurisdiction in which the UCC has been adopted any initial financing statements and amendments thereto that (a) indicate the Collateral (i) as "all accounts receivable, including health care receivables, and all instruments, chattel paper, and promissory notes evidencing such accounts and all Pledged Stock delivered to a Grantor in respect of settlement of any account; all deposit accounts, all claims now or hereafter arising therefrom, all funds now or hereafter held therein, all amounts now or hereafter credited thereto and all certificates and instruments, if any, from time to time representing or evidencing such bank accounts; and all cash of such Grantor or words of similar effect, regardless of whether any particular asset comprised in the Collateral falls within the scope of Article 9 of the NYUCC or such jurisdiction, or (ii) as being of an equal or lesser scope or with greater detail, and (b) contain any other information required by part 5 of Article 9 of the UCC for the sufficiency or filing office acceptance of any initial financing statement or amendment, including whether such Grantor is an organization, the type of organization and any organization identification number issued to such Grantor. Each Grantor agrees to furnish any such information to the Purchaser promptly upon request. Each Grantor also ratifies its authorization for the Purchaser to have filed in any UCC jurisdiction any like initial financing statements or amendments thereto if filed prior to the date hereof.

Section 5. [RESERVED].

Section 6. Representations and Warranties. To induce the Purchaser to enter into the Purchase Agreement and to induce the Purchaser to purchase the Secured Obligations from the Seller thereunder, each Grantor hereby represents and warrants to the Purchaser that:

6.01. Grantors' Legal Status. (a) Such Grantor is an organization as set forth in Schedule 6.01; (b) such organization is of the type, and is organized in the jurisdiction, set forth in Schedule 6.01; and (c) Schedule 6.01 sets forth such Grantor's correct legal name, prior organizational names within the previous five years, chief executive office, organizational identification number or states that such Grantor has none.

6.02. Grantors' Legal Names. Such Grantor's exact legal name is that set forth on the signature page hereof (or, in the case of any Grantor that becomes a party hereto after the date hereof, on the signature page to the applicable Assignment and Assumption Agreement).

6.03. Grantors' Locations. Schedule 6.01 sets forth such Grantor's place of business or (if it has more than one place of business) its chief executive office, as well as its mailing address if different. Such Grantor's place of business or (if it has more than one place of business) its chief executive office (if such Grantor is an organization) is located in a jurisdiction that has adopted the UCC or whose laws generally require that information concerning the existence of nonpossessory security interests be made generally available in a filing, recording or registration system as a condition or result of the security interest obtaining priority over the rights of a lien creditor with respect to the Collateral.

6.04. Representations in the Purchase Agreement. The representations and warranties set forth in Section 5 of the Purchase Agreement as they relate to such Grantor to the Transaction Documents to which such Grantor is a party, each of which is hereby incorporated herein by reference, are true and correct in all material respects, and the Purchaser shall be entitled to rely on each of them as if they were fully set forth herein; provided that each reference in each such representation and warranty to the applicable Seller's knowledge shall, for the purposes of this Section 6.04, be deemed to be a reference to such Grantor's knowledge.

6.05. Title to Collateral. The Collateral of such Grantor is owned by such Grantor free and clear of any Lien, except for Liens expressly permitted pursuant to the Purchase Agreement. Such Grantor has not filed or consented to the filing of (a) any financing statement or analogous document under the UCC or any other applicable laws covering any of its Collateral or (b) any assignment in which such Grantor assigns any Collateral or any security agreement or similar instrument covering any Collateral with any foreign governmental, municipal or other office, which financing statement or analogous document, assignment, security agreement or similar instrument is still in effect, except, in each case, with respect to Liens expressly permitted pursuant to the Purchase Agreement.

6.06. Nature of Collateral. None of the Collateral of such Grantor constitutes, or is the proceeds of, farm products and none of the Collateral has been purchased or will be used by such Grantor primarily for personal, family or household purposes, and as of the Closing Date, except as set forth on Schedule 6.06:

(a) none of the account debtors or other persons obligated on any of the Collateral of such Grantor is a Governmental Authority subject to the Federal Assignment of Claims Act or like federal, state or local statute or rule in respect of such Collateral;

(b) such Grantor has no deposit accounts or other bank accounts; and

(c) such Grantor has no securities accounts or securities entitlements.

6.07. Compliance with Laws. Such Grantor has at all times operated its business in compliance with all laws, except as could not reasonably be expected to have a Material Adverse Effect.

6.08. Validity of Security Interest. (a) The Security Interest granted by each Grantor constitutes, to the extent possible under applicable law, a legal and valid security interest in all of the Collateral of such Grantor securing the payment and performance of the Secured Obligations and (b) upon the giving of value, the filing of financing statements describing the Collateral in the offices listed on the Schedule 6.01, and the taking of all applicable actions in respect of perfection contemplated by Sections 7.06 and 7.07 in respect of Collateral (in which a security interest cannot be perfected by the filing of a financing statement), the Security Interest will be valid, enforceable and perfected in all Collateral of such Grantor. The Security Interest is and shall be prior to any other Lien on the Collateral, other than Liens expressly permitted to be prior to the Security Interest under the Purchase Agreement.

6.09. Reserved.

6.10. Investment Property in lieu of Payment. No account exceeding $50,000 has been settled with the Grantor's receipt of Pledged Stock that has not been delivered to the Purchaser.

6.11. Account Receivables. No amount exceeding $50,000 and payable to such Grantor under or in connection with any account is evidenced by any instrument, promissory note, chattel paper, and no account exceeding $50,000 has been settled by the account debtor granting to such Grantor Pledged Stock which has not been delivered to the Purchaser.

6.12. Accounts. (i) Each account of such Grantor is genuine and in all material respects what they purport to be, (ii) each account arises out of (A) a bona fide sale of goods sold and delivered by such Grantor (or is in the process of being delivered) or (B) services theretofore actually rendered or to be rendered by such Grantor to the account debtor named therein, (iii) no material account of such Grantor is evidenced by any instrument, promissory note or chattel paper other than any such instrument, promissory note or chattel paper that has been theretofore endorsed over, assigned and delivered to, or submitted to the control of, the Purchaser (accompanied by such instruments of transfer and assignment duly executed in blank as the Purchaser may from time to time specify), and (iv) no surety bond was required or given in connection with any account of such Grantor or the contracts or purchase orders out of which they arose and the right to receive payment under each account is assignable.

6.13. Reserved.

Section 7. COVENANTS. Each Grantor covenants and agrees with the Purchaser, in each case at such Grantor's own cost and expense, as follows.

7.01. Grantors' Legal Status. Such Grantor shall not change its type of organization, jurisdiction of organization or other legal structure except upon not less than twenty (20) days' prior written notice to the Purchaser.

7.02. Grantors' Names. Such Grantor shall not change its name except upon not less than twenty (20) days' prior written notice to the Purchaser.

7.03. Grantors' Organizational Numbers. Without providing at least twenty (20) days' prior written notice to the Purchaser, such Grantor shall not change its organizational identification number if it has one. If such Grantor does not have an organizational identification number and later obtains one, such Grantor shall forthwith notify the Purchaser of such organizational identification number promptly upon obtaining such identification number.

7.04. Reserved.

7.05. Covenants in Purchase Agreement. Each Grantor shall take, or shall refrain from taking, as the case may be, each action that is necessary to be taken or not taken, as the case may be, so that no Default or Event of Default is caused by the failure to take such action or to refrain from taking such action by such Grantor or any of its subsidiaries.

7.06. Promissory Notes and Tangible Chattel Paper. If such Grantor, together with the other Grantors, shall at any time hold or acquire any instruments, promissory notes or tangible chattel paper in an aggregate principal amount of more than $50,000 payable to such Grantor under or in connection with any account, such Grantor shall forthwith endorse, assign and deliver the same to the Purchaser, accompanied by such instruments of transfer or assignment duly executed in blank as the Purchaser may from time to time specify to be held by the Purchaser as Collateral pursuant to this Agreement.

7.07. Deposit Accounts. For each deposit account that such Grantor at any time opens or maintains, such Grantor shall, at the Purchaser's request and option, either (a) cause the depository bank to enter into a written agreement or other authenticated record with the Purchaser, in form and substance reasonably satisfactory to the Purchaser, pursuant to which such depository bank shall agree, among other things, to comply at any time with instructions from the Purchaser to such depository bank directing the disposition of funds from time to time credited to such deposit account, without further consent of the Grantor, or (b) arrange for the Purchaser to become the customer of the depository bank with respect to the deposit account; provided, however, that notwithstanding the foregoing, the requirements of this Section 7.07 shall not apply to any zero balance payroll or similar disbursement account maintained by any Grantor (and each Grantor agrees not to deposit in any payroll account or similar disbursement account maintained by it any funds, except funds needed at the time of deposit (or within three days thereafter) to meet payroll needs of such Grantor).

7.08. Pledged Stock. If such Grantor, together with the other Grantors, shall at any time hold or acquire any Pledged Stock granted to such Grantor by an account debtor to settle an account in an aggregate principal amount of more than $50,000, such Grantor shall forthwith deliver the same to the Purchaser, accompanied by an executed blank stock power and such other instruments of transfer or assignment duly executed in blank as the Purchaser may from time to time specify to be held by the Purchaser as Collateral pursuant to this Agreement.

7.09. Reserved.

7.10. Reserved.
7.11. Reserved.
7.12. Reserved.
7.13. Reserved.

7.14. Maintenance of Collateral; Compliance with Laws. (a) Such Grantor shall not use the Collateral in violation of any law to the extent that such violation could reasonably be expected to have a Material Adverse Effect.

7.15. Reserved.
7.16. Reserved.

7.17. Periodic Certification. From time to time on demand (which demand, absent an Event of Default, shall be no more frequent than once every four months) from the Purchaser such Grantor shall deliver to the Purchaser either (a) new Schedules setting forth the information required pursuant to Sections 6.01, 6.03 and 6.06, and a certificate from an executive officer of the Seller certifying as to the accuracy of the information set forth therein or (b) a certificate from an executive officer of the Seller confirming that there has been no change in the information set forth on the Schedules delivered as of the date hereof or since the date of the most recent certificate delivered pursuant to Section 7.17(a), as applicable.

7.18. Other Actions as to any and all Collateral. Such Grantor further agrees to take any other action reasonably requested by the Purchaser to insure the attachment, perfection and, first priority of, and the ability of the Purchaser to enforce, the Security Interest in any and all of the Collateral provided by such Grantor including, without limitation,
(a) executing, delivering and, where appropriate, filing financing statements and amendments relating thereto under the UCC, to the extent, if any, that such Grantor's signature thereon is required therefor; (b) causing the Purchaser's name to be noted as secured party on any certificate of title for a titled good if such notation is a condition to attachment, perfection or priority of, or ability of the Purchaser to enforce, the Security Interest in such Collateral; (c) complying with any provision of any statute, regulation or treaty of the United States of America as to any Collateral if compliance with such provision is a condition to the attachment, perfection or priority of, or the ability of the Purchaser to enforce, the Security Interest in such Collateral;
(d) obtaining governmental and other third-party consents and approvals, including without limitation any consent of any licensor, lessor or other person obligated on such Collateral;
(e) providing to the Purchaser “control” over such Collateral, to the extent that perfection can only be achieved under the UCC by control or where obtaining perfection by control provides more protection to the Purchaser that perfection by filing a financing statement; and (f) taking all actions required by the UCC or by other law, as applicable in any relevant UCC jurisdiction, or by other law as applicable in any foreign jurisdiction; provided, however, that nothing contained in clause (d) or (e) shall require such Grantor to pay any consideration (other than any governmental application, processing, filing or recording fees) in order to obtain any consent or waiver referred to in such clauses.

7.19. Treatment of Accounts. Subject to Section 5.10 of the Purchaser Agreement, no Grantor shall grant or extend the time for payment of any material account, or

compromise or settle any account for less than the full amount thereof, or release any person or property, in whole or in part, from payment thereof, or allow any credit or discount thereon, other than as normal and customary in the ordinary course of a Grantor's business.

Section 8. [RESERVED].

Section 9. COLLATERAL PROTECTION EXPENSES; PRESERVATION OF COLLATERAL.

9.01. Expenses Incurred by the Purchaser. In its discretion, the Purchaser may, if the relevant Grantor fails to do so, discharge taxes and other encumbrances at any time levied or placed on any material portion of the Collateral and pay any necessary filing fees. Each Grantor agrees to reimburse the Purchaser on demand for any and all expenditures so made, and all sums disbursed by the Purchaser in connection with this Section 9.01, including reasonable attorneys' fees, court costs, expenses and other charges relating thereto, shall be payable, upon demand, by such Grantor to the Purchaser shall bear interest at the per annum rate specified in Section 17 and shall constitute additional Secured Obligations. The Purchaser shall have no obligation to any Grantor to make any such expenditures, nor shall the making thereof relieve any Grantor of any default.

9.02. Purchaser's Obligations and Duties.

(a) Anything herein to the contrary notwithstanding, each Grantor shall remain liable under each contract or agreement comprised in the Collateral provided by it to be observed or performed by such Grantor thereunder. The Purchaser shall not have any obligation or liability under any such contract or agreement by reason of or arising out of this Agreement or the receipt by the Purchaser of any payment relating to any of the Collateral, nor shall the Purchaser be obligated in any manner to perform any of the obligations of any Grantor under or pursuant to any such contract or agreement, to make inquiry as to the nature or sufficiency of any payment received by the Purchaser in respect of the Collateral or as to the sufficiency of any performance by any party under any such contract or agreement, to present or file any claim, to take any action to enforce any performance or to collect the payment of any amounts which may have been assigned to the or to which the Purchaser may be entitled at any time or times.

(b) The Purchaser's sole duty with respect to the custody, safekeeping and physical preservation of the Collateral in its possession, under Section 9-207 of the NYUCC or otherwise, shall be to deal with such Collateral in the same manner as the Purchaser deals with similar property for its own account.

(c) Neither the Purchaser nor any of its respective officers, directors, partners, employees, agents, attorneys and other advisors, attorneys-in-fact or affiliates shall be liable for failure to demand, collect or realize upon any of the Collateral or for any delay in doing so or shall be under any obligation to sell or otherwise dispose of any Collateral upon the request of any Grantor or any other Person or to take any other action whatsoever with regard to the Collateral or any part thereof. The powers conferred on the Purchaser hereunder are solely to protect the Purchaser's interests in the Collateral and shall not impose any duty upon Purchaser to exercise any such powers. The Purchaser shall be accountable only for amounts that it actually receives as a result of the exercise of such powers, and neither it nor any of its officers, directors, partners, employees, agents, attorneys and other advisors, attorneys-in-fact or affiliates shall be responsible to any Grantor for any act or failure to act hereunder, except to the extent that any

such act or failure to act is found by a final and non-appealable decision of a court of competent jurisdiction to have resulted from their respective gross negligence or willful misconduct.
(d) Each Grantor acknowledges that the rights and responsibilities of the Purchaser under this Agreement with respect to any action taken by the Purchaser or the exercise or non-exercise by the Purchaser of any option, voting right, request, judgment or other right or remedy provided for herein or resulting or arising out of this Agreement shall, be governed by the Purchase Agreement and by such other agreements with respect thereto as may exist from time to time among them.

9.03. Reserved.

Section 10. DEPOSITS. The Purchaser may after the occurrence and during the continuance of an Event of Default demand, sue for, collect, or make any settlement or compromise which it deems desirable with respect to the Collateral. Regardless of the adequacy of Collateral or any other security for the Secured Obligations, any deposits or other sums at any time credited by or due from the Purchaser to any Grantor may at any time be applied to or set off against any of the Secured Obligations whether or not due and owing.

Section 11. NOTIFICATION TO ACCOUNT DEBTORS AND OTHER PERSONS OBLIGATED ON COLLATERAL. If an Event of Default shall have occurred and be continuing, each Grantor shall, at the request of the Purchaser, notify account debtors and other persons obligated on any of the Collateral of such Grantor of the Security Interest in any account or chattel paper, promissory notes or instruments payable to such Grantor under or in connection with any account, or Pledged Stock delivered to such Grantor to settle an account, or other claims constituting Collateral that payment thereof is to be made directly to the Purchaser or to any financial institution designated by the Purchaser as the Purchaser's agent therefor, and the Purchaser may itself, if an Event of Default shall have occurred and be continuing, without notice to or demand upon any Grantor, so notify account debtors and other persons obligated on Collateral. After the making of such a request or the giving of any such notification, each Grantor shall hold any proceeds of collection of accounts and other claims constituting Collateral received by the Grantor as trustee for the Purchaser without commingling the same with other funds of the Grantor and shall turn the same over to the Purchaser in the identical form received, together with any necessary endorsements or assignments. The Purchaser shall have no liability or responsibility to any Grantor for acceptance of a check, draft or other order for payment of money bearing the legend “payment in full” or words of similar import or any other restrictive legend or endorsement or be responsible for determining the correctness of any remittance. Without limitation of the foregoing, during the continuation of an Event of Default (1) the Purchaser shall have the right, but not the obligation, to make test verifications of the accounts in any manner and through any medium that it reasonably considers advisable, and the Grantors shall furnish all such assistance and information as the Purchaser may require in connection with such test verifications, and (2) the Purchaser in its own name or in the name of others may communicate with account debtors on the accounts to verify with them to the Purchaser's satisfaction the existence, amount and terms of any accounts. The Purchaser may apply the proceeds of collection of accounts and other claims constituting Collateral received by the Purchaser to the Secured Obligations or hold such proceeds as additional Collateral, at the option of the Purchaser. The provisions of Section 9-209 of the NYUCC shall not apply to any account as to which notification of assignment has been sent to the account debtor or other person obligation on the Collateral, whether under this Section 11, Section 12 or Section 13.

Section 12. POWER OF ATTORNEY.

12.01. Appointment and Powers of Purchaser. Upon the occurrence and during the continuance of an Event of Default, each Grantor hereby irrevocably constitutes and appoints the Purchaser and any officer or Purchaser thereof, with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority in the place and stead of such Grantor and in the name of such Grantor or in its own name, for the purpose of carrying out the terms of this Agreement, to take any and all appropriate action and to execute any and all documents and instruments which may be necessary or desirable to accomplish the purposes of this Agreement, and, without limiting the generality of the foregoing, each Grantor hereby gives the Purchaser the power and right, on behalf of such Grantor, without notice to or assent by such Grantor, to do any or all of the following:

(a) in the name of such Grantor or its own name, or otherwise, take possession of and endorse and collect any checks, drafts, notes, acceptances or other instruments for the payment of moneys due under any account or with respect to any other Collateral and file any claim or take any other action or proceeding in any court of law or equity or otherwise deemed appropriate by the Purchaser for the purpose of collecting any and all such moneys due under any account or with respect to any other Collateral whenever payable;

(b) pay or discharge taxes and Liens levied or placed on or threatened against the Collateral, effect any repairs or provide any insurance and pay all or any part of the premiums therefor and the costs thereof;

(c) execute, in connection with any sale provided for in Section 13, any endorsements, assignments or other instruments of conveyance or transfer with respect to the Collateral;

(d) exercise all rights of such Grantor as owner of the Pledged Stock or as party to any partnership, limited liability company or similar agreement, including, without limitation, the right to sign any and all amendments, instruments, certificates, proxies, and other writings and exercise all voting and consent rights with respect to the Pledged Stock;

(e) (1) direct any party liable for any payment under any of the Collateral to make payment of any and all moneys due or to become due thereunder directly to the Purchaser or as the Purchaser shall direct; (2) ask or demand for, collect, and receive payment of and receipt for, any and all moneys, claims and other amounts due or to become due at any time in respect of or arising out of any Collateral; (3) commence and prosecute any suits, actions or proceedings at law or in equity in any court of competent jurisdiction to collect the Collateral or any portion thereof and to enforce any other right in respect of any Collateral; (4) defend any suit, action or proceeding brought against such Grantor with respect to any Collateral; (5) settle, compromise or adjust any such suit, action or proceeding and, in connection therewith, give such discharges or releases as the Purchaser may deem appropriate; and (6) generally, sell, transfer, pledge and make any agreement with respect to or otherwise deal with any of the Collateral as fully and completely as though the Purchaser were the absolute owner thereof for all purposes, and do, at the Purchaser's option and such Grantor's expense, at any time, or from time to time, all acts and things which the Purchaser deems necessary to protect, preserve or realize upon the Collateral and the Security Interest therein and to effect the intent of this Agreement, all as fully and effectively as such Grantor might do; and

(f) to the extent that such Grantor's authorization given in Section 4 is not sufficient, to file such financing statements or similar documents under the laws of any jurisdiction with respect hereto, with or without such Grantor's signature, or a photocopy of this Agreement in substitution for a financing statement or such other document, as the Purchaser may deem appropriate and to execute in such Grantor's name such financing statements, other such documents and amendments thereto and continuation statements which may require such Grantor's signature.

Anything in this Section 12.01 to the contrary notwithstanding, the Purchaser agrees that it will not exercise any rights under the power of attorney provided for in this Section 12.01 (other than under paragraph (e) of this Section 12.01) unless an Event of Default shall have occurred and be continuing.

12.02. Failure of Grantor to Perform. If any Grantor fails to perform or comply with any of its agreements contained herein, the Purchaser, at its option, but without any obligation so to do, may perform or comply, or otherwise cause performance or compliance, with such agreement.

12.03. Expenses of Attorney-in-Fact. The expenses of the Purchaser incurred in connection with actions undertaken as provided in this Section 12, together with interest thereon at a rate equal to the lower of (i) the highest rate permitted by applicable law, and (ii) one and one-half percent (1.5%) per month, compounded monthly, shall be payable by such Grantor to the Purchaser on demand.

