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

FORM 10-Q

(Mark One)

☒ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended September 30, 2015

OR

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

Commission File Number: 000-19756

PDL BIOPHARMA, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

(Do not check if a smaller reporting company)

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

As of October 26, 2015, there were 163,575,319 shares of the registrant's Common Stock outstanding.

PDL BIOPHARMA, INC.
2015 Form 10-Q
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GLOSSARY OF TERMS AND ABBREVIATIONS

Abbreviation/term	Definition
'216B Patent	European Patent No. 0 451 216B
'761 Patent	U.S. Patent No. 5,693,761
AbbVie	AbbVie Biotherapeutics, Inc.
Accel 300	Accel 300, LLC, a wholly-owned subsidiary of kaléo, Inc.
AcelRx	AcelRx Pharmaceuticals, Inc.
AcelRx Royalty Agreement	Royalty Interest Assignment Agreement, dated September 18, 2015, between PDL and AcelRx
APIC	Additional paid-in-capital
ARIAD	ARIAD Pharmaceuticals, Inc.
ARIAD Royalty Agreement	Royalty Interest Assignment Agreement, dated July 28, 2015, between PDL and ARIAD
ARIAD Royalty Rights	The right to receive specified royalties on ARIAD's Net Revenues (as defined in the ARIAD Royalty Agreement) generated by the sale, distribution or other use of ARIAD's product Iclusig® (ponatinib)
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Avinger	Avinger, Inc.
Avinger Credit and Royalty Agreement	Credit Agreement, dated April 18, 2013, between PDL and Avinger
AxoGen	AxoGen, Inc.
AxoGen Royalty Agreement	Revenue Interests Purchase Agreement, dated as of October 5, 2012, between PDL and AxoGen
Biogen	Biogen, Inc.
CareView	CareView Communications, Inc.
Chugai	Chugai Pharmaceutical Co., Ltd.
Depo DR Sub	Depo DR Sub, LLC, a wholly-owned subsidiary of Depomed
Depomed	Depomed, Inc.
Depomed Royalty Agreement	Royalty Purchase and Sale Agreement, dated as of October 18, 2013, among Depomed, Depo DR Sub and PDL
Direct Flow Medical	Direct Flow Medical, Inc.
Durata	Durata Therapeutics Holding C.V., Durata Therapeutics International B.V. and Durata Therapeutics, Inc. (parent company)
EBITDA	Earnings before interest, taxes, depreciation and amortization
Elan	Elan Corporation, PLC
EPO	European Patent Office
ex-U.S.-based Manufacturing and Sales	Products that are both manufactured and sold outside of the United States
ex-U.S.-based Sales	Products that are manufactured in the United States and sold outside of the United States
Facet	Facet Biotech Corporation. In April 2010, Abbott Laboratories acquired Facet and later renamed the company Abbott Biotherapeutics Corp., and in January 2013, Abbott Biotherapeutics Corp. was renamed AbbVie Biotherapeutics, Inc. and spun off from Abbott Laboratories as a subsidiary of AbbVie Inc.
FASB	Financial Accounting Standards Board
FDA	U.S. Food and Drug Administration
February 2015 Notes	2.875% Convertible Senior Notes due February 15, 2015, fully retired at September 30, 2013
February 2018 Notes	4.0% Convertible Senior Notes due February 1, 2018
GAAP	U.S. Generally Accepted Accounting Principles
Genentech	Genentech, Inc.
Genentech Products	Avastin®, Herceptin®, Lucentis®, Xolair®, Perjeta® and Kadcyla®
Genzyme	Genzyme Corporation (a Sanofi company)
Hyperion	Hyperion Catalysis International, Inc.
IRS	Internal Revenue Service
kaléo	kaléo, Inc. (formerly known as Intellijject, Inc.)