12.04. Ratification by Grantor. To the extent permitted by law, each Grantor hereby ratifies all that said attorneys shall lawfully do or cause to be done by virtue of this Section 12. This power of attorney is a power coupled with an interest and is irrevocable.

12.05. No Duty on Purchaser. The powers conferred on the Purchaser, its directors, officers and agents pursuant to this Section 12 are solely to protect the Purchaser's interests in the Collateral and shall not impose any duty upon any of them to exercise any such powers. The Purchaser shall be accountable only for the amounts that it actually receives as a result of the exercise of such powers, and neither it nor any of its officers, directors, employees or Purchasers shall be responsible to any Grantor for any act or failure to act, except for the Purchaser's own gross negligence or willful misconduct as determined in a final and non-appealable judgment by a court of competent jurisdiction.

Section 13. REMEDIES.

13.01. Default. Grantors shall be in default under this Agreement (a) whenever any Event of Default has occurred and is continuing (and each of the Grantors shall thereupon be in default hereunder without regard to whether or to what degree any Grantor individually may have caused, participated in, or had any knowledge of the occurrence of such Event of Default) and (b) at all times after any Secured Obligation has become due and payable and remains unpaid beyond any applicable grace period.

13.02. Remedies Upon Default. At any time when any Grantor is in default under this Agreement as set forth in Section 13.01, the Purchaser may exercise and enforce, in any order, (i) each and all of the rights and remedies available to a secured party upon default under the NYUCC or any other applicable UCC or other applicable law, (ii) each and all of the

rights and remedies available to it under the Purchase Agreement or any other Transaction Document, and (iii) each and all of the following rights and remedies:

(a) Collection Rights. Without notice to any Grantor or any other Loan Party, the Purchaser may notify any or all account debtors and obligors on any accounts, chattel paper or instruments evidencing an account, or other claims constituting Collateral of the Purchaser's Security Interests therein or the issuers of Pledged Stock delivered to settle an account and may direct, demand and enforce payment thereof directly to the Purchaser. The provisions of Section 9-209 of the NYUCC shall not apply to any account or chattel paper, promissory note or payment intangible as to which notification of assignment has been sent to the account debtor.

(b) Foreclosure. The Purchaser may sell, lease, license or otherwise dispose of or transfer any or all of the Collateral or any part thereof in one or more parcels at public sale or in private sale or transaction, on any exchange or market or at the Purchaser's offices or on any Grantor's premises or at any other location, for cash, on credit or for future delivery, and may enter into all contracts necessary or appropriate in connection therewith, without any notice whatsoever unless required by law. Where permitted by law, the Purchaser may be the purchaser at any such sale and in such event, the Purchaser may bid part or all of the Secured Obligations owing to it without necessity of any cash payment on account of the purchase price, even though any other purchaser at such sale is required to bid a purchase price payable in cash. Each Grantor agrees that at least ten (10) calendar days' written notice to such Grantor of the time and place of any public sale of Collateral owned by it (or, to the extent such Grantor is entitled by law to notice thereof, the public sale of any other Collateral), or the time after which any private sale of Collateral owned by it (or, to the extent such Grantor is entitled by law to notice thereof, the private sale of any other Collateral) is to be made, shall be commercially reasonable. For purposes of such notice, to the fullest extent permitted by law (i) each Grantor waives notice of any sale of Collateral owned by any other Grantor and (ii) each Grantor agrees that notice given to the Seller shall constitute notice given to such Grantor. The giving of notice of any such sale or other disposition shall not obligate the Purchaser to proceed with the sale or disposition, and any such sale or disposition may be postponed or adjourned from time to time, without further notice.

(c) Voting Rights. The Purchaser may exercise any and all rights of any Grantor as the owner of any Pledged Stock delivered to a Grantor to settle an account, including, without limitation, voting rights, rights to give or withhold consent under any agreement under which such Pledged Stock is issued.

(d) Appointment of Receiver. Without limiting any other right or remedy of the Purchaser in this Agreement, upon the occurrence and during the continuance of any Event of Default, the Purchaser may by instrument in writing appoint any person as a receiver of all or any part of the Collateral of each applicable Grantor. The Purchaser may from time to time remove or replace a receiver, or make application to any court of competent jurisdiction for the appointment of a receiver. Any receiver appointed by the Purchaser shall (for purposes relating to responsibility for the receiver's acts or omissions) be considered to be the Purchaser of each applicable Grantor. The Purchaser may from time to time fix the receiver's remuneration and the Grantors shall pay the amount of such remuneration to the Purchaser. The Purchaser shall not be liable to any Grantor or any other person in connection with appointing or not appointing a receiver or in connection with the receiver's actions or omissions.

13.03. Reserved.

13.04. Waivers by Grantors. Each Grantor hereby irrevocably waives (a) all rights of redemption from any foreclosure sale; (b) the benefit of all valuation, appraisal, exemption and moratorium laws; (c) to the fullest extent permitted by law, all rights to notice or a hearing prior to the exercise by the Purchaser of its right to take possession of any Collateral, whether by self-help or by legal process and any right to object to the Purchaser taking possession of any Collateral by self-help; and (d) if the Purchaser seeks to obtain possession of any Collateral by replevin, claim and delivery, attachment, levy or other legal process, (i) any notice or demand for possession prior to the commencement of legal proceedings, (ii) the posting of any bond or security in any such proceedings, and (iii) any requirement that the Purchaser retain possession and not dispose of any Collateral until after a trial or final judgment in such proceedings.

13.05. Application of Proceeds. Except as expressly provided elsewhere in this Agreement, all proceeds received by the Purchaser in respect of any sale of, collection from, or other realization upon all or any part of the Collateral may, in the discretion of the Purchaser, be held by the Purchaser as Collateral for, or then, or at any other time thereafter, applied in full or in part by the Purchaser against, the Secured Obligations in the following order of priority:

FIRST: to the payment of all reasonable costs and expenses of such sale, collection or other realization, including reasonable compensation to the Purchaser and its agents and counsel, and all other reasonable expenses, liabilities and advances made or incurred by the Purchaser in connection therewith, and all amounts for which the Purchaser is entitled to indemnification hereunder and all reasonable advances made by the Purchaser hereunder for the account of any Grantor, and to the payment of all reasonable costs and expenses paid or incurred by the Purchaser in connection with the exercise of any right or remedy hereunder, all in accordance with Section 19.09;

SECOND: to the payment of all other Secured Obligations then due and payable in the manner and order provided in the Purchase Agreement;

THIRD: to any payments required by Section 9-608(a)(1)(C) or 9-615(a)(3) of the NYUCC or other applicable law; and

FOURTH, to the payment to or upon the order of the Grantor entitled thereto, or to whomsoever may be lawfully entitled to receive the same or as a court of competent jurisdiction may direct, of any surplus then remaining from such proceeds.

13.06. Surplus; Deficiency. Any surplus proceeds of any sale or other disposition by the Purchaser of any Collateral remaining after discharge of the Purchase Agreement and after all Secured Obligations are paid in full and in cash and any payments required by Section 9-608(a)(1)(C) or 9-615(a)(3) of the NYUCC are paid in full shall be paid over to the Grantor entitled thereto, or to whomever may be lawfully entitled to receive such surplus or as a court of competent jurisdiction may direct, but prior to termination and discharge of the Purchase Agreement, such surplus proceeds may be retained by the Purchaser and held as Collateral until termination and discharge of the Purchase Agreement. The Seller and each Guarantor shall be and remain liable for any deficiency.

13.07. Information Related to the Collateral. If, during the continuance of an Event of Default, the Purchaser determines to sell or otherwise transfer any Collateral, each Grantor shall, and shall cause any Person controlled by it to, furnish to the Purchaser all information the Purchaser may request that pertains or could pertain to the value or condition of the Collateral or that would or might facilitate such sale or transfer. The Purchaser shall have the right, notwithstanding any confidentiality obligation or agreement otherwise binding upon it, freely (but not in violation of any law, including federal securities laws) to disclose such information, and any and all other information (including confidential information) pertaining in any manner to the Collateral or the assets, liabilities, results of operations, business or prospects of the Purchaser, freely to any Person that the Purchaser in good faith believes to be a potential or prospective purchaser in such sale or transfer, without liability for any disclosure, dissemination or use that may be made as to such information by any such Person.

13.08. Reserved.

13.09. Rights and Remedies Cumulative. The rights provided for in this Agreement and the other Transaction Documents are cumulative and are not exclusive of any other rights, powers or privileges or remedies provided by law or in equity, or under any other instrument, document or agreement. The Purchaser may exercise and enforce each right and remedy available to it either before or concurrently with or after, and independently of, any exercise or enforcement of any other right or remedy of the Purchaser against any Person or property. All such rights and remedies shall be cumulative, and no one of them shall exclude or preclude any other.

13.10. Reserved.

Section 14. STANDARDS FOR EXERCISING REMEDIES.

14.01. Commercially Reasonable Manner. To the extent that applicable law imposes duties on the Purchaser to exercise remedies in a commercially reasonable manner, each Grantor acknowledges and agrees that it is not commercially unreasonable for the Purchaser (a) to fail to obtain third-party consents for access to Collateral to be disposed of, or to obtain or, if not required by other law, to fail to obtain governmental or third-party consents for the collection or disposition of Collateral to be collected or disposed of; (b) to fail to exercise collection remedies against account debtors or other persons obligated on Collateral or to remove any Lien on or any adverse claims against Collateral; (c) to exercise collection remedies against account debtors and other persons obligated on Collateral directly or through the use of collection agencies and other collection specialists; (d) to advertise dispositions of Collateral through publications or media of general circulation, whether or not the Collateral is of a specialized nature; (e) to contact other persons, whether or not in the same business as such Grantor, for expressions of interest in acquiring all or any portion of the Collateral; (f) to hire one or more professional auctioneers to assist in the disposition of Collateral, whether or not the collateral is of a specialized nature; (g) to dispose of Collateral by utilizing Internet sites that provide for the auction of assets of the types included in the Collateral or that have the reasonable capability of doing so, or that match buyers and sellers of assets; (h) to dispose of assets in wholesale rather than retail markets; (i) to disclaim disposition warranties; (j) to purchase insurance or credit enhancements to insure the Purchaser against risks of loss, collection or disposition of Collateral or to provide to the Purchaser a guaranteed return from the collection or disposition of Collateral; or (k) to the extent deemed appropriate by the Purchaser, to obtain the services of other brokers, investment bankers, consultants and other professionals to assist the Purchaser in the collection or disposition of any

of the Collateral. Each Grantor acknowledges that the purpose of this Section 14 is to provide non-exhaustive indications of what actions or omissions by the Purchaser would not be commercially unreasonable in the Purchaser's exercise of remedies against the Collateral and that other actions or omissions by the Purchaser shall not be deemed commercially unreasonable solely on account of not being indicated in this Section 14. Without limiting the foregoing, nothing contained in this Section 14 shall be construed to grant any rights to any Grantor or to impose any duties on the Purchaser that would not have been granted or imposed by this Agreement or by applicable law in the absence of this Section 14.

14.02. Standard of Care. The powers conferred on the Purchaser hereunder are solely to protect its interest in the Collateral and shall not impose any duty upon it to exercise any such powers. Except for the exercise of reasonable care in the custody of any Collateral in its possession and the accounting for moneys actually received by it hereunder, the Purchaser shall have no duty as to any Collateral or as to the taking of any necessary steps to preserve rights against prior parties or to protect, preserve, vote or exercise any rights pertaining to any Collateral. The Purchaser shall be deemed to have exercised reasonable care in the custody and preservation of Collateral in its possession if such Collateral is accorded treatment substantially equal to that which the Purchaser accords its own property or if it selects, with reasonable care, a custodian to hold such Collateral on its behalf.

Section 15. WAIVERS BY GRANTOR; OBLIGATIONS ABSOLUTE.

15.01. Specific Waivers. Each Grantor waives demand, notice, protest, notice of acceptance of this Agreement, notice of any purchase pursuant to the terms of the Purchase Agreement, Collateral received or delivered or other action taken in reliance hereon and all other demands and notices of any description other than those required pursuant to the Purchase Agreement or any other Transaction Documents to which such Grantor is a party.

15.02. Obligations Absolute. All rights of the Purchaser hereunder, the Security Interest and all obligations of the Grantors hereunder shall be absolute and unconditional irrespective of (a) any lack of validity or enforceability of the Purchase Agreement, any other Transaction Document, any agreement with respect to any of the Secured Obligations or any other agreement or instrument relating to any of the foregoing; (b) any change in the time, manner or place of payment of, or in any other term of, all or any of the Secured Obligations, or any other amendment or waiver of or any consent to any departure from the Purchase Agreement, any other Transaction Document, or any other agreement or instrument; (c) any exchange, release or non-perfection of any Lien on other collateral, or any release or amendment or waiver of or consent under or departure from or any acceptance of partial payment thereon and or settlement, compromise or adjustment of any Secured Obligation or of any guarantee, securing or guaranteeing all or any of the Secured Obligations; or (d) any other circumstance that might otherwise constitute a defense available to, or a discharge of, any Grantor in respect of the Secured Obligations or this Agreement other than the prompt and complete performance and payment in full of the Secured Obligations.

Section 16. MARSHALLING. The Purchaser shall not be required to marshal any present or future collateral security (including but not limited to this Agreement and the Collateral) for, or other assurances of payment of, the Secured Obligations or any of them or to resort to such collateral security or other assurances of payment in any particular order, and all of its rights hereunder and in respect of such collateral security and other assurances of payment shall be cumulative and in addition to all other rights, however existing or arising. To the extent

that it lawfully may, each Grantor hereby agrees that it shall not invoke any law relating to the marshalling of collateral which might cause delay in or impede the enforcement of the Purchaser's rights under this Agreement or under any other instrument creating or evidencing any of the Secured Obligations or under which any of the Secured Obligations is outstanding or by which any of the Secured Obligations is secured or payment thereof is otherwise assured, and, to the extent that it lawfully may, each Grantor hereby irrevocably waives the benefits of all such laws.

Section 17. INTEREST. Until paid, all amounts due and payable by each Grantor hereunder shall be deemed to be a debt secured by the Collateral and shall bear, whether before or after judgment, interest at a rate equal to the lower of (i) the highest rate permitted by applicable law, and (ii) one and one-half percent (1.5%) per month, compounded monthly.

Section 18. REINSTATEMENT. The obligations of each Grantor pursuant to this Agreement shall continue to be effective or automatically be reinstated, as the case may be, if at any time payment of any of the Secured Obligations is rescinded or otherwise must be restored or returned by the Purchaser upon the insolvency, bankruptcy, dissolution, liquidation or reorganization of such Grantor or any other obligor or otherwise, all as though such payment had not been made.

Section 19. MISCELLANEOUS.

19.01. Notices. All notices, requests and demands to or upon the Purchaser or any Grantor hereunder shall be effected in the manner provided for in Section 7.03 of the Purchase Agreement.

19.02. GOVERNING LAW; CONSENT TO JURISDICTION; SERVICE OF PROCESS. THIS AGREEMENT SHALL BE A CONTRACT MADE UNDER AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED ENTIRELY WITHIN SUCH STATE, WITHOUT REGARD TO CONFLICT OF LAWS PRINCIPLES (OTHER THAN SECTION 5-1401 OF THE NEW YORK GENERAL OBLIGATIONS LAW). ANY LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER, OR IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER TRANSACTION DOCUMENT, MAY BE BROUGHT IN ANY STATE OR FEDERAL COURT OF COMPETENT JURISDICTION IN THE STATE OF NEVADA, WASHOE COUNTY AND CITY OF RENO; PROVIDED THAT ANY SUIT SEEKING ENFORCEMENT AGAINST ANY COLLATERAL OR OTHER PROPERTY MAY BE BROUGHT, AT PURCHASER'S OPTION, IN THE COURTS OF ANY JURISDICTION WHERE SUCH COLLATERAL OR OTHER PROPERTY MAY BE FOUND. EACH PARTY HERETO HEREBY EXPRESSLY AND IRREVOCABLY SUBMITS TO THE JURISDICTION OF THE COURTS OF THE STATE OF NEVADA, WASHOE COUNTY AND CITY OF RENO FOR THE PURPOSE OF ANY SUCH LITIGATION AS SET FORTH ABOVE. EACH PARTY HERETO FURTHER IRREVOCABLY CONSENTS TO THE SERVICE OF PROCESS BY REGISTERED MAIL, POSTAGE PREPAID, OR BY PERSONAL SERVICE WITHIN OR WITHOUT THE STATE OF NEVADA. EACH PARTY HERETO HEREBY EXPRESSLY AND IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY SUCH LITIGATION BROUGHT IN ANY SUCH COURT REFERRED TO ABOVE AND ANY CLAIM THAT ANY SUCH LITIGATION HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

19.03. WAIVER OF JURY TRIAL, ETC. EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING, CLAIM OR COUNTERCLAIM ARISING OUT OF OR RELATING TO ANY TRANSACTION DOCUMENT OR THE TRANSACTIONS CONTEMPLATED UNDER ANY TRANSACTION DOCUMENT. THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO ANY TRANSACTION DOCUMENT.

19.04. Counterparts. This Agreement may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract.

19.05. Headings. The headings of each section of this Agreement are for convenience only and shall not define or limit the provisions thereof.

19.06. No Strict Construction. The parties hereto have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties hereto and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provisions of this Agreement.

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

19.08. Survival of Agreement. All representations, warranties and agreements made by or on behalf of any in this Agreement and in the other Transaction Documents shall survive the execution and delivery hereof or thereof and the payment of the Secured Obligations. In addition, notwithstanding anything herein or under applicable law to the contrary, the provisions of this Agreement and the other Transaction Documents relating to indemnification or payment of costs and expenses, including, without limitation, the provisions of Sections 7.05 and 7.14 of the Purchase Agreement, shall survive the payment in full of the Secured Obligations and any termination of this Agreement or any of the other Transaction Documents.

19.09. Fees and Expenses; Indemnification.

(a) The Grantors, jointly and severally, agree to pay upon demand the amount of any and all reasonable expenses, including the fees, disbursements and other charges of counsel and of any experts or Purchasers, which (i) the Purchaser may incur in connection with
(x) collecting against any Grantor or otherwise enforcing or preserving any rights under this Agreement and the other Transaction Documents, (y) the exercise, enforcement or protection of any of the rights of the Purchaser hereunder or (z) the failure of any Grantor to perform or observe any of the provisions hereof, and (ii) the Purchaser may incur in connection with (x) the administration of this Agreement (including the customary fees and charges for any audits conducted by it or on its behalf with respect to the accounts receivable) or (y) the custody or preservation of, or the sale of, collection from or other realization upon any of the Collateral.

Each Grantor agrees to pay, and to save the Purchaser harmless from, any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever with respect to the execution, delivery, enforcement, performance and administration of this Agreement to the extent the Seller would be required to do so pursuant to Section 7.05 of the Purchase Agreement.

(b) The agreements in this Section shall survive repayment of the Secured Obligations and all other amounts payable under the Purchase Agreement and the other Transaction Documents.

(c) Each Grantor agrees that the provisions of Article III of the Purchase Agreement are hereby incorporated herein by reference, mutatis mutandis, and the Purchaser shall be entitled to rely on each of them as if they were fully set forth herein.

19.10. Binding Effect; Several Agreement. This Agreement is binding upon each Grantor and the Purchaser and their respective successors and permitted assigns, and shall inure to the benefit of the Grantors, the Purchaser and their respective successors and permitted assigns, except that no Grantor shall have any right to assign or transfer its rights or obligations hereunder or any interest herein, except as specifically permitted by the Purchase Agreement, without the prior written consent of the Purchaser (and any such assignment or transfer shall be void).

19.11. Waivers; Amendment.

(a) No failure or delay of the Purchaser in exercising any power or right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Purchaser hereunder and of the Purchaser under the Purchase Agreement and other Transaction Documents are cumulative and are not exclusive of any rights or remedies that it would otherwise have. No waiver of any provisions of this Agreement or consent to any departure by any Grantor therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) below, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice to or demand on any Grantor in any case shall entitle such or any other Grantor to any other or further notice or demand in similar or other circumstances.

(b) Neither this Agreement nor any provision hereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Purchaser and each affected Grantor.

19.12. Set Off. Each Grantor hereby irrevocably authorizes the Purchaser at any time and from time to time while an Event of Default shall have occurred and be continuing, without notice to such Grantor or any other Grantor, any such notice being expressly waived by each Grantor, to set off and appropriate and apply any and all deposits (general or special, time or demand, provisional or final), in any currency, and any other credits, indebtedness or claims, in any currency, in each case whether direct or indirect, absolute or contingent, matured or unmatured, at any time held or owing by the Purchaser to or for the credit or the account of such Grantor, or any part thereof in such amounts as the Purchaser may elect, against and on account of the obligations and liabilities of such Grantor to the Purchaser hereunder and claims of every

nature and description of the Purchaser against such Grantor, in any currency, whether arising hereunder, under the Purchase Agreement, any other Transaction Document or otherwise, as the Purchaser may elect. The Purchaser shall notify such Grantor promptly of any such set-off and the application made by the Purchaser of the proceeds thereof; provided that the failure to give such notice shall not affect the validity of such set-off and application. The rights of the Purchaser under this Section are in addition to other rights and remedies (including, without limitation, other rights of set-off) which the Purchaser may have.

19.13. Integration. This Agreement and the other Transaction Documents constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof.