kaléo Revenue Interests	100% of the royalties from kaléo's first approved product, Auvi-Q™ (epinephrine auto-injection, USP) (known as Allerject in Canada) and 10% of net sales of kaléo's second proprietary auto-injector based product, EVZIO (naloxone hydrochloride injection), collectively
KMPG	KPMG, LLP
LENSAR	LENSAR, Inc.
Lilly	Eli Lilly and Company
March 2015 Term Loan	Term Loan borrowed under the Credit Agreement, dated as of March 30, 2015, among PDL, the Royal Bank of Canada and lenders thereto
May 2015 Notes	3.75% Senior Convertible Notes due May 2015
Merck	Merck & Co., Inc.
Michigan Royalty Agreement	Royalty Purchase and Sale Agreement, dated as of November 6, 2014, between The Regents of the University of Michigan and PDL
Novartis	Novartis AG
OCI	Other Comprehensive Income (Loss)
October 2013 Term Loan	Term Loan borrowed under the Credit Agreement, dated October 28, 2013, among PDL, the Royal Bank of Canada and lenders thereto, as amended
Paradigm Spine	Paradigm Spine, LLC
Paradigm Spine Credit Agreement	Paradigm Spine Credit Agreement, dated February 14, 2014, between Paradigm Spine and the Company
PDL, we, us, our, the Company	PDL BioPharma, Inc.
Queen et al. patents	PDL's patents in the United States and elsewhere covering the humanization of antibodies
Roche	F. Hoffman LaRoche, Ltd.
Salix	Salix Pharmaceuticals, Inc.
Santarus	Santarus, Inc.
SDK	Showa Denka K.K.
SEC	Securities and Exchange Commission
Series 2012 Notes	2.875% Series 2012 Convertible Senior Notes, fully retired on February 15, 2015
Settlement Agreement	Settlement Agreement between and among PDL, Genentech and Roche, dated January 31, 2014
SPCs	Supplementary Protection Certificates
SPC Products	Avastin, Herceptin, Lucentis, Xolair and Tysabri
Spin-Off	The spin-off by PDL of Facet
Takeda	Takeda Pharmaceuticals America, Inc.
U-M	University of Michigan
Valeant Pharmaceuticals	Valeant Pharmaceuticals International, Inc.
VB	Viscogliosi Brothers, LLC
VB Royalty Agreement	Royalty Purchase and Sale Agreement, dated as of June 26, 2014, between Viscogliosi Brothers, LLC and PDL
VWAP	Volume-weighted average share price
Wellstat Diagnostics	Wellstat Diagnostics, LLC
Wellstat Diagnostics Borrower Notice	A notice of default to Wellstat Diagnostics, due to, inter alia, its ongoing failure to pay its debts as they became due and Wellstat Diagnostics' failure to comply with certain covenants included in the first amendment to amended and restated credit agreement by the deadlines to which the parties had agreed
Wellstat Diagnostics Guarantor Notice	A notice to each of the guarantors of Wellstat Diagnostics' obligations to the Company under the credit agreement
Wellstat Diagnostics Guarantors	Some or all of: Samuel J. Wohlstadter; Nadine H. Wohlstadter; Duck Farm, Inc.; Hebron Valley Farms, Inc.; HVF, Inc.; Hyperion Catalysis EU Limited; Hyperion Catalysis International, Inc.; NHW, LLC; Wellstat AVT Investment, LLC; Wellstat Biocatalysis, LLC; Wellstat Biologics Corporation; Wellstat Diagnostics, LLC; Wellstat Immunotherapeutics, LLC; Wellstat Management Company, LLC; Wellstate Opthalmics Corporation; Wellstat Therapeutics Corporation; Wellstat Therapeutics EU Limited; Wellstat Vaccines, LLC; and SJW Properties, Inc.
Wellstat Diagnostics Note Receivable and Credit Agreement	Senior Secured Note receivable among the Company and the holders of the equity interests in Wellstat Diagnostics, as amended, and Credit Agreement between Wellstat Diagnostics and the Company, dated November 2, 2012, as amended
Wellstat	An Ex Parte Petition for Appointment of Receiver with the Circuit Court of Montgomery County, Maryland

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	**2014**	**2015**	**2014**
Revenues				
Royalties from Queen et al. patents	$ 119,222	$ 123,916	$ 363,916	$ 355,008
Royalty rights - change in fair value	(4,280)	27,602	19,298	73,807
Interest revenue	9,096	13,076	28,596	34,760
License and other	580	—	580	575
Total revenues	124,618	164,594	412,390	464,150
Operating expenses				
General and administrative	8,450	5,686	23,545	17,188
Operating income	116,168	158,908	388,845	446,962
Non-operating expense, net				
Interest and other income, net	87	75	294	207
Interest expense	(5,901)	(9,387)	(21,710)	(29,770)
Loss on extinguishment of debt	—	—	—	(6,143)
Total non-operating expense, net	(5,814)	(9,312)	(21,416)	(35,706)
Income before income taxes	110,354	149,596	367,429	411,256
Income tax expense	40,895	47,361	135,208	144,083
Net income	$ 69,459	$ 102,235	$ 232,221	$ 267,173
Net income per share				
Basic	$ 0.42	$ 0.64	$ 1.42	$ 1.70
Diluted	$ 0.42	$ 0.61	$ 1.42	$ 1.62
Weighted average shares outstanding				
Basic	163,560	160,268	163,314	157,274
Diluted	163,742	166,894	163,899	165,141
Cash dividends declared per common share	$ —	$ —	$ 0.60	$ 0.60

See accompanying notes.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	**2014**	**2015**	**2014**
Net income	$ 69,459	$ 102,235	$ 232,221	$ 267,173
Other comprehensive income (loss), net of tax				
Change in unrealized gains on investments in available-for-sale securities:				
Change in fair value of investments in available-for-sale securities, net of tax	634	(258)	445	(1,554)
Adjustment for net (gains) losses realized and included in net income, net of tax	(406)	—	(406)	—
Total change in unrealized gains on investments in available-for-sale securities, net of tax[(a)]	228	(258)	39	(1,554)
Change in unrealized gains (losses) on cash flow hedges:				
Change in fair value of cash flow hedges, net of tax	(57)	1,974	4,306	2,305
Adjustment to royalties from Queen et al. patents for net (gains) losses realized and included in net income, net of tax	(1,495)	989	(3,903)	3,744
Total change in unrealized losses on cash flow hedges, net of tax[(b)]	(1,552)	2,963	403	6,049
Total other comprehensive income (loss), net of tax	(1,324)	2,705	442	4,495
Comprehensive income	$ 68,135	$ 104,940	$ 232,663	$ 271,668

[(a)] Net of tax of $123 and ($139) for the three months ended September 30, 2015 and 2014, respectively, and $21 and ($837) for the nine months ended September 30, 2015 and 2014, respectively.
[(b)] Net of tax of ($836) and $1,595 for the three months ended September 30, 2015 and 2014, respectively, and $217 and $3,257 for the nine months ended September 30, 2015 and 2014, respectively.

See accompanying notes.

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

	September 30, 2015	December 31, 2014
	(unaudited)	(Note 1)
Assets		
Current assets:		
Cash and cash equivalents	$ 227,855	$ 291,377
Short-term investments	1,827	2,310
Receivables from licensees and other	594	300
Deferred tax assets	—	375
Notes receivable	67,246	57,597
Prepaid and other current assets	9,166	3,938
Total current assets	306,688	355,897
Property and equipment, net	42	62
Royalty rights - at fair value	384,572	259,244
Notes and other receivables, long-term	286,160	305,615
Long-term deferred tax assets	36,499	33,799
Other assets	6,640	7,733
Total assets	$ 1,020,601	$ 962,350
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 421	$ 318
Accrued liabilities	32,711	8,876
Accrued income taxes	—	3,293
Deferred tax liabilities	11,615	—
Term loan payable	49,842	—
Convertible notes payable	—	175,496
Total current liabilities	94,589	187,983
Convertible notes payable	281,581	276,228
Other long-term liabilities	48,474	37,702
Total liabilities	424,644	501,913
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred stock, par value $0.01 per share, 10,000 shares authorized; no shares issued and outstanding	—	—
Common stock, par value $0.01 per share, 350,000 shares authorized; 163,573 and 162,186 shares issued and outstanding at September 30, 2015, and December 31, 2014, respectively	1,636	1,622
Additional paid-in capital	(118,540)	(119,874)
Accumulated other comprehensive income	3,391	2,949
Retained earnings	709,470	575,740
Total stockholders' equity	595,957	460,437
Total liabilities and stockholders' equity	$ 1,020,601	$ 962,350

See accompanying notes.