19.14. Acknowledgments. Each Grantor hereby acknowledges that:

(a) it has been advised by counsel in the negotiation, execution and delivery of this Agreement and the other Transaction Documents to which it is a party;

(b) the Purchaser does not have any fiduciary relationship with or duty to any Grantor arising out of or in connection with this Agreement or any of the other Transaction Documents, and the relationship between the Grantors, on the one hand, and the Purchaser, on the other hand, in connection herewith or therewith is solely that of seller and purchaser (or, in the case that a Grantor owes Secured Obligations to the Purchaser, that of debtor and creditor); and

(c) no joint venture is created hereby or by the other Transaction Documents or otherwise exists by virtue of the transactions contemplated hereby among the Grantors and the Purchaser.

19.15. Additional Grantors and Guarantors. Each subsidiary of the Seller that is required to become a party to this Agreement pursuant to Section 5.10(b) of the Purchase Agreement shall become a Grantor and Guarantor for all purposes of this Agreement upon execution and delivery by such subsidiary of an Assumption Agreement in the form of Annex I hereto.

[Remainder of Page Intentionally Left Blank; Signature Pages Follow]

IN WITNESS WHEREOF, each of the undersigned has caused this Guarantee and Collateral Agreement to be duly executed and delivered as of the date first above written.

GRANTORS:

AXOGEN, INC.

By: /s/ Karen Zaderej
Name: Karen Zaderej
Title: CEO

AXOGEN CORPORATION.
By: /s/ Karen Zaderej
Name: Karen Zaderej
Title: CEO

PDL BIOPHARMA, INC., as Purchaser

By: /s/ John McLaughlin
Name: John P. McLaughlin
Title: President and Chief Executive Officer

Annex A to Guarantee and Collateral Agreement

ASSUMPTION AGREEMENT, dated as of _____, 20__, made by _____, a _____ (the "Additional Grantor"), in favor of PDL Biopharma, Inc., as Purchaser (the "Purchaser") party to the Purchase Agreement referred to below. All capitalized terms not defined herein shall have the meaning ascribed to them in such Purchase Agreement.

W I T N E S S E T H:

WHEREAS, AxoGen, Inc. ("Seller") and the Purchaser have entered into the Revenue Interests Purchase Agreement, dated as of October 5, 2012 (as amended, supplemented, replaced or otherwise modified from time to time, the "Purchase Agreement");

WHEREAS, in connection with the Purchase Agreement, the Seller and certain of its Affiliates (other than the Additional Grantor) have entered into a Guarantee and Collateral Agreement, dated as of October 5, 2012 (as amended, supplemented or otherwise modified from time to time, the "Guarantee and Collateral Agreement") in favor of the Purchaser;

WHEREAS, the Purchase Agreement requires the Additional Grantor to become a party to the Guarantee and Collateral Agreement; and

WHEREAS, the Additional Grantor has agreed to execute and deliver this Assumption Agreement in order to become a party to the Guarantee and Collateral Agreement;

NOW, THEREFORE, IT IS AGREED:

1. Guarantee and Collateral Agreement. By executing and delivering this Assumption Agreement, the Additional Grantor, as provided in Section 19.15 of the Guarantee and Collateral Agreement, hereby becomes a party to the Guarantee and Collateral Agreement as a Grantor and Guarantor thereunder with the same force and effect as if originally named therein as a Grantor and Guarantor and, without limiting the generality of the foregoing, hereby expressly assumes all obligations and liabilities of a Grantor and Guarantor thereunder. The information set forth in Annex I-A hereto is hereby added to the information set forth in the update to the Schedules to the Purchase Agreement most recently delivered pursuant to the terms of the Guarantee and Collateral Agreement. The Additional Grantor hereby represents and warrants that each of the representations and warranties as to the Additional Grantor contained in Section 6 of the Guarantee and Collateral Agreement is true and correct on and as the date hereof (after giving effect to this Assumption Agreement) as if made on and as of such date.
2. GOVERNING LAW. THIS ASSUMPTION AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAW OF THE STATE OF

NEW YORK.

IN WITNESS WHEREOF, the undersigned has caused this Assumption Agreement to be duly executed and delivered as of the date first above written.

[ADDITIONAL GRANTOR]

By:_____ Name: Title:

Schedule 6.01

Name: AxoGen, Inc.

Jurisdiction of Organization: Minnesota

Identification Number: 41-1301878

Chief Executive Office: 13859 Progress Boulevard, Suite 100 Alachua, Florida 32615

Prior Organizational Names: LecTec Corporation

Name: AxoGen Corporation

Jurisdiction of Organization: Delaware

Identification Number: 55-0805988

Chief Executive Office: 13859 Progress Boulevard, Suite 100 Alachua, Florida 32615

Prior Organizational Names: None

Schedule 6.06 Deposit Accounts

Guarantor	Bank	Account Number
AxoGen, Inc.	Silicon Valley Bank	***
AxoGen Corporation	Silicon Valley Bank	***

EXHIBIT B

EXECUTION VERSION

ASSIGNMENT OF INTERSTS

THIS ASSIGNMENT OF INTERESTS ("Assignment of Interests") is made as of August 13, 2012, between AxoGen, Inc., a Minnesota corporation (the "Company"), and PDL BioPharma, Inc., a Delaware corporation ("Purchaser").

A. The Company and Purchaser have entered into that certain Revenue Interests Purchase Agreement, dated as of October 5, 2012 (the "Revenue Purchase Agreement"), pursuant to which the Company is to sell and Purchaser is to purchase the Assigned Interests. Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to such terms in the Revenue Purchase Agreement; and

B. The Company has agreed to execute and deliver this Assignment of Interests to Purchaser for the purpose of transferring to and vesting in Purchaser title to the Assigned Interests as set forth herein.

In consideration of the foregoing and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. The Company does hereby sell, assign, transfer, convey, deliver and vest in Purchaser, its successors and assigns forever, all of its right, title and interest in and to the Assigned Interests.
2. The Company hereby covenants that, from time to time after the delivery of this instrument, at Purchaser's request, the Company will do, execute, acknowledge and deliver, or will cause to be done, executed, acknowledged and delivered such further acts, conveyances, transfers, assignments, powers of attorney and assurances as Purchaser may reasonably require to convey, transfer to and vest in Purchaser, and to put Purchaser in possession of, any of the Assigned Interests.
3. Nothing in this Assignment of Interests shall alter any liability or obligation of the Company or Purchaser arising under the Revenue Purchase Agreement, which shall govern the representations, warranties and obligations of the parties with respect to the Assigned Interests.
4. This Assignment of Interests shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.
5. This Assignment of Interests shall be governed by, and construed in accordance with, the internal laws of the State of New York, without giving effect to the principles of conflicts of law thereof.
6. This Assignment of Interests may be executed in counterparts, each of which shall be deemed an original and all of which, when taken together, shall constitute one and the same instrument.

[The remainder of this page has been intentionally left blank.]

IN WITNESS WHEREOF, the parties have executed this Assignment of Interests as of the date first written above.

AXOGEN, INC.

By: /s/ Karen Zaderej
Name: Karen Zaderej
Title: Chief Executive Officer

PDL BIOPHARMA, INC.
By: /s/ John McLaughlin
Name: John P. McLaughlin
Title: President and Chief Executive Officer

SCHEDULE 3.12(a) INTELLECTUAL PROPERTY AND LICENSE AGREEMENT**S**

Owner or Licensee of IP	Type of IP (e.g., patent, TM, ©, mask work) or License Agreement(1)	Owned or Licensed?	Anticipated Expiration Date (if a License, expiration of License and Licensed Property)	Material IP?
AxoGen Corporation	US Patent 6,972,168 (UFRF)	Licensed	Patent -8/13/2021 Agreement - See UFRF License Agreement Below	Yes
AxoGen Corporation	US Patent 7,402,319 (UTA)	Licensed	Patent -9/26/2023 Agreement - See UFRF License Agreement Below	Yes
AxoGen Corporation	US Patent 7,732,200 (UFRF)	Licensed	Patent -12/21/2022 Agreement - See UFRF License Agreement Below	Yes
AxoGen Corporation	US Published Patent Application 20080299536 (UFRF)	Licensed	Patent Application-N/A Agreement - See UFRF License Agreement Below	Yes
AxoGen Corporation	US Published Patent Application 20090030269 (UTA)	Licensed	Patent Application -N/A Agreement - See UTA License Agreement Below	Yes
AxoGen Corporation	Canada Patent Application 2,455,827 (UFRF)	Licensed	Patent Application-N/A Agreement - See UFRF License Agreement Below	Yes
AxoGen Corporation	European Patent No. EP1425390 (UFRF)	Licensed	Patent -8/12/2022 Agreement - See UFRF License Agreement Below	Yes
AxoGen Corporation	Japanese Patent No. 4,749,667 (UFRF)	Licensed	Patent-8/13/2022 Agreement - See UFRF License Agreement Below	Yes
AxoGen Corporation	Mexico Patent No. 296009 (UFRF)	Licensed	Patent - 2/13/2012 Agreement - See UFRF License Agreement Below	Yes
AxoGen Corporation	Mexico Patent No. 296020 (UFRF)	Licensed	Patent -2/13/2012 Agreement - See UFRF License Agreement Below	Yes
AxoGen Corporation	Mexico Patent No. 296021 (UFRF)	Licensed	Patent - 2/13/2012 Agreement - See UFRF License Agreement Below	No
AxoGen Corporation	Mexico Patent No. 296019 (UFRF)	Licensed	Patent Application-2/13/2012 Agreement - See UFRF License Agreement Below	No
AxoGen Corporation	US Published Patent Application 20090264871 (AxoGen)	Owned	N/A	Yes
AxoGen Corporation	Canada Patent Application 2,721,945 (AxoGen)	Owned	N/A	Yes
AxoGen Corporation	European Patent Application EP2276410 (AxoGen)	Owned	N/A	Yes
AxoGen Corporation	US Patent 6,696,575 (UTA)	Licensed	Patent -3/27/2021 Agreement - See UTA License Agreement Below	No

Owner or Licensee of IP	Type of IP (e.g., patent, TM, ©, mask work) or License Agreement(1)	Owned or Licensed?	Anticipated Expiration Date (if a License, expiration of License and Licensed Property)	Material IP?
AxoGen Corporation	US Patent 7,851,447 (UFRF)	Licensed	Patent -11/18/2023 Agreement - See UFRF License Agreement Below	No
AxoGen Corporation	US Published Patent Application US-20110082482 (UFRF)	Licensed	Patent Application-N/A Agreement - See UFRF License Agreement Below	No
AxoGen Corporation	US 7,772,185 (Emory)	Licensed	Patent -11/18/2023 Agreement - See Emory License Agreement Below	No
AxoGen Corporation	US Published Patent Application US-201000268336 (Emory)	Licensed	Patent Application -N/A Agreement - See Emory License Agreement Below	No
AxoGen Corporation	Japanese Patent No. 4,773,976 (Emory)	Licensed	Patent -1/31/2025 Agreement - See Emory License Agreement Below	No
AxoGen Corporation	European Patent Application EP1737476 (Emory)	Licensed	Patent Application -N/A Agreement - See Emory License Agreement Below	No
AxoGen Corporation	Canada Patent Application 2,556,161 (Emory)	Licensed	Patent Application -N/A Agreement - See Emory License Agreement Below	No
AxoGen Corporation	AxoGen Nerve Regeneration -Nerve Recovery Training Video (Copyright)	Owned	N/A	Yes
AxoGen Corporation	LB-122 AVANCE 70 AG-T-1 Instructions for Use: AxoGen Product (Copyright)	Owned	N/A	Yes
AxoGen Corporation	LB-123 AxoGuard Nerve Connector Instructions for Use (Copyright)	Owned	N/A	Yes
AxoGen Corporation	LB-124 AxoGuard Nerve Protector Instructions for Use (Copyright)	Owned	N/A	Yes
AxoGen Corporation	(Canada Trademark)	Owned	N/A	Yes
AxoGen Corporation	AXOGUARD (Canada Trademark)	Owned	N/A	Yes
AxoGen Corporation	AxoGen (Canada Trademark)	Owned	N/A	Yes
AxoGen Corporation	AVANCE NERVE GRAFT (Canada Trademark)	Owned	N/A	Yes
AxoGen Corporation	(European Trademark)	Owned	N/A	Yes

Owner or Licensee of IP	Type of IP (e.g., patent, TM, ©, mask work) or License Agreement(1)	Owned or Licensed?	Anticipated Expiration Date (if a License, expiration of License and Licensed Property)	Material IP?
AxoGen Corporation	AVANCE NERVE GRAFT (European Trademark)	Owned	N/A	Yes
AxoGen Corporation	AXOGEN NERVE REGENERATION (Japan Trademark)	Owned	N/A	Yes
AxoGen Corporation	AVANCE NERVE GRAFT (Japan Trademark)	Owned	N/A	Yes
AxoGen Corporation	AVANCE NERVE GRAFT (Mexico Trademark)	Owned	N/A	Yes
AxoGen Corporation	AXOGEN NERVE REGENERATION (Mexico Trademark)	Owned	N/A	Yes
AxoGen Corporation	AXOGEN NERVE REGENERATION (Mexico Trademark)	Owned	N/A	Yes
AxoGen Corporation	AXOGEN NERVE REGENERATION (Mexico Trademark)	Owned	N/A	Yes
AxoGen Corporation	AXOGUARD (U.S. Trademark)	Owned	N/A	Yes
AxoGen Corporation	(U.S. Trademark)	Owned	N/A	Yes
AxoGen Corporation	AXOGEN (U.S. Trademark)	Owned	N/A	Yes
AxoGen Corporation	AXOGEN (U.S. Trademark)	Owned	N/A	Yes
AxoGen Corporation	(U.S. Trademark)	Owned	N/A	Yes
AxoGen Corporation	(U.S. Trademark)	Owned	N/A	Yes
AxoGen Corporation	AVANCE (U.S. Trademark)	Owned	N/A	Yes
AxoGen Corporation	(U.S. Trademark)	Owned	N/A	Yes
AxoGen Corporation	RANGER (U.S. Trademark)	Owned	N/A	No
AxoGen Corporation	RANGER (U.S. Trademark)	Owned	N/A	NO

Owner or Licensee of IP	Type of IP (e.g., patent, TM, ©, mask work) or License Agreement(1)	Owned or Licensed?	Anticipated Expiration Date (if a License, expiration of License and Licensed Property)	Material IP?
AxoGen Corporation	License Agreement-University of Florida Research Foundation (UFRF)	N/A	The expiration date of the agreement is until the earlier of the date that no Licensed Patent remains enforceable or the payment of earned royalties ceases for more than four (4) calendar quarters on all Licensed Products and Processes.	Yes
AxoGen Corporation	License Agreement-Emory University (Emory)	N/A	Expires on the last to expire Valid Claim.	No
AxoGen Corporation	License Agreement-University of Texas at Austin (UTA)	N/A	Expires on the last to expire of the Licensed Patents.	Yes
AxoGen, Inc.	Patent Application- US 11/535,214	Owned	Patent Application - not pursuing	No
AxoGen, Inc.	Patent Application PCT-US-2009-001407	Owned	Patent Application -N/A	No
AxoGen, Inc.	Patent Application- US 12/921,253	Owned	Patent Application -N/A	No
AxoGen, Inc.	Patent Application- US 61/409,786	Owned	Patent Application -N/A	No
AxoGen, Inc.	Patent Application- US 13/035,535	Owned	Patent Application -N/A	No
AxoGen, Inc.	Patent Application PCT-US-2011-026319	Owned	Patent Application -N/A	No
AxoGen, Inc.	Patent Application US 61/705,251	Owned	Patent Application - N/A	No
AxoGen, Inc.	US Patent - 7,288,265	Owned	1-2023	No
AxoGen, Inc.	US Patent - 6,830,758	Owned	4-2021	No
AxoGen, Inc.	US Patent - 6,495,158	Owned	1-2019	No
AxoGen, Inc.	US Patent - 6,469,227	Owned	5-2020	No
AxoGen, Inc.	US Patent - 6,455,065	Owned	5-2019	No
AxoGen, Inc.	US Patent - 6,406,712	Owned	6-2019	No
AxoGen, Inc.	US Patent - 6,348,212	Owned	5-2019	No
AxoGen, Inc.	US Patent - 6,090,403	Owned	8-2018	No
AxoGen, Inc.	US Patent - 5,804,213	Owned	9-2015	No

Owner or Licensee of IP	Type of IP (e.g., patent, TM, ©, mask work) or License Agreement(1)	Owned or Licensed?	Anticipated Expiration Date (if a License, expiration of License and Licensed Property)	Material IP?
AxoGen Corporation	Domain name -ABOUTNERVE.BIZ	Owned	6/8/2012	No
AxoGen Corporation	Domain name -ABOUTNERVE.COM	Owned	6/9/2012	No
AxoGen Corporation	Domain name -ABOUTNERVE.INFO	Owned	6/9/2012	No
AxoGen Corporation	Domain name -ABOUTNERVE.MOBI	Owned	6/9/2012	No
AxoGen Corporation	Domain name -ABOUTNERVE.NET	Owned	6/9/2012	No
AxoGen Corporation	Domain name -ABOUTNERVE.ORG	Owned	6/9/2012	No
AxoGen Corporation	Domain name -ABOUTNERVE.US	Owned	6/8/2012	No
AxoGen Corporation	Domain name - AVANCENERVEGRAFT.BIZ	Owned	4/8/2015	No
AxoGen Corporation	Domain name - AVANCENERVEGRAFT.CO	Owned	4/9/2015	No
AxoGen Corporation	Domain name - AVANCENERVEGRAFT.COM	Owned	4/9/2015	No
AxoGen Corporation	Domain name - AVANCENERVEGRAFT.INFO	Owned	4/9/2015	No
AxoGen Corporation	Domain name - AVANCENERVEGRAFT.MOB I	Owned	4/9/2015	No
AxoGen Corporation	Domain name - AVANCENERVEGRAFT.NET	Owned	4/9/2015	No
AxoGen Corporation	Domain name - AVANCENERVEGRAFT.ORG	Owned	4/9/2015	No
AxoGen Corporation	Domain name - AVANCENERVEGRAFT.US	Owned	4/8/2015	No
AxoGen Corporation	Domain name - AXGN.BIZ	Owned	2/21/2014	No
AxoGen Corporation	Domain name - AXGN.CO	Owned	2/21/2014	No
AxoGen Corporation	Domain name - AXGN.INFO	Owned	2/22/2014	No
AxoGen Corporation	Domain name - AXGN.ORG	Owned	2/22/2014	No
AxoGen Corporation	Domain name - AXGN.US	Owned	2/21/2014	No
AxoGen Corporation	Domain name - AXOGEN.BIZ	Owned	8/5/2012	No
AxoGen Corporation	Domain name - AXOGEN.INFO	Owned	8/6/2012	No
AxoGen Corporation	Domain name - AXOGEN.ME	Owned	8/6/2012	No
AxoGen Corporation	Domain name - AXOGEN.NET	Owned	11/13/2011	No

Owner or Licensee of IP	Type of IP (e.g., patent, TM, ©, mask work) or License Agreement(1)	Owned or Licensed?	Anticipated Expiration Date (if a License, expiration of License and Licensed Property)	Material IP?
AxoGen Corporation	Domain name - AXOGEN.ORG	Owned	7/20/2012	No
AxoGen Corporation	Domain name - AXOGEN.US	Owned	8/5/2012	No
AxoGen Corporation	Domain name -AXOGENINC.BIZ	Owned	8/5/2012	No
AxoGen Corporation	Domain name -AXOGENINC.COM	Owned	11/13/2017	Yes
AxoGen Corporation	Domain name -AXOGENINC.INFO	Owned	8/6/2012	No
AxoGen Corporation	Domain name -AXOGENINC.ME	Owned	8/6/2012	No
AxoGen Corporation	Domain name -AXOGENINC.MOBI	Owned	8/6/2012	No
AxoGen Corporation	Domain name -AXOGENINC.NAME	Owned	8/6/2012	No
AxoGen Corporation	Domain name -AXOGENINC.NET	Owned	7/20/2014	No
AxoGen Corporation	Domain name -AXOGENINC.ORG	Owned	7/20/2012	No
AxoGen Corporation	Domain name -AXOGENINC.US	Owned	3/7/2013	No
AxoGen Corporation	Domain name -AXOGENINC.WS	Owned	8/6/2012	No
AxoGen Corporation	Domain name -AXOGUARD.BIZ	Owned	10/6/2012	No
AxoGen Corporation	Domain name -AXOGUARD.COM	Owned	10/6/2012	Yes
AxoGen Corporation	Domain name -AXOGUARD.INFO	Owned	10/6/2012	No
AxoGen Corporation	Domain name -AXOGUARD.ME	Owned	10/6/2012	No
AxoGen Corporation	Domain name -AXOGUARD.MOBI	Owned	10/6/2012	No
AxoGen Corporation	Domain name -AXOGUARD.NET	Owned	10/6/2012	No
AxoGen Corporation	Domain name -AXOGUARD.ORG	Owned	10/6/2012	No
AxoGen Corporation	Domain name -AXOGUARD.US	Owned	10/5/2011	No
AxoGen Corporation	Domain name -NERVEGRAFT.BIZ	Owned	5/21/2015	No
AxoGen Corporation	Domain name -NERVEGRAFT.COM	Owned	7/20/2012	No
AxoGen Corporation	Domain name -NERVEGRAFT.INFO	Owned	5/22/2014	No
AxoGen Corporation	Domain name -NERVEGRAFT.MOBI	Owned	5/22/2014	No
AxoGen Corporation	Domain name -NERVEGRAFT.NET	Owned	7/20/2012	No

Owner or Licensee of IP	Type of IP (e.g., patent, TM, ©, mask work) or License Agreement(1)	Owned or Licensed?	Anticipated Expiration Date (if a License, expiration of License and Licensed Property)	Material IP?
AxoGen Corporation	Domain name -NERVEGRAFT.ORG	Owned	7/20/2012	No
AxoGen Corporation	Domain name -NERVEINJURY.NET	Owned	7/20/2012	No
AxoGen Corporation	Domain name -NERVEINJURY.ORG	Owned	7/20/2012	No
AxoGen Corporation	Domain name -NERVEREGENERATION.NET	Owned	7/20/2012	No
AxoGen Corporation	Domain name -NERVEREGENERATION.ORG	Owned	7/20/2012	No
AxoGen Corporation	Domain name -NERVEREPAIR.BIZ	Owned	8/5/2012	No
AxoGen Corporation	Domain name -NERVEREPAIR.INFO	Owned	8/6/2012	No
AxoGen Corporation	Domain name -NERVEREPAIR.ME	Owned	8/6/2012	No
AxoGen Corporation	Domain name -NERVEREPAIR.NET	Owned	7/20/2012	No
AxoGen Corporation	Domain name -NERVEREPAIR.ORG	Owned	7/20/2012	No
AxoGen Corporation	Domain name -NERVEREPAIR.US	Owned	8/5/2012	No
AxoGen Corporation	Domain name -PERIPHERALNERVE.BIZ	Owned	5/21/2015	No
AxoGen Corporation	Domain name -PERIPHERALNERVE.NET	Owned	7/21/2012	No
AxoGen Corporation	Domain name -PROSTATECTOMY.NET	Owned	7/20/2012	No
AxoGen Corporation	Non-clinical data -VP-001-Installation Qualification Protocol for the ACCU-SEAL Model 730-3B6E Medical Sealer (SN 37443)	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-002-Operation Qualification Protocol for the ACCU-SEAL Model 730-3B6E Medical Sealer (SN 37443)	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-003-ACCU-SEAL Model 730-3B6E Medical Sealer (SN 37443) Validation Report	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-004-Seal Parameters for ACCU-SEAL Model 730 Next Generation Medical Sealer (SN 37443) and Mangar RM48WLAM and DT 1073UC Pouches	Owned*	N/A	Yes
AxoGen	Non-clinical Data -RD-001-	Owned*	N/A	Yes

Owner or Licensee of IP	Type of IP (e.g., patent, TM, ©, mask work) or License Agreement(1)	Owned or Licensed?	Anticipated Expiration Date (if a License, expiration of License and Licensed Property)	Material IP?
Corporation	AGT-1 Nerve Graft Small Animal Study: Axon Regeneration and Functional Recovery following Rat Sciatic Nerve Defect Repair using 14mm and 28mm Grafts			
AxoGen Corporation	Non-clinical data -RD-002-AG-T-1 Nerve Graft Large Animal Study: Evaluation of Regeneration Across Long Nerve (70 mm) Autografts compared to Allografts in Sheep	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -RD-003-Preparation of Suffolk Sheep Nerve Grafts using the AG-T-1 Nerve Graft Processing Method	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -RD-004-Evaluation of CS56 Staining of AG-T-1 processed Mouse, Rat and Sheep Tissue	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -RD-005-Summary of AG-T-1-UT Development Project: Evaluation and development of a detergent treatment process for human peripheral nerve	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -RD-006-AG-T-1 Process Improvement Project	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -RD-007-Evaluation of Label Adherence to AG-T-1 Packaging Components following Gamma Irradiation and Frozen Storage	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -RD-008-Results of EM Investigation of Particulate on AG-T-1 Grafts	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -RD-009-Examination of Histological Processing Parameters	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -RD-012-Assessment of AxoGuard Nerve Protector and Nerve Connector Sizing	Owned*	N/A	Yes

Owner or Licensee of IP	Type of IP (e.g., patent, TM, ©, mask work) or License Agreement(1)	Owned or Licensed?	Anticipated Expiration Date (if a License, expiration of License and Licensed Property)	Material IP?
AxoGen Corporation	Non-clinical data -RD-013-AxoGuard Handling Benchtop Test for Optimal Hydration Time	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -RD-014-Histological Processing of Explant Samples from RD-001 Using Historical Methods	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -RD-015-Justification for the potential for revascularization across nerve graft length and diameter	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -RD-018-Muir Sensory vs. Motor vs. Mixed versions of Autograft and Avance	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -RD-019-Muir Restablished CPSG	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -RD-020-Graft Processing and Histology summary of rabbit Sciatic Nerve using the Alpha Process	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -RD-021-Processing and Histology results of rabbit Peroneal Nerve Study	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -RD-022-Evaluation of a 7cm AG-T-1 Processed Nerve Allograft: A morphometric and function study in the rabbit peroneal nerve model	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -RD-023-Testing of Cryoembedding/ Sectioning of AVANCE™ Nerve Grafts	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -RD-024-Avance Nerve Graft Working Expiration Time Study	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -RD-025-Preliminary Evaluation of the Effects of Decreased ChABC Concentrations on Peripheral Nerve CSPG Clearance	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -RD-026-Evaluation of scarring, inflammation, and nerve function following nerve wrapping	Owned*	N/A	Yes

Owner or Licensee of IP	Type of IP (e.g., patent, TM, ©, mask work) or License Agreement(1)	Owned or Licensed?	Anticipated Expiration Date (if a License, expiration of License and Licensed Property)	Material IP?
AxoGen Corporation	Non-clinical data -RD-027-Vacuum Filtration of Enzyme A with Nerve Tissue II	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -RD-028-Avance Handling Equivalency Study	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -RD-029-Avance Handling Equivalency Study II	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -RD-031-Detergent and CSPG relationship -Avance	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -RD-032-SEM Microphotographs of Nerve Grafts	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -RD-033-Collagen 1 immunostaining of AVANCE samples	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -RD-034-Investigation of CSPG in processed and unprocessed human skin	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -RD-036-Vacuum Filtration of Enzyme A w/ Nervous Tissue	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -RD-037-Avance Suture Retention Strength Method	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -RD-038-Avance Suture Retention Strength	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -RD-039-Post-hoc investigation of neurite recruitment by Avance in an ectopic muscle implant	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -RD-040-Validation of the Gel Clot Method Bacterial Endotoxin Test for Nerve	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -RD-041-Effects of detergent processing on the growth-promoting properties of nerve basal lamina and laminin	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -RD-045-Vacuum Filtration of Enzyme A and the Effect on CSPG Removal from Nerve Tissue II	Owned*	N/A	Yes

Owner or Licensee of IP	Type of IP (e.g., patent, TM, ©, mask work) or License Agreement(1)	Owned or Licensed?	Anticipated Expiration Date (if a License, expiration of License and Licensed Property)	Material IP?
AxoGen Corporation	Non-clinical data -RD-048-Histological Testing of CSPG Clearance	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -RD-049-Clearance of NGF by Detergent Processing	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-005-Validation of the Corporate Quality Folder Security	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-007-Evaluation of Mediatech Data on 20 L Plastic Film used for Processing Solution Storage	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-008-Stability Study on Mediatech Solutions A, B and D	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-009-CS56 Staining Effectiveness Test Run Summary	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-012-Determination of Foil/Mylar Pouch Sealing Parameters and Integrity Testing Regimen	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-013-Determination of Burst Criteria for Tyvek/Mylar Pouch Integrity Testing Regimen	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-014-Qualification Protocol and Final Report of Sanyo Pharmaceutical Refrigerator SN 6081303 ID AX-027	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-015-Qualification Protocol and Final Report of Shel Lab Orbital Shaking Incubator SN# 10099606, ID# AX-021	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-016-Qualification Protocol and Final Report of Shel Lab Orbital Shaking Incubator SN# 10099806, ID# AX-023	Owned*	N/A	Yes

Owner or Licensee of IP	Type of IP (e.g., patent, TM, ©, mask work) or License Agreement(1)	Owned or Licensed?	Anticipated Expiration Date (if a License, expiration of License and Licensed Property)	Material IP?
AxoGen Corporation	Non-clinical data -VP-017-Qualification Protocol and Final Report of Shel Lab Orbital Shaking Incubator SN# 04004206, ID# AX-001	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-018-Qualification Protocol and Final Report of Sanyo -86oC Freezer SN# 60812908, ID# AX-004	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-019-Qualification Protocol and Final Report of Sanyo -86oC Freezer SN# 60812909, ID# AX-005	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-020-Qualification Protocol and Final Report of Sanyo -86oC Freezer SN# 60812913, ID# AX-003	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-021-Initial Biocompatibility Testing for AG-T-1 Nerve Grafts	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-022-Comparative Muscle Implantation Study with Negative Control - 6 weeks -Product Code AG-T-1	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-023-AxoGuard Handling Equivalency Study	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-025-Qualification Protocol and Final Report of Shel Lab Orbital Shaking Incubator SN# 10099506, ID# AX-022	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-026-1, 2, & 3 Year Shelf-Life Package Validation Testing AG-T-1 Nerve Graft Packaging	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-027-Biocompatibility Testing of the Avance Peripheral Nerve Graft	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-029-AG-T-1 Debridement Process Performance Qualification	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-030-AppTec-Biological Safety Cabinet IQ/OQ/PQ for AX-026	Owned*	N/A	Yes

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AxoGen Corporation	Non-clinical data -VP-031-AppTec-Biological Safety Cabinet IQ/OQ/PQ for AX-025	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-032-Evaluation of Thawing AVANCE Peripheral Nerve Grafts	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-033-Thermal Performance Qualification of the ThermoSafe® Insulated Shipper Model # 615	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-034-Thermal Performance Qualification of the ThermoSafe® Insulated Shipper Model # 326	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-035-AG-T-1 Processing and Packaging Performance Qualification	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-036-Evaluation of Enzyme A from Alternative Manufacturers for Use in Production	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-037-Sterilization Validation for the Avance Product Family	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-038-IQ/OQ for AccuSeal Impulse Sealer AX-020-AppTec St. Paul Facility	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-039-Process Qualification of Final AG-T-1 Product Packaging	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-040-IQ/OQ for BT_1000 Burst Tester AX-048-AppTec St. Paul Facility	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-041-User Handling Qualification of AG-T-1	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-042-Thermal Performance Qualification of the ThermoSafe® Insulated Shipper Model # E186	Owned*	N/A	Yes

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AxoGen Corporation	Non-clinical data -VP-043-Incubator AX-001 Empty Chamber Thermal Mapping	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-044-Incubator AX-021 Empty Chamber Thermal Mapping	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-045-Evaluation of AG-T-1 Nerve Grafts from Processing Performance Qualification	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-046-AG-T-1 Pilot Production Run Report	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-047-System Validation Master Plan: Microsoft Dynamics GP 9.00.0281 Implementation	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-048-Validation of an Analytical Method for Triton X-200 using HPLC-MS	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-049-IQ/OQ for Zebra Printer AX-066	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-050-Validation of Zebra Printer AX-066	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-051-Validation of Sandwich ELISA for Detection of Chondroitinase ABC (EN-026) Residuals	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-052-AG-T-1 2009 Gamma Irradiation Yearly Dose Re-Mapping	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-053-Sanyo Freezer Final Report AX-068	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-054-Sanyo Freezer Final Report AX-069	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-055-Sanyo Freezer Final Report AX-070	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-056-Sanyo Freezer Final Report AX-073	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-057-AG-T-1 Labeling Process Performance Qualification	Owned*	N/A	Yes

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AxoGen Corporation	Non-clinical data -VP-058-IQ/OQ for Zebra Printer AX-071	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-059-Summary Report: Non-Immunogenicity of AG-T-1 Nerve Graft	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-060-Residual Enzyme Validation: Chondroitinase ABC and AG-T-1 Nerve Grafts	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-061-Dose Map Report AG-T-1 in SCA Thermosafe E-186 Shipping Container	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-062-AppTec Cleaning Practices, Isolette L-145 Qualification and Isolette L-145 Environmental Monitoring Report	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-063-Washington University Handling Report	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-064-Bioburden Equivalency Investigation -AG-T-1 XXXX70 product codes	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-065-AG-T-1 Risk Management -FMEA [Application, Design and Process]	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-066-Validation of Labeling Software	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-067-Summary Report: Functional Recovery Support for AG-T-1 Nerve Graft	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-068-AG-T-1 Processing: Detergent Virucidal Effects	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-069-1, 2, & 3 Year Real Time Shelf-Life Study of AG-T-1 Peripheral Nerve Graft	Owned*	N/A	Yes

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AxoGen Corporation	Non-clinical data -VP-070-AxoGaurd Receiving, Releasing, Ordering and Shipping Qualification	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-071-Sanyo Freezer Loss of Power Study	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-072-Validation of Labeling Software PS-001 R02	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-073-Installation and Operational Qualification of Accu-Seal Model 730 [AX-076] Next Generation Medical Sealer	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-074-Process Qualification Protocol for the ACCU-SEAL Model 730-1B6E (AX-076) Medical Sealer (SN 42487)	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-075-Installation and Certification of AX-083 Labconco Purifier Delta Class II, Type A2 Safety Cabinet	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-076-Installation and Certification of AX-084 Labconco Purifier Delta Class II, Type A2 Safety Cabinet	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-077-Installation and Qualification of AX-085 Shel Lab SI6R Orbital-Shaking Incubator	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-078-Installation and Qualification of AX-086 Shel Lab SI6R Orbital-Shaking Incubator	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-079-Installation and Qualification of AX-087 Shel Lab SI6R Orbital-Shaking Incubator	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-080-Installation and Qualification of AX-088 Shel Lab SI6R Orbital-Shaking Incubator	Owned*	N/A	Yes

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AxoGen Corporation	Non-clinical data -VP-081-IQ/OQ for ELPRO ECOLOG “LP4” Datalogger Installation in Sid Martin Biotechnology Building Room 137 and 170 (Linked to AX-091)	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-082-PQ for ELPRO ECOLOG “LP4” Datalogger Installation in Sid Martin Biotechnology Building Room 137 and 170	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-083-AG-T-1 2007 3rd Quarterly Gamma Irradiation Dose Audit	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-085-EN-004 Solution C Lot 98198013: Filtered versus Manual Comparison	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-086-Summary Report: Support for 5 cm AG-T-1 Nerve Grafts	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-088-5 Year Accelerated and Real Time Aging for AG-T-1 Product	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-089-Installation and Qualification of AX-093 Shel Lab SI6R Orbital-Shaking Incubator	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-090-Installation and Qualification of AX-094 Shel Lab SI6R Orbital-Shaking Incubator	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-091-Installation and Qualification of AX-095 Shel Lab SI6R Orbital-Shaking Incubator	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-092-Installation and Qualification of AX-096 Shel Lab SI6R Orbital-Shaking Incubator	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-093-AG-T-1 2007 4th Quarterly Gamma Irradiation Dose Audit	Owned*	N/A	Yes

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AxoGen Corporation	Non-clinical data -VP-094-SI6R Orbital Shaking Incubator Temperature Mapping Report	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-095-Re-Qualification Protocol and Final Report of Sanyo -80oC Freezer SN# 60812913, ID# AX-003	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-097-Requalification of AX-048 BT-1000 Burst Tester	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-098-LifeNet: AG-T-1 Debridement Process Performance Qualification	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-099-Installation and Operational Qualification of Sanyo -86oC Freezer SN# 70611640, ID# AX-092	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-100-Installation, Operational and Process Qualification of Accu-Seal Model 730 Next Generation Medical Sealer	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-101-Validation of Labeling Program - PS-001 R04	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-102-Burst Tester 1 Qualificationat LifeNet (BT-1000 Burst Tester)	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-104-AG-T-1 Processing and Packaging Performance Qualification LifeNet Ward Court Facility	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-105-Installation and Qualification of SN#11022307, ID# LNH2 Shel Lab SI6R Orbital-Shaking Incubator	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-106-Installation and Qualification of SN#01016208, ID# LNH4 Shel Lab SI6R Orbital-Shaking Incubator	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-107-Installation and Qualification of SN#11022207, ID# LNH3 Shel Lab SI6R Orbital-Shaking Incubator	Owned*	N/A	Yes

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AxoGen Corporation	Non-clinical data -VP-108-Installation and Qualification of SN#01016108, ID# LNH1 Shel Lab SI6R Orbital-Shaking Incubator	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-109-Installation and Qualification ofSN#01015508 LNH7 Shel Lab SI6R Orbital-Shaking Incubator	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-110-Installation and Qualification of SN 01015908 LNH6 Shel Lab SI6R Orbital-Shaking Incubator	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-111-Installation and Qualification of SN#11022507, ID# LNH5 Shel Lab SI6R Orbital-Shaking Incubator	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-112-Installation and Qualification of SN# 11022607 LNH 8 Shel Lab SI6R Orbital-Shaking Incubator	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-113-Sterilization Validation for the AVANCE Product Family: LifeNet Facility	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-114-Installation and Qualification of SN#01015408 Shel Lab SI6R Orbital-Shaking Incubator	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-115-Installation and Qualification of SN#01015708 Shel Lab SI6R Orbital-Shaking Incubator	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-116-Installation and Qualification of SN#01015808 Shel Lab SI6R Orbital-Shaking Incubator	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-117-Installation and Qualification of SN#01016308 Shel Lab SI6R Orbital-Shaking Incubator	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-118-Installation and Qualification of SN#01015608 Shel Lab SI6R Orbital-Shaking Incubator	Owned*	N/A	Yes

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AxoGen Corporation	Non-clinical data -VP-119-Installation and Qualification of SN#01015208 Shel Lab SI6R Orbital-Shaking Incubator	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-120-Installation and Qualification of SN#01015308 Shel Lab SI6R Orbital-Shaking Incubator	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-121-Installation and Qualification of SN#01016008 Shel Lab SI6R Orbital-Shaking Incubator	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-122-Installation and Qualification of SN#01015108 Shel Lab SI6R Orbital-Shaking Incubator	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-123-Installation and Qualification of SN#01015008 Shel Lab SI6R Orbital-Shaking Incubator	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-124-Interim Report: 1-Year Real-Time Package Validation Testing for the AG-T-1 Nerve Graft	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-125-AG-T-1 2008 1st Quarterly Gamma Irradiation Dose Audit	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-126-Requalification of the Sandwich ELISA for Chondroitinase ABC Residuals in Nerve Grafts	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-127-Qualification Protocol and Final Report of Sanyo-86*C Freezer SN#08020041, ID#AX-099	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-128-Qualification Protocol and Final Report of Sanyo-86*C Freezer SN#08020044, ID#AX-090	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-129-Chamber Thermal Mapping: Sanyo -86ºC Freezer SN# 70611640, ID# AX-092	Owned*	N/A	Yes

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AxoGen Corporation	Non-clinical data -VP-130-AG-T-1 Process Improvement #1 Processing and Packaging Qualification	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-131-AxoGuard User Handling	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-132-Process Bioburden Investigation Protocol	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-133-Process Cytotoxicity Protocol	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-134-Process Residual Enzyme Protocol	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-135-Process Handling Equivalency Protocol	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-136-Qualification of the Hyclone-Thermofisher Solution C Reagent	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-137-AG-T-1 2008 2nd Quarterly Gamma Irradiation Dose Audit	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-138-AG-T-1 2008 2nd Quarterly Gamma Irradiation Dose Audit for LifeNet Processing	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-140-2007-2008 Histology Summary Report	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-141-EN-004 Solution C Analysis	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-142-Installation, Operational, and Performance Qualification of the Sanyo -80 C Freezer	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-143-Installation, Operational, and Performance Qualification of the Sanyo Pharmaceutical Refrigerator	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-144-Installation, Operational, and Performance Qualification of the Shel Lab Orbital Shaking Incubator	Owned*	N/A	Yes

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AxoGen Corporation	Non-clinical data -VP-145-AG-T-1 2008 3nd Quarterly Gamma Irradiation Dose Audit for WuXi AppTec Processing	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-146-AG-T-1 2008 3nd Quarterly Gamma Irradiation Dose Audit for LifeNet	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-147-AG-T-1 Process Improvement #1 Operations Qualification, LifeNet	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-148-Stability Study for Hyclone Solutions A, B, C, D and F	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-149-Packaging User Qualification for AxoGuard	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-150-Shipper Qualification of AxoGuard Finished Product	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-152-September 2008 Steris Isomedix Dose Mapping	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-153-Verifying the use of Tissue Tek VIP processor for processing of histology samples at Histology Tech Services, Inc.	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-154-Mini Pak'R Air Cushion Machine Validation Protocol	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-155-AxoGuard Nerve Wrap Distribution FMEA	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-156-AG-T-1 2008 4th Quarterly Gamma Irradiation Dose Audit for LifeNet	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-157-Validation of Donor Database PS-002 R00	Owned*	N/A	Yes

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AxoGen Corporation	Non-clinical data -VP-158-AxoGen Dose Confirmation Study for AVANCE Nerve Graft (CAPA 08-005)	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-159-AX-004 Qualification Report	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-160-1, 2, & 3 Yr RT Shelf-Life Study of AG-T-1 Peripheral Nerve Graft, 1 week Process	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-161-Determination of Ethylene Oxide Residuals for Processing Tubing	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-162-BioStorage Shipping Qualification	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-163-AG-T-1 2009 1st Quarterly Gamma Irradiation Dose Audit for LifeNet	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-165-Inspection Report Review BSC 7 (120868013108) Nuaire Hood (NU-425-500)	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-166-Inspection Report Review BSC 6 (120874013108) Nuaire Hood (NU-425-500)	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-167-Inspection Report Review BSC 4 (121151021308) Nuaire Hood (NU-425-500)	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-168-Inspection Report Review BSC 5 (102906020408) Nuaire Hood (NU-425-500)	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-169-IQ/OQ Report BSC 1 (071179035) Labconco Hood (3460001)	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-170-IQ/OQ Report BSC 2 (071178797) Labconco Hood (3460001)	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-171-IQ/OQ Report BSC 3 (071179045) Labconco Hood (3460001)	Owned*	N/A	Yes

Owner or Licensee of IP	Type of IP (e.g., patent, TM, ©, mask work) or License Agreement(1)	Owned or Licensed?	Anticipated Expiration Date (if a License, expiration of License and Licensed Property)	Material IP?
AxoGen Corporation	Non-clinical data -VP-172-Validation of Labeling Program - 5 year expiration date	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-173-Re-Qualification of the Sanyo -80 C Freezer	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-174-Re-Qualification of the Sanyo Pharmaceutical Refrigerator	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-175-Re-Qualification of the Shel Lab Orbital Shaking Incubator	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-176-Vacuum Filtration of Enzyme A	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-177-IQ/OQ/PQ Report of the Shel Lab Orbital Shaking Incubator S/N 03003409 (IN-19)	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-178-Preventive Maintenance Report of the Shel Lab Orbital Shaking Incubator S/N 01015008 (IN-15)	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-179-AG-T-1 2009 2nd Quarterly Gamma Irradiation Dose Audit for LifeNet	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-180-AG-T-1 2010 1st Quarterly Gamma Irradiation Dose Audit for LifeNet	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-181-Dose Map Report for Quarterly Dose Audits	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-184-Detergent Dilution Calculation	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-185-Meta-Analysis of Reported Two-Point Discrimination Outcomes from the use of Nerve Cuffs and Avance® Nerve Graft for the Reconstruction of Digital Nerve Discontinuities of the Hand of 5 mm or Greater	Owned*	N/A	Yes

Owner or Licensee of IP	Type of IP (e.g., patent, TM, ©, mask work) or License Agreement(1)	Owned or Licensed?	Anticipated Expiration Date (if a License, expiration of License and Licensed Property)	Material IP?
AxoGen Corporation	Non-clinical data -VP-186-Product Dose Mapping for Off Carrier Processing for AxoGen AG-T-1 Product -Steris Isomedix Libertyville IL	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-187-Process Re-Qualification, Lifenet	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-188-LifeNet Incubators Qualifications	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-190-AG-T-1 2010 3rd Quarterly Gamma Irradiation Dose Audit	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-192-Product Dose Re-Mapping Report for AxoGen AG-T-1 Product -Steris North Libertyville IL	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-193-AG-T-1 2011 1Q Quarterly Gamma Irradiation Dose Audit	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-194-Determination of Ethylene Oxide Residuals for Processing Tubing: 2011	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-195-AG-T-1 2011 2Q Quarterly Gamma Irradiation Dose Audit	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-196-Meta-Analysis of Reported Outcomes for NeuraGen Nerve Guide and Avance Nerve Graft for the Reconstruction of Nerve Discontinuities	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-197-IQ/OQ/PQ Houston	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-198-AG-T-1 2011 3Q Quarterly Gamma Irradiation Dose Audit	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -VP-199-2011 Product Dose Re-Mapping Report for AxoGen AG-T-1 Product-Steris North Libertyville IL	Owned*	N/A	Yes

Owner or Licensee of IP	Type of IP (e.g., patent, TM, ©, mask work) or License Agreement(1)	Owned or Licensed?	Anticipated Expiration Date (if a License, expiration of License and Licensed Property)	Material IP?
AxoGen Corporation	Non-clinical data -AGD-CF-01-Early Customer Feedback from Implantation of AxoGuard Nerve Connector and AxoGuard Nerve Protector	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -AXGN CP-003-A pilot study to assess the technical feasibility of robotic assisted Laparoscopic Interpositioning of the AVANCE Nerve Graft for Reconstruction of the Neurovascular Bundle, with a twenty-four month follow-up term to assess efficacy	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -ANG-CP-004-A multicenter, prospective, randomized, comparative study of Hollow Nerve Conduit a,d Avance Nerve Graft evauating recovery outcomes of Nerve Repair in the hand. (Change)	Owned*	N/A	Yes
AxoGen Corporation	Non-clinical data -ANG-CP-005 -A multicenter, retropective study of Avance Nerve Graft utilization, evaluations and outcomes in peripheral nerve injury repair (RANGER)	Owned*	N/A	Yes
AxoGen Corporation	Clinical data -*A Multicenter Retrospective Study of Avance® Nerve Graft Utilization, Evaluations and Outcomes in Peripheral Nerve Injury Repair (RANGER)*. The Ranger study, the Avance® Nerve Graft registry, has completed the first data milestone and continues to enroll additional cases.	Owned*	N/A	Yes
AxoGen Corporation	Clinical data -*A Multicenter, Prospective, Randomized, Comparative Study of Hollow Nerve Conduit and Avance® Nerve Graft Evaluation Recovery Outcomes of the Nerve Repair in the Hand (CHANGE)*. The CHANGE study is being run as a pilot comparative study and enrollment is still in process.	Owned*	N/A	Yes
AxoGen Corporation	Clinical data -*Cavernous Nerve Reconstruction Using Avance® Nerve Graft in Subjects Who Undergo Robotic Assisted Prostatectomy for Treatment of Prostate Cancer.* This study is being conducted to assess the technical feasibility of robotic assisted implantation of Avance® Nerve Graft and the long term outcomes for continence and potency in men undergoing radical prostatectomy. Enrollment is still in process.	Owned*	N/A	Yes

(1) Unless otherwise reflected in the Schedule, all intellectual property is registered in the United States *For clarity, some or all part of such data may be jointly owned by the Institution/Principal Investigator that conducted the study.

Policy	Carrier	Policy #	Period	Amount	Deductible
Workers Compensation					
Employers Liability	Travelers	UB7A746705	10/31/11-10/31/12	$1,000,000	—
Auto Liability	Travelers	BA5A90456A	10/31/11-10/31/12	$1,000,000	$1,000
General Liability	Marine Travelers	TT06306983	10/31/11-10/31/12	$1M/$2M	$1,000
Umbrella	St Paul Fire & Marine Travelers	TT06306983	10/31/11-10/31/12	$4,000,000	$1,000
Property	St Paul Fire & Marine Travelers	TT06306983	10/31/11-10/31/12	$6,091,500	$500
Product Liability	St Paul Fire & Marine Travelers	TT06306984	10/31/11-10/31/12	$5,000,000	$50,000
Directors & Officers	SH Smith & Co.	11053901	9/30/12-9/30/13	$3,000,000	$75,000
Employment Practices	SH Smith & Co.	82244603	9/30/12-9/30/13	$1,000,000	$10,000

SCHEDULE 3.15

COMPANY'S PRINCIPAL PLACE OF BUSINESS AND CHIEF EXECUTIVE OFFICE

13859 Progress Blvd., Suite 100 Alachua, FL 32615 SCHEDULE 3.19

The Company has been working on getting reinstated with the Illinois Secretary of State, the Dept of Revenue and the Workforce Commission (Unemployment Taxes) for about 8 months. The documents that have been submitted by the Company have been rejected more than once and the Company subsequently engaged its public accounting firm to help get this resolved. The Company also changed its registered agent in the state of Illinois, which registered agent is now also assisting in this resolution. Once reinstated, the Company will have some nominal state taxes due for state income tax and unemployment taxes. The Company has already prepaid the Annual report fees associated with reinstatement with the Secretary of State's office. Total Taxes due are less than $5,000.

Exhibit 10.50

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

CREDIT AGREEMENT

dated as of November 2, 2012

among

WELLSTAT DIAGNOSTICS, LLC

as the Borrower,

PDL BIOPHARMA, INC.,

as the Lender,

and

PDL BIOPHARMA, INC.,

as the Agent

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Exhibits

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CREDIT AGREEMENT

This Credit Agreement dated as of November 2, 2012, (as amended, restated or otherwise modified from time to time, this "Agreement") is made among WELLSTAT DIAGNOSTICS, LLC, a Delaware limited liability company (the "the Borrower"), PDL BIOPHARMA, INC. (the "the Lender"), and PDL BIOPHARMA, INC., not individually, but as the Agent (as defined below).

The Borrower has agreed to enter into this Agreement with the Lender and the Agent evidencing its agreement to incur the Loan, and in connection therewith, to make the representations and warranties, covenants and undertakings as hereinafter set forth.

Section 1. Definitions; Interpretation.

1.1 Definitions

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

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

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

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

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

"Applicable IRR Amount" means on or before December 31, 2014, the IRR * * * Return Amount, and thereafter the IRR * * * Return Amount.

"Applicable Law" means all applicable provisions of all (i) constitutions, treaties, statutes, laws, rules, regulations and ordinances of any Governmental Authority, (ii) authorizations, consents, approvals, permits or licenses issued by, or a registration or filing with,

any Governmental Authority and (iii) orders, decisions, judgments, awards and decrees of any Governmental Authority (including common law and principles of public policy).

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

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

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

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

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

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

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

"Cash Equivalent Investment" means, at any time, (a) any evidence of Debt, maturing not more than one year after such time, issued or guaranteed by the United States Government or any agency thereof, (b) commercial paper, or corporate demand notes, in each case rated at least A-l by Standard & Poor's Ratings Group or P-l by Moody's Investors Service, Inc., (c) any certificate of deposit (or time deposit represented by a certificate of deposit) or banker's acceptance maturing not more than one year after such time, or any overnight Federal Funds transaction that is issued or sold by a commercial banking institution that is a member of the Federal Reserve System and has a combined capital and surplus and undivided profits of not less than $500,000,000, (d) any repurchase agreement entered into with any commercial banking institution of the nature referred to in clause (c) above which (i) is secured by a fully perfected security interest in any obligation of the type described in any of clauses (a) through (c) above and (ii) has a market value at the time such repurchase agreement is entered into of not less than 100% of the repurchase obligation of such commercial banking institution thereunder, (e) money market accounts or mutual funds which invest predominantly in assets satisfying the foregoing requirements and (f) other short term liquid investments approved in writing by the Agent.

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

(a) any "person" or "group" (as such terms are used in Section 13(d) and 14(d) of the Securities Exchange Act of 1934, but excluding any employee benefit plan of such person or its subsidiaries, and any person or entity acting in its capacity as trustee, agent or other fiduciary or administrator of any such plan) (other than the Holders) becomes the "beneficial owner" (as defined in Rules 13-d and 13d-5 under the Securities Exchange Act of 1934, except that a person or group shall be deemed to have "beneficial ownership" of all Stock that such person or group

has the right to acquire (such right, an "option right"), whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of fifty percent (50%) or more of the Stock and Stock Equivalents of the Borrower entitled to vote for members of the board of directors or equivalent governing body of the Borrower on a fully diluted basis (and taking into account all such securities that such person or group has the right to acquire pursuant to any option right);

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

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

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

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

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

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

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

"Collateral Documents" means, collectively, the Guarantee and Pledge Agreement, the Security Agreement (including as may be supplemented by the joinder of any Subsidiary of the Borrower thereto), any Subsidiary Guaranty, and each other agreement or instrument pursuant to or in connection with which the Holders, any Loan Party or any other Person grants a security

interest in any Collateral to the Agent for the benefit of the Lender or pursuant to which any such security interest in Collateral is perfected, each as amended, restated or otherwise modified from time to time in accordance with the terms hereof and thereof.

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

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

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

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

"Control Agreement" means a tri-party deposit account, securities account or commodities account Control Agreement by and among the applicable Loan Party, the Agent and the depository, securities intermediary or commodities intermediary, and each in form and substance satisfactory in all respects to the Agent in its reasonable discretion and in any event providing to the Agent "control" of such deposit account, securities or commodities account within the meaning of Articles 8 and 9 of the UCC.

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

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

"Debt" of any Person means, without duplication, (a) all indebtedness of such Person for borrowed money, (b) all indebtedness evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such Person as lessee under Capital Leases which have been or should be recorded as liabilities on a balance sheet of such Person in accordance with GAAP, (d)

all obligations of such Person to pay the deferred purchase price of property or services (excluding trade accounts payable in the ordinary course of business), (e) all indebtedness secured by a Lien on the property of such Person, whether or not such indebtedness shall have been assumed by such Person (with the amount thereof being measured as the fair market value of such property), (f) all obligations, contingent or otherwise, with respect to letters of credit (whether or not drawn), banker's acceptances and surety bonds issued for the account of such Person, (g) all Hedging Obligations of such Person, (h) all Contingent Obligations of such Person, (i) all non-compete payment obligations and earn-out, purchase price adjustment and similar obligations, (j) all obligations of such Person in respect of Disqualified Capital Stock issued by such Person, (k) all indebtedness of the types listed in (a) through (j) and (l) of any partnership of which such Person is a general partner and (l) all obligations of such Person under any synthetic lease transaction, where such obligations are considered borrowed money indebtedness for tax purposes but the transaction is classified as an operating lease in accordance with GAAP.

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

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

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

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

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

"Environmental Laws" means all present or future federal, state, provincial or local laws, statutes, common law duties, rules, regulations, ordinances and codes, including all amendments, together with all administrative orders, directed duties, requests, licenses, authorizations and permits of, and agreements with, any Governmental Authority, in each case relating to

any matter arising out of or relating to health and safety, or pollution or protection of the environment, natural resources or workplace, including any of the foregoing relating to the presence, use, production, recycling, reclamation, generation, handling, transport, treatment, storage, disposal, distribution, discharge, release, emission, control, cleanup or investigation or management of any Hazardous Substance.

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

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

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

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

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

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

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

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

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

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

"Gross Revenue" means, for any period of determination, the sum of the following for such period: (i) the amounts invoiced and recognized as revenue in accordance with GAAP by the Borrower, its Subsidiaries or any of their Affiliates with respect to (a) the sale of Product to a Third Party by the Borrower, its Subsidiaries or any of their Affiliates, (b) the sale, distribution or other commercial use of Product by such Third Party in connection with any marketing, royalty, manufacturing, co-promotion, co-development, or other strategic arrangements, (c) the license, assignment or other transfer of Intellectual Property to market, sell, lease or transfer Product or any other product utilizing such Intellectual Property and (ii) any collections in respect of write-offs or allowances for bad debts in respect of items described in the preceding

clause (i). For purposes of prevention of duplication, "Gross Revenue" shall not include amounts invoiced by Affiliates, distributors, wholesalers or other Persons acting in similar capacities to the extent that such amounts are duplicative.

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

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

"Hedging Obligation" means, with respect to any Person, any liability of such Person under any interest rate, currency or commodity swap agreement, cap agreement or collar agreement, and any other agreement or arrangement designed to protect a Person against fluctuations in interest rates, currency exchange rates or commodity prices. The amount of any Person's obligation in respect of any Hedging Obligation shall be deemed to be the incremental obligation that would be reflected in the financial statements of such Person in accordance with GAAP.

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

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

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

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

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

"IP Ancillary Rights" means, with respect to an item of Intellectual Property all foreign counterparts to, and all divisionals, reversions, continuations, continuations-in-part, reissues,

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

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

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

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

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

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

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

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

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

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

"Lien" means, with respect to any Person, any interest granted by such Person in any real or personal property, asset or other right owned or being purchased or acquired by such Person which secures payment or performance of any obligation and shall include any mortgage, lien, encumbrance, charge or other security interest of any kind, whether arising by contract, as a matter of law, by judicial process or otherwise.

"Loan" means the term loan from the Lender in a principal amount of $40,000,000 made to the Borrower on the Closing Date pursuant to Section 2.1.1.

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

"Loan Party" means the Borrower and each Subsidiary of the Borrower that has executed and delivered a Subsidiary Guaranty and Security Agreement.

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

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

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

"Minimum 2017 Revenue Amount" means * * *.

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

"Net Revenue" means, for any period of determination, the difference between (a) Gross Revenue for such period, less (b) the sum, with respect to the items described in clauses (i) and

(ii) of the definition of Gross Revenue, without duplication, of (i) bona fide cash, trade discounts and rebates actually granted or paid to Third Parties in accordance with customary industry standards, (ii) allowances and adjustments actually credited to customers for Product that is spoiled, damaged, outdated, obsolete, returned or otherwise recalled, but only if and to the extent the same are in accordance with sound business practices and not in excess of customary industry standards, (iii) charges for freight, postage, shipping, delivery, service and insurance charges, to the extent invoiced, (iv) taxes, duties or other governmental charges to the extent invoiced, (v) write-offs or allowances for bad debts, (vi) rebates and chargebacks and other price reduction programs, and (vii) other payments required by Applicable Law, in each case as determined in accordance with GAAP.

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

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

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

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

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

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

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

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

"Permitted Refinancing" means any replacement, renewal, refinancing or extension of any existing Debt, in any such case, permitted by this Agreement that (a) does not exceed the aggregate principal amount (plus accrued interest and any applicable premium and associated fees and expenses) of the Debt being replaced, renewed, refinanced or extended, (b) does not have a weighted average life to maturity at the time of such replacement, renewal, refinancing or extension that is less than the weighted average life to maturity of the Debt being replaced, renewed, refinanced or extended, (c) does not rank at the time of such replacement, renewal, refinancing or extension senior to the Debt being replaced, renewed, refinanced or extended, and (d) does not contain terms (including, without limitation, terms relating to security, amortization, interest rate, premiums, fees, covenants, subordination, event of default and remedies) that are less favorable to any Loan Party or adverse to the interests of the Agent and the Lender than those applicable to the Debt being replaced, renewed, refinanced or extended.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1.2 Interpretation. In the case of this Agreement and each other Loan Document, (a) the meanings of defined terms are equally applicable to the singular and plural forms of the defined terms; (b) Annex, Exhibit, Schedule and Section references in each Loan Document are to the particular Annex, Exhibit, Schedule and Section of such Loan Document unless otherwise specified; (c) the term "including" is not limiting and means "including but not limited to"; (d) in the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including"; the words "to" and "until" each mean "to but excluding", and the word "through" means "to and including"; (e) unless otherwise expressly provided in such Loan Document, (i) references to agreements and other contractual instruments shall be deemed to include all subsequent amendments and other modifications thereto, but only to the extent such amendments and other modifications are not prohibited by the terms of any Loan Document, and (ii) references to any statute or regulation shall be construed as including all statutory and regulatory provisions amending, replacing, supplementing or interpreting such statute or regulation; (f) this Agreement and the other Loan Documents may use several different

limitations, tests or measurements to regulate the same or similar matters, all of which are cumulative and each shall be performed in accordance with its terms; and (g) this Agreement and the other Loan Documents are the result of negotiations among and have been reviewed by counsel to the Agent, the Borrower, the Lender and the other parties hereto and thereto and are the products of all parties; accordingly, they shall not be construed against the Agent or the Lender merely because of the Agent's or the Lender's involvement in their preparation. Any reference in any Loan Document to a Permitted Lien is not intended to subordinate or postpone, and shall not be interpreted as subordinating or postponing, or as any agreement to subordinate or postpone, any Lien created by any of the Loan Documents to any Permitted Lien.

Section 2. Credit Facilities.

2.1. Loan

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2.1.1. Loan

. On the terms and subject to the conditions of this Agreement, the Lender agrees to lend to the Borrower on the Closing Date the entire amount of its Commitment, after which the Commitment shall terminate.

2.1.2. General

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

2.2. Loan Accounting

2.2.1. Recordkeeping

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

2.2.2. Notes

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

2.3. Interest

2.3.1. Interest Rate

. The Borrower promises to pay interest on the unpaid principal amount of the Loan for the period commencing on the Closing Date until the Loan is Paid in Full at a rate payable in cash or in kind, at the election of the Borrower, per annum equal to 5.00%. The foregoing notwithstanding, (i) at any time an Event of Default exists, if requested by the Agent or the Lender, the interest rate then applicable to the Loan shall be increased by two percent (2.00%) per annum (any such increased rate, the "Default Rate"), (ii) any such increase

may thereafter be rescinded by the Lender, and (iii) upon the occurrence of an Event of Default under Section 8.1.1 or 8.1.3, any such increase described in the foregoing clause (i) shall occur automatically. In the event that the Obligations are not Paid in Full as of the Maturity Date, or in the event that the Obligations shall be declared or shall become due and payable pursuant to Section 8.2, the Obligations shall bear interest subsequent thereto at the Default Rate and such interest shall be payable in cash on demand. In no event shall interest or other amounts payable by the Borrower to the Lender hereunder exceed the maximum rate permitted under Applicable Law, and if any such provision of this Agreement is in contravention of any such law, (x) any amounts paid hereunder shall be deemed to be and shall be applied against the principal amount of the Obligations to the extent necessary such that the amounts paid hereunder do not exceed the maximum rate under Applicable Law and (y) such provision shall otherwise be deemed modified as necessary to limit such amounts paid to the maximum rate permitted under Applicable Law.

2.3.2. Interest Payments

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

2.3.3. Computation of Interest

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

2.4. Prepayment

2.4.1. Voluntary Prepayment

(a) The Borrower may, on or before December 31, 2014, on at least three (3) Business Days' written notice to the Agent, not later than 12:00 noon New York City time on such day, prepay the Loan in full, provided that the amount so prepaid as of the date of prepayment is equal to the IRR * * * Return Amount.

(b) The Borrower may, after December 31, 2014, on at least three (3) Business Days' written notice to the Agent, not later than 12:00 noon New York City time on such day, prepay the Loan in full, provided that the amount so prepaid as of the date of prepayment is equal to the IRR * * * Return Amount.

2.4.2. Payments in Respect of the Assigned Interests

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

2.5. Payment Upon Maturity

. The Loan shall be Paid in Full on the Maturity Date by and upon payment in full of the Applicable IRR Amount. The parties hereto agree that the amounts payable hereunder in respect of the Applicable IRR Amount are a reasonable

calculation of the parties' expected return to the Lender arising out of the transactions described herein, and, in the case of a prepayment of the Loans, foregone returns, and agree that the payment of such amounts constitute consideration pursuant to this Agreement that the parties agree is fair and reasonable.

2.6. Making of Payments

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

2.7. Application of Payments and Proceeds

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

2.8. Payment Dates

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

2.9. Set-off

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

2.10. Currency Matters

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

Section 3. Yield Protection.

3.1. Taxes

(a) Except as otherwise provided in this Section 3.1, all payments of principal and interest on the Loan and all other amounts payable under any Loan Document shall be made free and clear of and without deduction or withholding for any present or future income, excise, stamp, documentary, property or franchise taxes or other taxes, fees, duties, levies, withholdings or other charges of any nature whatsoever imposed by any taxing authority, including any interest, additions to tax or penalties applicable thereto ("Taxes"), excluding taxes imposed on or measured by the Lender's net income by the jurisdiction under which the Lender is organized or conducts business (other than

business arising from the Lender having executed, delivered, become a party to, performed its obligations under, received payments under, received or perfected a security interest under, engaged in any other transaction with respect to the Loan or pursuant to or enforced any Loan Document (collectively, "Excluded Taxes" and all such non-Excluded Taxes, "Non-Excluded Taxes")). If any withholding or deduction from any payment to be made by the Borrower hereunder is required in respect of any Taxes pursuant to any Applicable Law (as determined in the good faith reasonable discretion of the Borrower or the Agent), rule or regulation, then the Borrower shall: (i) timely pay directly to the relevant taxing authority the full amount required to be so withheld or deducted; (ii) within thirty (30) days after the date of any such payment of Taxes, forward to the Agent an official receipt or other documentation satisfactory to the Agent evidencing such payment to such authority; and (iii) in the case of Non-Excluded Taxes, pay to the Agent for the account of the Lender such additional amount or amounts as is necessary to ensure that the net amount actually received by the Lender will equal the full amount the Lender would have received had no such withholding or deduction (including withholdings and deductions applicable to any additional sums payable under this Section 3.1) been required.

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

(c) The Borrower shall reimburse and indemnify, within 10 days after receipt of demand therefor (with copy to the Agent), the Agent and the Lender for all Non-Excluded Taxes and Other Taxes (including any additional Taxes imposed by any jurisdiction on amounts payable under this Section 3.1) paid by the Agent or the Lender, or required to be withheld or deducted from a payment to the Agent or the Lender, and any liabilities arising therefrom or with respect thereto (including any penalty, interest or expense), whether or not such Taxes were correctly or legally asserted. A certificate of the Agent or the Lender (or of the Agent on behalf of the Lender) claiming any compensation under this clause (c), setting forth the amounts to be paid thereunder and delivered to the Borrower with copy to the Agent, shall be conclusive, binding and final for all purposes, absent manifest error.

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

3.2. Increased Cost

(a) If, after the Closing Date, the adoption or taking effect of, or any change in, any Applicable Law, rule, regulation or treaty, or any change in the interpretation or administration of any Applicable Law, rule, regulation or treaty by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by the Lender with any request, rule, guideline or directive (whether or not having the

force of law) of any such authority, central bank or comparable agency: (i) shall impose, modify or deem applicable any reserve (including any reserve imposed by the FRB), special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by the Lender; (ii) subject the Lender or the Agent to any Taxes (other than Taxes indemnified pursuant to Section 3.1); or (iii) shall impose on the Lender any other condition affecting its Loan, its Note or its obligation to make the Loan; and the result of anything described in clauses (i) through (iii) above is to increase the cost to (or to impose a cost on) such Lender of making or maintaining its Loan, or to reduce the amount of any sum received or receivable by such Lender under this Agreement or under its Note with respect thereto, then, upon demand by such Lender (which demand shall be accompanied by a statement setting forth the basis for such demand and a calculation of the amount thereof in reasonable detail, a copy of which shall be furnished to the Agent), the Borrower shall pay directly to the Lender such additional amount as will compensate the Lender for such increased cost or such reduction.

(b) If the Lender shall reasonably determine that any change in, or the adoption or phase-in of, any Applicable Law, rule or regulation regarding capital adequacy, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or the compliance by the Lender or any Person controlling the Lender with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on the Lender's or such controlling Person's capital as a consequence of such Lender's Commitments hereunder to a level below that which the Lender or such controlling Person could have achieved but for such change, adoption, phase-in or compliance (taking into consideration the Lender's or such controlling Person's policies with respect to capital adequacy) by an amount deemed by the Lender or such controlling Person to be material, then from time to time, upon demand by the Lender (which demand shall be accompanied by a statement setting forth the basis for such demand and a calculation of the amount thereof in reasonable detail, a copy of which shall be furnished to the Agent), the Borrower shall pay to the Lender such additional amount as will compensate the Lender or such controlling Person for such reduction.

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

3.3. Mitigation of Circumstances

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

3.4. Conclusiveness of Statements; Survival

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

Section 4. Conditions Precedent.

4.1. Loan

. The obligation of the Lender to make the Loan on the Closing Date is subject to the following conditions precedent, each of which shall be satisfactory in all respects to the Agent and the Lender:

4.1.1 Delivery of Loan Documents

. The Borrower shall have delivered the following documents in form and substance satisfactory to the Agent (and, as applicable, duly executed by all Persons named as parties thereto and dated the Closing Date or an earlier date satisfactory to the Agent):

(a) Agreement. This Agreement.

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

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

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

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

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

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

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

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

4.1.2. Payment of Fees, Expenses and Existing Obligations

. The Borrower shall have paid, on or prior to the Closing Date, (i) all fees and expenses owing and payable to the Agent and the Lender as of the Closing Date, including the Closing Fee, (ii) subject to Section 10.3 and without duplication, all fees, expenses and other amounts payable set forth herein and costs and expenses incurred by the Agent and the Lender in connection with the transactions contemplated hereby which are required to be paid by the Borrower and (iii) all Existing Obligations, and shall provide evidence acceptable to the Agent of each of the foregoing.

4.1.3. Representations and Warranties

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

4.1.4. No Default

. No Default or Event of Default shall have occurred and be continuing.

4.1.5. No Material Adverse Change

. Since December 31, 2011, there has been no event or occurrence that has or could reasonably be expected to result in a Material Adverse Effect.

4.1.6 Surviving Debt Subordination Agreement and Acknowledgment

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

4.1.7. Execution and Delivery of Letter Agreement

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

Section 5. Representations and Warranties.

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

5.1. Organization

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

5.2. Authorization; No Conflict

. Each of the Borrower and each other Loan Party is duly authorized to execute and deliver each Loan Document to which it is a party, the Borrower is duly authorized to borrow monies hereunder, the granting of the security interests pursuant to the Collateral Documents is within the corporate purposes of the Borrower and each other Loan Party party thereto, and the Borrower and each other Loan Party is duly authorized to perform its Obligations under each Loan Document to which it is a party. The execution, delivery and performance by the Borrower of this Agreement and by each of the Holders, the Borrower and each Loan Party of each Loan Document to which it is a party, and the borrowings by the Borrower hereunder, do not and will not (a) require any consent or approval of any Governmental Authority (other than (i) any consent or approval which has been obtained and is in full force and effect and (ii) recordings and filings in connection with the Liens granted to the Agent under the Collateral Documents), (b) conflict with (i) any provision of Applicable Law, (ii) the charter, by-laws, limited liability company agreement, partnership agreement or other organizational documents of any Loan Party or (iii) any agreement, indenture, instrument or other document, or any judgment, order or decree, which is binding upon the Holders or any

Loan Party or any of their respective properties or (c) require, or result in, the creation or imposition of any Lien on any asset of the Holders, the Borrower or any other Loan Party (other than Liens in favor of the Agent created pursuant to the Collateral Documents).

5.3. Validity; Binding Nature

. Each of this Agreement and each other Loan Document to which the Holders, the Borrower or any other Loan Party is a party is the legal, valid and binding obligation of such Person, enforceable against such Person in accordance with its terms, subject to bankruptcy, insolvency and similar laws affecting the enforceability of creditors' rights generally and to general principles of equity.

5.4. Financial Condition

. The unaudited consolidated financial statements of the Borrower and its Subsidiaries (presented on a consolidated basis) as at December 31, 2011, together with the unaudited consolidated financial statements of the Borrower and its Subsidiaries (presented on a consolidated basis) as at June 30, 2012 (“Current Financial Statements”) have been prepared on a cash/tax accounting basis and present fairly the consolidated financial condition of such Persons as at such dates and the results of their operations for the periods then ended. As of the Closing Date, the Borrower and its Subsidiaries have no liabilities other than as set forth on the foregoing financial statements other than trade payables and compensation costs incurred in the ordinary course of business.

5.5. No Material Adverse Change

. Since December 31, 2011, there has been no event or occurrence that has or could reasonably be expected to result in a Material Adverse Effect.

5.6. Litigation

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

5.7. Ownership of Properties; Liens

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

the Closing Date, Schedule 5.7 lists all of the real property owned, leased, subleased or otherwise owned or occupied by any Loan Party.

5.8. Capitalization; Subsidiaries

(a) Equity Interests. As of the Closing Date the Borrower has no Subsidiaries and does not hold any Capital Stock of any other Person. All Stock and Stock Equivalents of each Loan Party are duly and validly issued and, in the case of each entity that is a corporation, are fully paid and non-assessable, and, other than the Stock and Stock Equivalents of the Borrower, are owned by the Borrower, directly or indirectly through Wholly-Owned Subsidiaries. The Holders and each Loan Party is the record and beneficial owner of, and has good and marketable title to, the Stock and Stock Equivalents pledged by it to the Agent under the Collateral Documents, free of any and all Liens, rights or claims of other persons, except the security interest created by the Collateral Documents, and there are no outstanding warrants, options or other rights to purchase, or shareholder, voting trust or similar agreements outstanding with respect to, or property that is convertible into, or that requires the issuance or sale of, any such Stock and Stock Equivalents. As of the Closing Date, no Loan Party is engaged in any joint venture with any other Person.

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

5.9. Pension Plans

. No Loan Parties have any liability under ERISA and no Loan Party sponsors any “pension plan” or has any liability subject to Title IV of ERISA.

5.10. Compliance with Law; Investment Company Act; Other Regulated Entities

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

limiting its ability to incur Debt, pledge its assets or perform its Obligations under the Loan Documents.

5.11. Margin Stock

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

5.12. Taxes

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

5.13. Solvency

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

5.14. Environmental Matters

. The on-going operations of the Borrower and each other Loan Party comply in all respects with all Environmental Laws, except such non-compliance which could not (if enforced in accordance with Applicable Law) reasonably be expected to result in a Material Adverse Effect. The Borrower and each other Loan Party have

obtained, and maintained in good standing, all licenses, permits, authorizations and registrations required under any Environmental Law and necessary for their respective ordinary course operations, and the Borrower and each other Loan Party are in compliance with all material terms and conditions thereof, except where the failure to do so could not reasonably be expected to result in material liability to the Borrower or any other Loan Party and could not reasonably be expected to result in a Material Adverse Effect. None of the Borrower, any other Loan Party or any of their respective properties or operations is subject to any outstanding written order from or agreement with any federal, state or local Governmental Authority, nor subject to any judicial or docketed administrative proceeding, nor subject to any indemnification agreement or other contractual obligation, respecting any Environmental Law, Environmental Claim or Hazardous Substance. There are no Hazardous Substances or other conditions or circumstances existing with respect to any property, or arising from operations prior to the Closing Date, of the Borrower or any other Loan Party that could reasonably be expected to result in a Material Adverse Effect. Neither the Borrower nor any other Loan Party has any underground or above ground storage tanks that are not properly registered or permitted under applicable Environmental Laws or that are leaking or disposing of Hazardous Substances.

5.15. Insurance

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

5.16. Information

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

5.17. Intellectual Property

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

contested any right, title or interest of any Loan Party in any Intellectual Property or any anticipated products and applications derived or expected to be derived therefrom, other than, in each case, as cannot reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect. The Intellectual Property of the Loan Parties is sufficient, and conveys adequate rights, title and interests, for the Borrower and other Loan Parties to develop and commercialize its anticipated products and Intellectual Property applications.

5.18. Labor Matters

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

5.19 No Default

. No Loan Party is in default under or with respect to any contractual obligation in any respect which, individually or together with all such defaults, would reasonably be expected to have a Material Adverse Effect.

5.20. Foreign Assets Control Regulations and Anti-Money Laundering

5.20.1 OFAC

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

5.20.2. Patriot Act

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

Section 6. Affirmative Covenants.

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

6.1. Information

. Furnish to the Agent and the Lender:

6.1.1. Annual Report

. Promptly when available and in any event within 90 days of the end of each Fiscal Year of the Borrower beginning with the Fiscal Year ended December 31, 2012, the unaudited consolidated financial statements of the Borrower and the Subsidiaries as at the end of such Fiscal Year prepared, (i) if Commercialization has not occurred as of the last day of such period, on a basis consistent with the Current Financial Statements or (ii) if Commercialization has occurred as of the last day of such period, on a basis consistent with GAAP.

6.1.2. Quarterly Reports

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

6.1.3. Reserved

6.1.4. Compliance Certificate

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

6.1.5. Monthly Net Revenue Report

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

6.1.6. Notice of Default; Litigation; ERISA Matters

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

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

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

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

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

6.1.7. Reserved

6.1.8. Budgets

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

6.1.9. Other Information

. Promptly from time to time, such other information concerning the Holders, the Borrower and any other Loan Party as the Lender or the Agent may reasonably request.

6.2. Books; Records; Inspections

. Keep, and cause the Borrower and each other Loan Party to keep, its books and records in accordance with sound business practices sufficient to allow the preparation of financial statements in accordance with GAAP; permit, and cause the Borrower and each other Loan Party to permit, the Agent, the Lender, or any representative of the foregoing to inspect, at any reasonable time and with reasonable notice (or at any time without notice if an Event of Default exists), the properties and operations of the Borrower or such other Loan Party; and permit, and cause the Borrower and each other Loan Party to permit, at any reasonable time and with reasonable notice (or at any time without notice if an Event of Default exists), the Agent, the Lender, or any representative thereof to visit any or all of its offices, to discuss its financial matters with its directors or officers and its independent auditors, if any (and the Borrower hereby authorizes such independent auditors, if any, to discuss such financial matters with the Lender or the Agent or any representative thereof), and to examine (and, at the expense of the Borrower or the applicable Loan Party, photocopy extracts from) any of its books or other records; and permit, and cause the Borrower and each other Loan Party to permit, the Agent, the Lender and their representatives to inspect, at any reasonable time and with reasonable notice (or at any time without notice if an Event of Default exists), the

Collateral and other tangible assets of the Borrower or such Loan Party, to perform appraisals of the equipment of the Borrower or such Party, and to inspect, audit, check and make copies of and extracts from the books, records, computer data, computer programs, journals, orders, receipts, correspondence and other data relating to any Collateral, including the Assigned Interests for purposes of or otherwise in connection with conducting a review, audit or appraisal of such books and records. In the event that the Agent or Lender shall determine pursuant to any audit of the books and records of the Borrower and its Subsidiaries conducted pursuant to this Section 6.2 that the aggregate amount paid to the Lender hereunder during any period covered by such audit is less than the aggregate amount that was in fact due and payable in respect of such period the Borrower shall promptly remit the amount of such shortfall to the Agent together with interest thereon payable at the Default Rate.

6.3. Maintenance of Property; Insurance

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

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

(c) Unless the Borrower provides the Agent with evidence of the continuing insurance coverage required by this Agreement, the Agent may purchase insurance (to the extent of such insurance coverage as shall be required by clause (b) above) at the Borrower's expense to protect the Agent's and the Lender's interests in the Collateral. This insurance may, but need not, protect the

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

6.4. Compliance with Laws and Contractual Obligations; Payment of Taxes and Liabilities

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

6.5. Maintenance of Existence

. Maintain and preserve, and (subject to Section 7.4) cause each other Loan Party to maintain and preserve, (a) its existence and good standing (as applicable) in the jurisdiction of its organization and (b) its qualification to do business and good standing (as applicable) in each jurisdiction where the nature of its business makes such qualification necessary, other than any such jurisdiction where the failure to be qualified or in good standing could not reasonably be expected to have a Material Adverse Effect.

6.6. Environmental Matters

. If any release or disposal of Hazardous Substances shall occur or shall have occurred on or from any real property or any other assets of the Borrower or any other Loan Party, cause, or direct the applicable Loan Party to cause, the prompt containment and removal of such Hazardous Substances and the remediation of such real property or other assets as is necessary to comply with all Environmental Laws and to preserve the value of such real property or other assets. Without limiting the generality of the foregoing,

the Borrower shall, and shall cause each other Loan Party to, comply with each valid Federal or state judicial or administrative order requiring the performance at any real property by the Borrower or any other Loan Party of activities in response to the release or threatened release of a Hazardous Substance. If any violation of any Environmental Law shall occur or shall have occurred at any real property or any other assets of the Borrower or any other Loan Party or otherwise in connection with their operations, cause, or direct the applicable Loan Party to cause, the prompt correction of such violation.

6.7. Further Assurances

. Promptly upon request by the Agent, the Holders and the Loan Parties shall (and, subject to the limitations hereinafter set forth, shall cause each of their Subsidiaries to) take such additional actions as the Agent may reasonably require from time to time in order (i) to subject to the Liens created by any of the Collateral Documents any of the properties, rights or interests, whether now owned or hereafter acquired, covered or intended to be covered by any of the Collateral Documents, (ii) to perfect and maintain the validity, effectiveness and priority of any of the Collateral Documents and the Liens intended to be created thereby, and (iii) to better assure, convey, grant, assign, transfer, preserve, protect and confirm to the Agent and the Lender the rights granted or now or hereafter intended to be granted to the Agent and the Lender under any Loan Document or under any other document executed in connection therewith. Without limiting the generality of the foregoing and except as otherwise approved in writing by the Lender, the Loan Parties shall cause each of their Subsidiaries (including any Subsidiary formed or acquired after the Closing Date) to guaranty the Obligations and cause each such Subsidiary to grant to the Agent, for the benefit of the Agent and the Lender, a security interest in, subject to the limitations hereinafter set forth, all of such Subsidiary's property to secure such guaranty, in each case pursuant to the execution and delivery of a Subsidiary Guaranty and a joinder to the Security Agreement and such other documents as may be reasonably requested, each in form and substance reasonably satisfactory to the Agent. Furthermore and except as otherwise approved in writing by the Lender, the Borrower shall, and shall cause each of its Subsidiaries (except Inactive Subsidiaries) to, pledge all of the Stock and Stock Equivalents of each of its Subsidiaries to the Agent for the benefit of the Agent and the Lender, to secure the Obligations, in each case pursuant to documents in form and substance reasonably satisfactory to the Agent. In connection with each pledge of Capital Stock, the Holders, the Borrower and each Subsidiary shall deliver, or cause to be delivered, to the Agent, irrevocable proxies and stock powers and/or assignments, as applicable, duly executed in blank, in each case pursuant to documents in form and substance reasonably satisfactory to the Agent. In the event that any Capital Stock of the Borrower shall be transferred to any new Holder the Borrower shall cause such Holder to execute and deliver a Guarantee and Pledge Agreement to the Agent prior to or concurrently with such transfer. The Borrower and each Loan Party shall be under an ongoing obligation to use commercially reasonable efforts to obtain a Collateral Access Agreement from the lessor of each leased property, bailee in possession of any Collateral with respect to each location where any Collateral is stored or located, which Collateral Access Agreement shall be in form and substance reasonably satisfactory to the Agent. Without limiting the requirements of the Collateral Documents, in the event that any Loan Party shall acquire, develop, or otherwise obtain, register or seek to register any Patent, Copyright, Trademark, or other Intellectual Property with any Governmental Authority, or obtain, register or seek to register any application for, or license in respect of, any of the foregoing, the Borrower shall notify the Agent thereof within five (5) Business Days and shall promptly thereafter execute and deliver to the Agent, for the benefit of the Lenders, such

Intellectual Property Assignments, other Collateral Documents or other documents as the Agent may request in order to secure and perfect the security interest in respect of such Intellectual Property.

6.8. Post-Closing Obligations

(a) Within thirty (30) days after the Closing Date (subject to extension by the Agent in its sole discretion), the Loan Parties shall deliver to the Agent a deposit account or securities account, as applicable, Control Agreement for each deposit account and securities account maintained by any Loan Party (other than zero balance payroll and similar accounts), in form and substance satisfactory to the Agent.

(b) Each Loan Party shall use commercially reasonable efforts to obtain a Collateral Access Agreement from the lessor of each leased property, bailee in possession of any Collateral or mortgage of any owned property with respect to each location where any Collateral is stored or located, which Collateral Access Agreement shall be in form and substance reasonably satisfactory to the Agent.

6.9. Assigned Interests Payments

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

Section 7. Negative Covenants.

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

7.1. Debt

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

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

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

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

for the Obligations, and the obligations under such demand note shall be subordinated to the Obligations hereunder in a manner satisfactory to the Agent;

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

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

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

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

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

7.2. Liens

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

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

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

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

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

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

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

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

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

(i) Liens arising under the Loan Documents; and

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

7.3. Restricted Payments

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

7.4. Mergers; Consolidations; Asset Sales

(a) Not, and not suffer or permit any Loan Party to, be a party to any merger, consolidation or amalgamation, except for any such merger or

consolidation (i) of any Subsidiary of the Borrower into the Borrower (so long as the Borrower survives such merger) or any Loan Party that is a Wholly-Owned Subsidiary of the Borrower, as applicable (so long as such Loan Party that is a Wholly-Owned Subsidiary survives such merger) or (ii) in which the Obligations shall be Paid in Full prior to or concurrently with the consummation of such transaction.

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

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

7.5. Modification of Organizational Documents or Surviving Debt Subordination Agreement and Acknowledgment

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

7.6. Use of Proceeds

. Not use the proceeds of the Loan for any purposes other than solely as expressly provided in Section 2.1.2.

7.7. Transactions with Affiliates

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

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

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

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

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

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

7.8. Inconsistent Agreements

. Not, and not suffer or permit the Holders or any other Loan Party to, enter into any agreement containing any provision which would (i) be violated or breached by any borrowing by the Borrower hereunder or by the performance by the Holders, the Borrower or any other Loan Party of any of its Obligations hereunder or under any other Loan Document, (ii) prohibit the Holders, the Borrower or any other Loan Party from granting to the Agent and the Lender a Lien on any of its assets that constitute Collateral or (iii) other than pursuant to the Loan Documents, create or permit to exist or become effective any encumbrance or restriction on the ability of any other Subsidiary to (x) pay dividends or make other distributions to the Borrower or any Wholly-Owned Subsidiary, or pay any Debt owed to the Borrower or any Wholly-Owned Subsidiary, (y) make loans or advances to the Borrower or any Wholly-Owned Subsidiary or (z) transfer any of its assets or properties to the Borrower or any Wholly-Owned Subsidiary, except, in the case of clause (ii) and (iii) above: (a) negative pledges and restrictions on Liens in favor of any holder of Debt permitted under Section 7.1(b) but solely to the extent any negative pledge or limitation on Liens relates to the property that is the subject of such Debt and the proceeds and products thereof, (b) customary restrictions on

leases, subleases, licenses or asset sale agreements otherwise permitted hereby so long as such restrictions relate to the assets subject thereto, (c) customary provisions restricting assignment of any agreement entered into in the ordinary course of business, and (d) prohibitions and limitations that exist pursuant to Applicable Law.

7.9. Business Activities

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

7.10. Investments

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

(a) Investments between or among the Loan Parties;

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

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

(d) Cash Equivalent Investments;

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

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

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

7.11. Fiscal Year

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

7.12. Deposit Accounts and Securities Accounts

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

7.13. Sale-Leasebacks

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

7.14. Hazardous Substances

. Not, and not suffer or permit any other Loan Party to, cause or suffer to exist any release of any Hazardous Substances at, to or from any real

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

7.15. ERISA Liability

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

Section 8. Events of Default; Remedies.

8.1. Events of Default

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

8.1.1. Non-Payment of Credit

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

8.1.2. Default Under Other Debt.

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

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

8.1.3. Bankruptcy; Insolvency

. (i) Any Loan Party becomes insolvent or generally fails to pay, or admits in writing its inability or refusal to pay, debts as they become due; (ii) any Holder or any Loan Party commences any case, proceeding or other action (x) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization,

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

8.1.4. Non-Compliance with Loan Documents.

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

8.1.5. Representations; Warranties

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

8.1.6. Judgments.

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

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

8.1.7. Invalidity of Collateral Documents

. Any Collateral Document shall cease to be in full force and effect; or any Holder or any Loan Party or other grantor or pledgor (or any Person by, through or on behalf of any Loan Party, grantor or pledgor) shall contest in any manner the validity, binding nature or enforceability of any Collateral Document.

8.1.8. Invalidity of Subordination Provisions

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

8.1.9. Change of Control

. (a) A Change of Control shall occur, or (b) a "Change of Control" or other similar event shall occur, as defined in, or under, any indenture, agreement, instrument or other documentation evidencing or otherwise relating to any Debt.

8.1.10. Invalidity of Subordination Provisions

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

8.2. Remedies

. If any Event of Default described in Section 8.1.3 shall occur, the Loan and all other Obligations (including the Applicable IRR Amount) shall become immediately due and payable and all outstanding Commitments shall terminate, all without presentment, demand, protest or notice of any kind; and, if any other Event of Default shall occur and be continuing, the Agent may, and upon the written request of the Lender shall, declare all or any part of the Loan and other Obligations (including the Applicable IRR Amount) to be due and payable and/or all or any part of the Commitments then outstanding to be terminated, whereupon the Loan and other Obligations (including the Applicable IRR Amount) shall become immediately due and payable (in whole or in part, as applicable), and such Commitments shall immediately terminate (in whole or in part, as applicable), all without presentment, demand, protest or notice of any kind. The Agent shall promptly advise the Borrower of any such declaration, but failure to do so shall not impair the effect of such declaration. Any cash collateral delivered hereunder shall be applied by the Agent to any remaining Obligations (including the Applicable IRR Amount) and any excess remaining after the Obligations (including the Applicable IRR Amount) shall have been Paid in Full shall be delivered to the Borrower or as a court of competent jurisdiction may elect. Upon the declaration of the Obligations (including the Applicable IRR Amount) to be, or the Obligations (including the Applicable IRR Amount) becoming, due and payable pursuant to this Section 8.2 such Obligations (including the Applicable IRR Amount) shall bear interest at the Default Rate as provided in Section 2.3.1.

Section 9. The Agent.

9.1. Appointment; Authorization

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

9.2. Delegation of Duties

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

9.3. Limited Liability

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

9.4. Successor Agent

. The Agent may resign as the Agent at any time upon 30 days' prior notice to the Lender. If the Agent resigns under this Agreement, the Lender shall, with (so long as no Event of Default exists) the consent of the Borrower (which shall not be unreasonably withheld or delayed), appoint a successor agent for the Lender. If no successor agent is appointed prior to the effective date of the resignation of the Agent, the Agent may

appoint, on behalf of the Lender after consulting with the Lender and (so long as no Event of Default exists) the Borrower, a successor agent. Upon the acceptance of its appointment as successor agent hereunder, such successor agent shall succeed to all the rights, powers and duties of the retiring Agent and the term “the Agent” shall mean such successor agent, and the retiring Agent's appointment, powers and duties as the Agent shall be terminated. After any retiring the Agent's resignation hereunder as the Agent, the provisions of this Section 9 and Sections 10.4 and 10.5 shall continue to inure to its benefit as to any actions taken or omitted to be taken by it while it was the Agent under this Agreement. If no successor agent has accepted appointment as the Agent by the date which is 30 days following a retiring the Agent's notice of resignation, the retiring Agent's resignation shall nevertheless thereupon become effective and the Lender shall perform all of the duties of the Agent hereunder until such time as the Lender shall appoint a successor agent as provided for above.

9.5. Collateral Matters

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

Section 10. Miscellaneous.

10.1. Waiver; Amendments

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

10.2. Notices

. All notices hereunder shall be in writing (including facsimile transmission) and shall be sent to the applicable party at its address shown on Annex II or at such other address as such party may, by written notice received by the other parties, have designated as its address for such purpose. Notices sent by facsimile or other electronic transmission shall

be deemed to have been given when sent; notices sent to the Borrower by mail shall be deemed to have been given three Business Days after the date when sent by registered or certified mail, postage prepaid; and notices sent by hand delivery or overnight courier service shall be deemed to have been given when received.

10.3. Costs; Expenses

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

10.4. Indemnification by the Borrower

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

10.5. Marshaling; Payments Set Aside

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

10.6. Nonliability of the Lender

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

10.7. Confidentiality

. The Agent and the Lender agree to use commercially reasonable efforts (equivalent to the efforts the Agent or such Lender applies to maintain the confidentiality of its own confidential information) to maintain as confidential all information provided to them by the Holders or any Loan Party and designated as confidential, except that the Agent and the Lender may disclose such information (a) to Persons employed or engaged by the Agent or such Lender or any of their Affiliates (including collateral managers of the Lender) in evaluating, approving, structuring or administering the Loan and the Commitments; (b) to any assignee or participant or potential assignee or participant that has agreed to comply with the covenant contained in this Section 10.7 (and any such assignee or participant or potential assignee or participant may disclose such information to Persons employed or engaged by them as described in clause (a) above); (c) as required or requested by any federal or state regulatory authority or examiner, or as reasonably believed by the Agent or such Lender to be compelled by any court decree, subpoena or legal or administrative order or process; (d) as, on the advice of the Agent's or such Lender's counsel, is required by law; (e) in connection with the exercise of any right or remedy under the Loan Documents or in connection with any litigation to which the Agent or such Lender is a party; (f) to any nationally recognized rating agency or investor of the Lender that requires access to information about the Lender's investment portfolio in connection

with ratings issued or investment decisions with respect to such Lender; (g) that ceases to be confidential through no fault of the Agent or the Lender; or (h) to a Person that is an investor or prospective investor in the Agent or any of its Affiliates.

10.8. Captions

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

10.9. Nature of Remedies

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

10.10. Counterparts

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

10.11. Severability

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

10.12. Entire Agreement

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

10.13. Successors; Assigns

. This Agreement shall be binding upon the Borrower, the Lender and the Agent and their respective successors and assigns, and shall inure to the benefit of the Borrower, the Lender and the Agent and the successors and assigns of the Lender and the Agent. No other Person shall be a direct or indirect legal beneficiary of, or have any direct or indirect cause of action or claim in connection with, this Agreement or any of the other Loan Documents. The Borrower may not assign or transfer any of its rights or Obligations under this Agreement without the prior written consent of the Agent and the Lender. The Lender may sell, transfer, or assign all or a portion of its rights and obligations hereunder to any Person acceptable to the Lender pursuant to assignment documentation reasonably acceptable to Lender and such assignee.

10.14. Governing Law

. THIS AGREEMENT AND EACH NOTE SHALL BE A CONTRACT MADE UNDER AND GOVERNED BY THE INTERNAL LAWS OF THE

STATE OF NEW YORK APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED ENTIRELY WITHIN SUCH STATE, WITHOUT REGARD TO CONFLICT OF LAWS PRINCIPLES (OTHER THAN SECTION 5-1401 OF THE NEW YORK GENERAL OBLIGATIONS LAW).

10.15. Forum Selection; Consent to Jurisdiction; Service of Process

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

10.16. Waiver of Jury Trial

. EACH LOAN PARTY, AGENT AND EACH LENDER HEREBY WAIVES ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO ENFORCE OR DEFEND ANY RIGHTS UNDER THIS AGREEMENT, ANY NOTE, ANY OTHER LOAN DOCUMENT AND ANY AMENDMENT, INSTRUMENT, DOCUMENT OR AGREEMENT DELIVERED OR WHICH MAY IN THE FUTURE BE DELIVERED IN CONNECTION HEREWITH OR THEREWITH OR ARISING FROM ANY LENDING RELATIONSHIP EXISTING IN CONNECTION WITH ANY OF THE FOREGOING, AND AGREES THAT ANY SUCH ACTION OR PROCEEDING SHALL BE TRIED BEFORE A COURT AND NOT BEFORE A JURY.

10.17. Collateral Agent

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

or advisable in fulfilling its role as Collateral Agent under each Guarantee and Collateral Agreement.

[signature pages follow]

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

WELLSTAT DIAGNOSTICS, LLC

By: /s/ Nadine H Wohlstadter
Name: Nadine Wohlstadter
Title: Manager

PDL BIOPHARMA, INC.,

as the Agent and the Lender

By: : /s/ John P. McLaughlin _
Name: John P. McLaughlin
Title: CEO

ANNEX I

Internal Rate of Return Formula

* * *

ANNEX II

Addresses

LOAN PARTIES

Address for Notices:

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

Copy to:

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

AGENT

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

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

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

Account #:
* * *

ABA Routing #:
* * *

Swift Code:
* * *

Exhibit A - Compliance Certificate

See attached.

[Schedules to be attached hereto]

EXHIBIT A

COMPLIANCE CERTIFICATE

Date: _____, 201_

This Compliance Certificate (this "**Certificate**") is given by WELLSTAT DIAGNOSTICS, LLC, a Delaware limited liability company ("**Borrower**"), pursuant to that certain Credit Agreement dated as of November 2, 2012 (the "**Credit Agreement**"; capitalized terms used and not defined herein shall have the meaning set forth in the Credit Agreement), between Borrower and PDL BIOPHARMA, INC., as Lender and Agent ("**Agent**").

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

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

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

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

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

WELLSTAT DIAGNOSTICS, LLC

By: _____
Name:
Title: Controller

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

Schedule 5.10

Authorizations, Permits, Licenses and Approvals

None.

Insurance

Certificate of Liability Insurance

Labor Matters

None

Schedule 7.1

Existing Debt

- Long term note payable to Bioveris (Roche) -
- Total debt owed to Samuel and Nadine Wohlstadter as of September 30, 2012 -

Permitted Liens

None.

Existing Investments

None

Schedule 7.12

Bank Accounts

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

Exhibit 10.51

November 30, 2012

VIA HAND DELIVERY

Bruce Tomlinson
P.O. Box 5013
Incline Village, NV 89450

Re: Separation Agreement

Dear Bruce:

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

1. **Resignation Date.** You agree that you have resigned from your employment with the Company effective November 30, 2012. Your last day of work is today, November 30, 2012 (the "Resignation Date"). From and after that date, you will no longer represent to anyone that you are still an employee or representative of the Company and you will not say or do anything purporting to bind the Releasees.

2. **Effective Date and Rescission**. You have up to twenty-one days after you receive this Agreement to review it. You hereby acknowledge that you received this Agreement on November 30, 2012; hence, the Agreement must be signed by you and returned to me no later than the close of business on December 21, 2012. You are advised to consult an attorney of your own choosing (at your own expense) before signing this Agreement. Furthermore, you have up to seven days after you sign this Agreement to revoke it. If you wish to revoke this Agreement after signing it, you may do so by delivering a letter of revocation to me so that I receive it within this seven-day period. If you do not revoke this Agreement, the eighth day after the date you sign it will be the "Effective Date." Because of the seven-day revocation period, no part of this Agreement will become effective or enforceable until the Effective Date.

3. **Salary and Benefits Paid**. You acknowledge that you have been paid your earned salary, accrued vacation pay, and all other amounts PDL owes you through the Resignation Date and that the check in the amount of $1,608.17 and the direct deposit made on November 30, 2012, are in full satisfaction of such obligations of PDL. You will receive by separate cover information regarding your rights to health insurance continuation under the terms of COBRA and your retirement benefits. To the extent that you have such rights, nothing in this Agreement will impair those rights. You acknowledge that the only payments and benefits that you are entitled to receive from the Releasees in the future are those specified in this Agreement.

4. **Return of Property.** You will immediately return to the Company any building key(s), security pass, and other access or identification cards (including business cards) and any Company property that is currently in your possession, custody or control, including any documents, computer equipment (other than the Sony laptop and Apple iPad once we remove all PDL information therefrom), and any information you have about the Company's practices, procedures, finances, trade secrets, customer lists, or product marketing. By no later than November 30, 2012, you will also submit any

expense reports with appropriate receipts for any expenses for which you seek reimbursement from the PDL.

5. **Representation Regarding Property.** You represent that as of November 30, 2012, you will have returned to the Company all property that belongs to the Company, other than the Sony laptop and Apple iPad, including but not limited to all documents that belong to the Company, and files stored on your computer(s) that contain information belonging to the Company and that after you have done so, all such files and documents have been permanently deleted or destroyed.

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

a. $112,101.88 (one hundred and twelve thousand one hundred and one dollars and eighty eight cents). The Company's payments under this sub-paragraph are contingent upon your irrevocable agreement that these payments are in lieu of and will forever extinguish your right to claim that the Releasees have an obligation to make any further payment to you or on your behalf.

b. Customary payroll deductions shall be made from payments described in 6.a. Payment shall be paid within 10 business days of the “Effective Date” of this Agreement as defined in paragraph 2 above.

c. The Company shall be entitled to recover all or a portion of the amounts provided in subsection 6.a. if the Company in good faith determines that you (i) intentionally or knowingly, through fraud or intentional misconduct, misstated financial information determined necessary for the proper functioning of the Company, (ii) are aware of any significant misstated financial information or other significant inaccuracy with respect to the Company's financial information, whether used internally or disclosed to the public, and have failed to attempt to remedy such misstatement and report same to the current management of the Company, whether or not such misstatement or inaccuracy requires restatement of the Company's public disclosures, or (iii) have violated any of the terms of this Agreement, including any of sections 10, 12 or 13 hereof. In the event that the Company, in its discretion, demands repayment of such amounts under this subsection, you will be obligated to repay such amount in cash within ten (10) days of the Company's written demand. The Company's rights under this subsection are not in lieu of and are not a waiver or release regarding any further or separate legal action for damages or other legal remedies based on fraud, intentional misconduct or gross negligence committed by you during your employment at the Company.

7. **Lease.** The Company will make commercially reasonable efforts to assume the obligations under your residential lease in Incline Village by December 14, 2012. You will assist the Company in discussions with the landlord of the property. In the event that the Company is unable to assume the obligations under the lease, it will reimburse you for the rent costs through June 30, 2013. In any event, you will vacate the residential property by December 14, 2012.

8. **Release.** In consideration for the payments and benefits described in Section 6 above, you on your own behalf and on behalf of your heirs, executors, administrators and assigns hereby fully and forever waive, release, discharge and promise never to assert any claims or causes of action, whether or not now known, suspected or unsuspected, against the Releasees or each of its predecessors, successors or past or present subsidiaries, affiliates, branches, representative offices or parents (collectively, including

the Releasees, the "entities") and the entities' stockholders, directors, officers, employees, consultants, attorneys, agents, assigns, and employee benefit plans with respect to any matter, including (without limitation) any matter related to your employment with the Releasees or the resignation of that employment, including (without limitation) claims to attorney fees or costs, claims of wrongful discharge, constructive discharge, emotional distress, defamation, invasion of privacy, interference with a leave of absence, personal injury, fraud, breach of contract or breach of the covenant of good faith and fair dealing and any claims of discrimination or harassment based on sex, age, race, national origin, disability, or any other basis under Title VII of the Civil Rights Act of 1964, the Fair Labor Standards Act, the Equal Pay Act of 1963, the Civil Rights Act of 1866, the Age Discrimination in Employment Act of 1967, the Americans with Disabilities Act, the Family Medical Leave Act, or any other federal, state, municipal or local law or regulation relating to employment or employment discrimination including but not limited to Nev. Rev. Stat. §§613.310, 613.320, 613.330, 613.333, 613.335 and 613.345 (prohibiting discrimination based on various protected factors), , and including any claims you may have related to your Severance Agreement entered into as of June 11, 2012, or your offer of employment letter dated April 20, 2012, or any other agreement which you have signed in relation to your employment at the Company. You further understand and agree that this waiver includes all claims, known and unknown, suspected and unsuspected, to the greatest extent permitted by applicable law. However, this release covers only claims arising prior to the execution of this Agreement and only those claims that may be waived by applicable law.

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

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

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

b. You will not, unless required or otherwise permitted by law, disclose to others any proprietary information of the Company including, but not limited to, the Company's current and planned technology; its finances, financial planning and financial condition, its current and planned corporate strategies; strategic customers and business partners; and the identity, skills, compensation and interest of its employees. You agree to keep and treat all such proprietary information as confidential; and

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

d. You will at all times in the future honor and abide by your obligations under the Employee Proprietary Information and Invention Assignment you signed on April 23, 2012, a copy of which is attached hereto and incorporated as though fully set forth herein.

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

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

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

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

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

16. **Entire Agreement; Governing Law.** You agree that no promise, inducement or other agreement not expressly contained in this Agreement or referred to in this Agreement, has been made conferring any benefit upon you, and that this Agreement contains the entire agreement between you and the Releasees with respect to its subject matter, including but not limited to the resignation of your

employment. All prior agreements, understandings, representations, oral agreements and writings are expressly superseded hereby and are of no further force and effect, and you expressly agree that you are not relying on any representations that are not contained in this Agreement. This Agreement is entered into and governed by the laws of the State of Nevada.

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

18. **Contractual Relationship.** You acknowledge that any employment or contractual relationship between PDL and you ended on November 30, 2012, and that you have no further employment or contractual relationship except as may arise out of this Agreement and that you waive any right or claim to reinstatement as an employee of PDL or to seek employment in the future with PDL or any Releasee(s).

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

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

Very truly yours,

/s/ John McLaughlin

John McLaughlin
Chief Executive Officer

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

/s/ Bruce Tomlinson
Bruce Tomlinson

Date: /s/ 11/30/2012

Exhibit 12.1

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

	For the Years Ended December 31,					
	2007	**2008**	**2009**	**2010**	**2011**	**2012**
Earnings:						
Income before income taxes	$ 191,073	$ 243,334	$ 280,285	$ 150,370	$ 307,428	$ 327,133
Add: fixed charges	16,267	14,285	19,430	43,578	36,153	29,097
Earnings	$ 207,340	$ 257,619	$ 299,715	$ 193,948	$ 343,581	$ 356,230
Fixed Charges:						
Interest expense[1]	$ 16,200	$ 14,219	$ 19,357	$ 43,529	$ 36,102	$ 29,036
Estimated interest portion of rent expense[2]	67	66	73	49	51	61
Fixed charges	$ 16,267	$ 14,285	19,430	$ 43,578	$ 36,153	$ 29,097
Ratio of earnings to fixed charges	12.75	18.03	15.43	4.45	9.50	12.24

[1] Interest expense includes amortization of debt discount and expenses.

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

Exhibit 14.1

PDL BioPharma, Inc.
Code of Business Conduct
As Amended on April 11, 2012

I. POLICY STATEMENT

Nasdaq Marketplace Rules require that PDL BioPharma, Inc. (the "Company") adopt a code of conduct for all of its directors, officers and employees. In addition, the Company is committed to being a good corporate citizen. The Company's policy is to conduct its business affairs honestly and ethically. That goal cannot be achieved unless you individually accept your responsibility to promote integrity and demonstrate the highest level of ethical conduct in all of your activities. The Company understands that not every situation is black and white, but you should avoid activities that may call into question the Company's reputation or integrity. The key to compliance is exercising good judgment. This means following the spirit of this Code of Business Conduct (this "Code") and applicable law, doing the "right" thing and acting ethically even when the law is not specific. When you are faced with a business situation where you must determine the right thing to do, you should ask yourself the following questions:

- Am I following the spirit, as well as the letter, of any law or Company policy?
- Would I want my actions reported in the media?
- What would my family, friends or neighbors think of my actions?
- Will there be any direct or indirect negative consequences for the Company?

Managers set an example for other employees and are often responsible for directing the actions of others. Every manager and supervisor is expected to take all actions necessary to ensure compliance with this Code, provide guidance and assist other employees in resolving questions concerning this Code and permit employees to express any concerns regarding compliance with this Code. No one has the authority to order another employee to act contrary to this Code.

II. COMPLIANCE WITH LAWS AND REGULATIONS

Numerous federal, state and local laws, rules and regulations define and establish obligations with which the Company, its employees and agents must comply. You must comply with all applicable laws, rules and regulations in performing your duties for the Company and seek to comply with the spirit of these laws, rules and regulations. If local country law establishes requirements that differ from this Code, you must comply with the local country laws in conducting the Company's business. If you violate any laws or regulations in performing your duties for the Company, you not only risk individual indictment, criminal prosecution and penalties, and/or civil actions and penalties, you also subject the Company to the same or similar risks and penalties.

As explained below, you should always consult the Compliance Officer with any questions about the legality of your or your colleagues' conduct.

III. FULL, FAIR, ACCURATE, TIMELY AND UNDERSTANDABLE DISCLOSURE

It is of paramount importance to the Company that all disclosure in public communications made by the Company and in reports and documents that the Company files with, or submits to, the Securities and Exchange Commission (the "SEC") is full, fair, accurate, timely and understandable. You must take all steps available to assist the Company in these responsibilities consistent with your role within the Company. In particular, you are required to provide prompt and accurate answers to all inquiries made to you in connection with the Company's preparation of its public reports and disclosures.

The Company's Chief Executive Officer (the "CEO") and Chief Financial Officer (the "CFO") are responsible for designing, establishing, maintaining, reviewing and evaluating on a quarterly basis the effectiveness of the Company's disclosure controls and procedures as defined by applicable SEC rules. The Company's CEO, CFO, controller and any other Company officers designated from time to time by the Audit Committee of the Board of Directors shall be deemed the Senior Officers of the Company.

Senior Officers shall take all steps necessary or advisable to ensure that all disclosure in reports and documents filed with or submitted to the SEC, and all disclosure in other public communication made by the Company is full, fair, accurate, timely and understandable. Senior Officers are also responsible for establishing and maintaining adequate internal control over financial reporting at the Company in order to provide reasonable assurance that financial reporting is reliable and that publicly disclosed financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). In particular, Senior Officers will take all necessary steps to ensure compliance with established accounting procedures, the Company's system of internal controls and GAAP. Specifically, Senior Officers will ensure that the Company makes and keeps books, records and accounts, which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company. Senior Officers will also ensure that the Company devises and maintains a system of internal accounting controls sufficient to provide reasonable assurances that:

- access to assets is permitted, and receipts and expenditures are made, only in accordance with management's general or specific authorization;
- transactions are executed only in accordance with management's general or specific authorization;
- transactions are recorded so as to permit preparation of financial statements in conformity with GAAP or any other criteria applicable to those statements, and to maintain accountability for assets;
- the recorded accountability for assets will be compared with the existing assets at reasonable intervals and appropriate action may be taken with respect to any differences, all to permit prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the Company's financial statements.

Any attempt to enter inaccurate or fraudulent information into the Company's accounting system will not be tolerated and will result in disciplinary action, up to and including termination of

employment.

IV. BOARD INTERACTION WITH INVESTORS, ANALYSTS, PRESS AND CUSTOMERS

The Board of Directors believes that management generally should speak for the Company. Each director should refer all inquiries from investors, analysts, the press or customers to the Company's CEO or his or her designee. In addition, each director should refrain from contacting or communicating with such persons about any matter concerning the Company unless authorized to do so by the Board of Directors or the CEO.

V. SPECIAL ETHICS OBLIGATIONS FOR EMPLOYEES WITH FINANCIAL REPORTING RESPONSIBILITIES

Each Senior Officer bears a special responsibility for promoting integrity throughout the Company. Specifically, each Senior Officer has a responsibility to foster a culture throughout the Company that ensures the fair and timely reporting of the Company's results of operation and financial condition and other financial information.

Because of this special role, the Senior Officers are bound by the following Senior Officer code of ethics, and by accepting this Code each agrees that he or she will:

- perform his or her duties in an honest and ethical manner;
- handle all actual or apparent conflicts of interest between his or her personal and professional relationships in an ethical manner;
- take all necessary actions to ensure full, fair, accurate, timely, and understandable disclosure in reports and documents that the Company files with, or submits to, government agencies and in other public communications;
- comply with all applicable laws, rules and regulations of federal, state and local governments; and
- proactively promote and be an example of ethical behavior in the work environment.

VI. INSIDER TRADING

You should never trade, or enable anyone else to trade, securities on the basis of non-public information acquired through your employment or fiduciary relationship with the Company.

You are prohibited under both federal law and Company policy from purchasing or selling Company stock, directly or indirectly, on the basis of material non-public information concerning the Company. Any person possessing material non-public information about the Company must not engage in transactions involving Company securities until this information has been released to the public. Generally, "material" non-public information is information that could reasonably be expected to affect the investment decisions of a reasonable investor or the market price of the stock. You must also refrain

from trading in the stock of other publicly held companies, such as existing or potential licensees, on the basis of material non-public information obtained in the course of your employment or service as a director. It is also illegal to recommend a stock to (i.e., "tip") someone else on the basis of such information. If you have a question concerning appropriateness or legality of a particular securities transaction, consult with the Company's General Counsel. Officers, directors and certain other
employees of the Company are subject to additional responsibilities under the Company's insider trading compliance policy, a copy of which has been provided to each such officer, director and employee, and which can be obtained from the Company's General Counsel.

VII. CONFLICTS OF INTEREST AND CORPORATE OPPORTUNITIES

You shall perform your duties to the Company in an honest and ethical manner. You owe a duty to the Company not to compromise the Company's legitimate interests and to advance these interests when the opportunity to do so arises in the course of your employment.

You should avoid situations in which your personal, family or financial interests conflict or even appear to conflict with those of the Company. You may not engage in activities that compete with the Company or compromise its interests. You should not take for your own benefit opportunities discovered in the course of employment that you have reason to know would benefit the Company. The following are examples of actual or potential conflicts:

- you, or a member of your family, receive improper personal benefits as a result of your position in the Company;
- you, or a member of your family, use Company property for your personal benefit;
- you engage in activities that interfere with your loyalty to the Company or your ability to perform Company duties or responsibilities effectively;
- you, or a member of your family, work simultaneously (whether as an employee or a consultant) for a licensee or supplier;
- you, or a member of your family, have a financial interest in a licensee, which is significant enough to cause divided loyalty with the Company or the appearance of divided loyalty (the significance of a financial interest depends on many factors, such as size of investment in relation to your income, net worth and/or financial needs, your potential to influence decisions that could impact your interests, and the nature of the business;
- you, or a member of your family, acquire an interest in property (such as real estate, patent or other intellectual property rights or securities) in which you have reason to know the Company has, or might have, a legitimate interest;
- you, or a member of your family, receive a loan or a guarantee of a loan from a licensee (other than a loan from a financial institution made in the ordinary course of business and on an arm's length basis);

- you divulge or use the Company's confidential information – such as financial data, or research or development plans – for your own personal or business purposes;

- you make gifts or payments, or provide special favors, to licensees or suppliers (or their immediate family members) with a value significant enough to cause the licensee or supplier to make a purchase or to take or forego any other action, which is beneficial to the Company and which the licensee or supplier would not otherwise have taken; or

- you are given the right to buy stock in other companies or you receive cash or other payments in return for promoting the services of an advisor or vendor to the Company.

Neither you, nor members of your immediate family, are permitted to solicit or accept valuable gifts, payments, special favors or other consideration from licensees or suppliers. You may give gifts only in compliance with the Foreign Corrupt Practices Act and any exchange of gifts must be conducted so that there is no appearance of impropriety.

Conflicts are not always clear-cut, and the disinterested members of the Board of Directors will determine the appropriate response to any potential conflict. If you become aware of any of the circumstances described above or any other potential conflict, or have a question as to a potential conflict, you should consult with the Company's Compliance Officer and/or follow the procedures described in Sections XIV and XV of this Code. If you become involved in a situation that gives rise to an actual conflict, you **must** inform the Company's Compliance Officer of the conflict as soon as reasonably practicable.

VIII. CONFIDENTIALITY

All confidential information concerning the Company is the property of the Company and you must protect it.

Confidential information includes all non-public information that might be harmful to the Company or licensees or suppliers, if disclosed. You must maintain the confidentiality of this information, except when disclosure is authorized by the Company, required by law or otherwise permitted pursuant to the terms of a proprietary information agreement between you and the Company.

Examples of confidential information include, but are not limited to: the Company's trade secrets; business trends and projections; information about financial performance; pending or threatened litigation; gene or protein sequences; antibodies; antigens; information about potential divestitures and investments; public or private securities offerings; significant personnel changes; and existing or potential major contracts, licensees or finance sources or the loss thereof.

Your obligation with respect to confidential information extends beyond the workplace and applies to communications with your family members. In addition, your obligation continues to apply even after your employment or director relationship with the Company terminates.

IX. FAIR DEALING

Our goal is to conduct our business with integrity.

You should endeavor to deal honestly with the Company's licensees, suppliers and employees.Under federal and state laws, the Company is prohibited from engaging in unfair methods of competition, and unfair or deceptive acts and practices. You should not take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other unfair dealing.

Examples of prohibited conduct include, but are not limited to:

- bribery or payoffs to induce business or breaches of contracts by others;
- acquiring a competitor's trade secrets through bribery or theft;
- making false, deceptive or disparaging claims or comparisons about competitors or their products or services; or
- mislabeling products or services.

X. PROTECTION AND PROPER USE OF COMPANY ASSETS

You should endeavor to protect the Company's assets and ensure their proper use.

Company assets, both tangible and intangible, are to be used only for legitimate business purposes of the Company and only by authorized employees or consultants. Intangible assets include intellectual property such as trade secrets, patents, trademarks and copyrights, business plans, Company records, salary information and unpublished financial data and reports. Unauthorized alteration, destruction, use, disclosure or distribution of Company assets violates Company policy and this Code. Theft or waste of, or carelessness in using, these assets would have an adverse impact on the Company's operations and
profitability and will not be tolerated.

The Company provides computers, voice mail, electronic mail (e-mail), and Internet access to certain employees for the purpose of achieving the Company's business objectives. As a result, the Company has the right to access, reprint, publish, or retain any information created, sent or contained in any of the Company's computers or e-mail systems of any Company machine. You may not use e-mail, the Internet or voice mail for any illegal purpose or in any manner that is contrary to the Company's policies or the standards embodied in this Code.

Personal use of Company time, equipment or other resources must be reasonable and not interfere with business operations or job responsibilities. You should use good judgment and obtain approval from your supervisor in uncertain circumstances.

You should not make copies of, or resell or transfer copyrighted materials, including software, manuals, articles, books and databases that were created by another entity and licensed to the Company, unless you are authorized to do so under the applicable license agreement. In no event should you load or use any software, third party content or database on any Company computer without receiving the prior written permission of the General Counsel. You must refrain from transferring any data or information to any Company computer other than for Company use. You may use a handheld computing device or mobile phone in connection with your work for the Company, but must not use such device or phone to access, load or transfer content, software or data in violation of any applicable law or regulation or without the permission of the owner of such content, software or data. If you should have any question as to what is permitted, please consult with the Company's General Counsel.

XI. CHARITABLE DONATIONS

Employees are encouraged to support charitable causes of their choice, as long as that support is provided without the use or furnishing of Company assets (including employee work time, or use of the Company's premises, equipment, or funds). Any charitable donations less than $25,000 involving Company assets require the approval of the CEO or CFO. Any charitable donations equal to or exceeding $25,000 require the approval of the Board of Directors.

XII. POLITICAL CONTRIBUTIONS

The Company makes no contributions to political candidates and committees. Employees may not use the Company's assets (including employee work time, or use of the Company's premises, equipment, or funds) to personally support candidates and campaigns. It is illegal for the Company to reimburse an employee for a contribution.

XIII. DISCRIMINATION AND HARASSMENT

The Company encourages a creative, culturally diverse, and supportive work environment and does not tolerate harassment or discrimination based on factors such as race, color, sex, sexual orientation, gender identity characteristics or expression, religion, national origin, age, marital status, disability, medical condition, veteran status, or pregnancy. If you feel that you have been harassed or discriminated against or have witnessed such behavior, report the situation to the Compliance Officer, through the Compliance Hotline or anonymously through the Company's website, per the reporting instructions below.

XIV. REPORTING VIOLATIONS OF COMPANY POLICIES AND RECEIPT OF COMPLAINTS REGARDING FINANCIAL REPORTING OR ACCOUNTING ISSUES

You should report any violation or suspected violation of this Code to the appropriate Company personnel or via the Company's confidential reporting procedures, which allow for anonymous reporting.

In order to assist the Company's efforts to ensure observance of, and adherence to, the goals and policies outlined in this Code, you must promptly report any material transaction, relationship, act, failure to act, occurrence or practice that you believe, in good faith, is inconsistent with or in violation of this Code or reasonably could be expected to give rise to a violation of this Code. In particular, you should promptly report any suspected violations of the Company's financial reporting obligations or any complaints or concerns about questionable accounting or auditing practices.

Here are some approaches to handling your reporting obligations:

- If you believe a violation of this Code, or a violation of applicable laws and/or governmental regulations has occurred or you have observed or become aware of conduct which appears to be contrary to this Code, promptly report the situation to the Compliance Officer.

- If you have a complaint or concern or receive notice of a complaint or concern regarding the Company's financial disclosure, accounting practices, internal accounting controls, auditing, or questionable accounting or auditing matters, you **must** promptly advise the Compliance Officer.

- If you wish to report any complaints or concerns anonymously or confidentially, then you may do so as described on our website at www.pdl.com, Investor Relations, Corporate Governance at the bottom of the page "Communication of Potential Issues or Concerns".

You should provide as much detail regarding the concern or complaint as possible, the date of occurrence and individuals involved, in order to allow the Compliance Officer to properly consider and investigate your concern or complaint.

Persons outside the Company may also report complaints or concerns to the Compliance Officer by mail or using the Compliance Hotline. Allegations of violations of this Code should be made only in good faith and not with the intent to embarrass or to put someone in a false light. If you become aware of a suspected or potential violation, don't try to investigate or resolve it on your own. Prompt disclosure under this Code is vital to ensuring a timely and thorough investigation and resolution. You are expected to cooperate in internal or external investigations of alleged violations of this Code.

The Company will undertake an investigation in response to every good faith report of conduct potentially in violation of this Code and, if improper conduct is found, the Company will take appropriate disciplinary and remedial action. The Company will attempt to keep its discussions with any person reporting a violation confidential to the extent reasonably possible without compromising the effectiveness of the investigation.

Employees and contract workers **are protected by law from retaliation for reporting possible violations** of this Code or for participating in procedures connected with an investigation, proceeding or hearing conducted by the Company or a government agency with respect to such complaints or concerns. The Company will take disciplinary action up to and including the immediate termination of any employee or contract worker who retaliates against another employee or contract worker for reporting any of these alleged activities or for cooperating in any investigation.

XV. COMPLIANCE PROCEDURES

The Company has established this Code as part of its overall policies and procedures. To the extent that other Company policies and procedures conflict with this Code, you should follow this Code. This Code applies to all Company directors and Company employees, including all officers, in all locations. If you violate this Code in performing your duties for the Company, you may be subject to disciplinary action, including possible termination of your employment or affiliation with the Company.

This Code is based on the Company's core values, good business practices and applicable law. The existence of this Code, however, does not ensure that directors, officers and employees will comply with it or act in a legal and ethical manner. To achieve optimal legal and ethical behavior, the individuals subject to this Code must know and understand this Code as it applies to them and as it applies to others. You must champion this Code and assist others in knowing and understanding it.

- Compliance. You are expected to become familiar with and understand the requirements of this Code. Most importantly, you must comply with it. By accepting a position as a director, officer or employee of the Company, you are agreeing to abide by the Code. You will be required to certify annually that during the preceding year, you have complied with, and have reported any violations of, the Code.

- CEO Responsibility. The Company's CEO is responsible for ensuring that this Code is established and effectively communicated to all employees, officers and directors. Although the day-to-day compliance issues are the responsibility of the Company's managers, the CEO is ultimately accountable for the overall implementation of the Code and successful compliance with this Code.

- Corporate Compliance Management. The Board of Directors shall select an employee to act as the Compliance Officer. The Compliance Officer's charter is to ensure communication, training, monitoring, and overall compliance with this Code. The Compliance Officer will, with the assistance and cooperation of the Company's officers, directors and managers, foster an atmosphere where employees are comfortable in communicating and/or reporting concerns and possible Code violations.

- Internal Reporting of Violations. The Company's efforts to ensure observance of, and adherence to, the goals and policies outlined in this Code mandate that all employees, officers and directors of the Company report suspected violations in accordance with Section XIV of this Code.

- Internal Investigation.

    - When an alleged violation of this Code is reported, the Company shall take appropriate action in accordance with the law and regulations and otherwise consistent with good business practice.

    - If the suspected violation appears to involve either a possible violation of law or an issue of significant corporate interest, or if the report involves a complaint or concern of any person, whether an employee, a stockholder or another interested person regarding the

Company’s financial disclosure, internal accounting controls, questionable auditing or accounting matters or practices or other issues relating to the Company’s accounting or auditing, then the manager or investigator should promptly notify the Compliance Officer.

- If the suspected violation involves any director or executive officer or if the suspected violation concerns any fraud, whether or not material, involving management or other employees who have a significant role in the Company’s internal controls, any person who received the report should promptly report the alleged violation to the Compliance Officer, if appropriate, the Chief Executive Officer and/or Chief Financial Officer, and, in every such case, the Chairperson of the Audit Committee. The Compliance Officer or the Chairperson of the Audit Committee, as applicable, shall assess the situation and determine the appropriate course of action.

- A person who is suspected of a violation shall be apprised of the alleged violation at a point in the process consistent with the need not to compromise the investigation and shall have an opportunity to provide a response to the investigator.

XVI. WAIVER OF THE CODE

Any waiver of the Code for executive officers or directors may be made only by the Board after review of the proposed waiver by the Audit Committee. If made, the waiver will be disclosed to stockholders, along with the reasons for the waiver. Such waiver will be disclosed within four business days by filing a current report on Form 8-K with the SEC, providing website disclosure that satisfies the requirements of Item 5.05(c) of Form 8-K, or, in cases where a Form 8-K is not required, by distributing a press release.

Exhibit 21.1

SUBSIDIARIES OF THE REGISTRANT

NAME OF SUBSIDIARY OR ORGANIZATION	STATE OF INCORPORATION OR FORMATION
QHP Royalty Sub LLC	Delaware
BTI Acquisition I Corp.	Delaware
BioTransplant Incorporated	Delaware

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement (Form S-3 no. 333-36708) of PDL BioPharma, Inc.,
(2) Registration Statement (Form S-3 No. 333-122760) of PDL BioPharma, Inc.,
(3) Registration Statement (Form S-3 No. 333-123958) of PDL BioPharma, Inc.,
(4) Registration Statement (Form S-3 No. 333-128644) of PDL BioPharma, Inc.,
(5) Registration Statement (Form S-3ASR No. 333-174052) of PDL BioPharma, Inc.,
(6) Registration Statement (Form S-8 No. 333-87957) pertaining to the 1999 Stock Option Plan and 1999 Nonstatutory Stock Option Plan of PDL BioPharma, Inc.,
(7) Registration Statement (Form S-8 No. 333-68314) pertaining to the 1999 Stock Option Plan and 1999 Nonstatutory Stock Option Plan of PDL BioPharma, Inc.,
(8) Registration Statement (Form S-8 No. 333-104170) pertaining to the 1999 Nonstatutory Stock Option Plan of PDL BioPharma, Inc.,
(9) Registration Statement (Form S-8 No. 333-125906) pertaining to the 2005 Equity Incentive Plan of PDL BioPharma, Inc., and
(10) Registration Statement (Form S-8 No. 333-145262) pertaining to the 2005 Equity Incentive Plan.

of our reports dated March 1, 2013, with respect to the consolidated financial statements of PDL BioPharma, Inc., and the effectiveness of internal control over financial reporting of PDL BioPharma, Inc., included in this Annual Report (Form 10-K) for the year ended December 31, 2012.

/s/ Ernst & Young LLP

Redwood City, California
March 1, 2013

Exhibit 31.1

CERTIFICATIONS

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

(1) I have reviewed this annual report on Form 10-K 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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: March 1, 2013

/s/ JOHN P. MCLAUGHLIN

John P. McLaughlin

President, Chief Executive Officer and Acting Chief Financial Officer

(Principal Executive Officer and Acting Principal Financial Officer)

Exhibit 32.1

CERTIFICATION

John P. McLaughlin, President, Chief Executive Officer and Acting Chief Financial Officer, of PDL BioPharma, Inc. (the "Registrant"), 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 Annual Report on Form 10-K for the fiscal year ended December 31, 2012 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: March 1, 2013

By:

/s/ JOHN P. MCLAUGHLIN

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