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

	Nine Months Ended September 30,	
	2015	**2014**
Cash flows from operating activities		
Net income	$ 232,221	$ 267,173
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of convertible notes and term loan offering costs	9,744	13,473
Change in fair value of royalty rights - at fair value	(19,298)	(72,992)
Loss on extinguishment of convertible notes	—	6,143
Other amortization, depreciation and accretion of embedded derivative	29	(144)
Gain on sale of available-for-sale securities	(580)	—
Hedge ineffectiveness on foreign exchange contracts	—	(5)
Stock-based compensation expense	1,348	1,026
Deferred income taxes	9,143	(6,493)
Changes in assets and liabilities:		
Receivables from licensees and other	(294)	50
Prepaid and other current assets	(4,434)	1,959
Accrued interest on notes receivable	(3,076)	(8,367)
Other assets	35	(29)
Accounts payable	103	792
Accrued liabilities	(861)	3,325
Accrued income taxes	(3,293)	6,494
Other long-term liabilities	10,599	10,834
Net cash provided by operating activities	231,386	223,239
Cash flows from investing activities		
Proceeds from sales of available-for-sale securities	1,124	—
Purchase of royalty rights - at fair value	(115,000)	(15,500)
Proceeds from royalty rights - at fair value	8,970	81,717
Purchase of notes receivable	(8,976)	(215,000)
Repayment of notes receivable	20,600	—
Purchase of property and equipment	(9)	(49)
Net cash used in investing activities	(93,291)	(148,832)
Cash flows from financing activities		
Proceeds from term loan	100,000	—
Repurchase of convertible notes	(177,387)	(29,906)
Payment of debt issuance costs	(607)	(9,287)
Proceeds from the issuance of convertible notes	—	300,000
Purchase of call options	—	(30,951)
Proceeds from the issuance of warrants	—	11,427
Repayment of term loan	(50,000)	(56,250)
Cash dividends paid	(73,623)	(72,135)
Net cash provided by/(used in) financing activities	(201,617)	112,898
Net increase/(decrease) in cash and cash equivalents	(63,522)	187,305
Cash and cash equivalents at beginning of the period	291,377	94,302
Cash and cash equivalents at end of period	$ 227,855	$ 281,607
Supplemental cash flow information		
Cash paid for income taxes	$ 125,000	$ 134,000
Cash paid for interest	$ 16,045	$ 15,217
Stock issued to settle debt	$ 9,794	$ 157,591
Warrant received for issuance of notes receivable	$ (1,258)	$ —

See accompanying notes.

1. Summary of Significant Accounting Policies

Basis of Presentation

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

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

Principles of Consolidation

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

Management Estimates

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

Notes Receivable and Other Long-Term Receivables

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

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

Convertible Notes

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

Queen et al. Royalty Revenues

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

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

Although the last of our Queen et al. patents expired in December 2014, we expect to receive royalties beyond expiration based on the terms of our licenses and our legal settlements. We do not expect to receive any meaningful revenue from our Queen et al. patents beyond the first quarter of 2016. We believe that cash from future revenues from the Queen et al. patent royalties through the first quarter of 2016 and from acquired revenue generating assets, net of operating expenses, debt service and income taxes, plus cash on hand, will be sufficient to fund our operations over the next several years. However, we do not expect that our acquired revenue generating assets will, in the near term, replace the revenues we generate from our license agreements related to the Queen et al. patents. In the second quarter of 2016, our revenues are likely to materially decrease after we stop receiving payments from these Queen et al. patents license agreements, which currently account for 88% of our year to date revenue. The continued success of the Company will become more dependent on the timing and our ability to acquire new income generating assets in order to provide recurring revenues going forward and to support our business model and ability to pay dividends.

Royalty Rights - At Fair Value

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

The changes in the estimated fair value from investments in royalty rights along with cash receipts each reporting period are presented together on our Condensed Consolidated Statements of Income as a component of revenue under the caption, "Royalty rights - change in fair value."

Customer Concentration

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

		Three Months Ended September 30,		Nine Months Ended September 30,	
Licensee	**Product Name**	**2015**	**2014**	**2015**	**2014**
Genentech	*Avastin*	32 %	24%	28%	25%
	Herceptin	32 %	24%	28%	25%
	Xolair	10 %	6%	8%	6%
Biogen	*Tysabri*®	11 %	10%	10%	9%
Depomed	*Glumetza*®	(10)%	14%	—%	13%

Foreign Currency Hedging

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

We hedge certain Euro-denominated currency exposures related to royalties associated with our licensees' product sales with Euro forward contracts. In general, these contracts are intended to offset the underlying Euro market risk in our royalty revenues. The last of these contracts expires in the first quarter of 2016. We designate foreign currency exchange contracts used to hedge royalty revenues based on underlying Euro-denominated licensee product sales as cash flow hedges.

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

Income Taxes

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

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

Comprehensive Income

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

Recently Issued Accounting Pronouncements

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

2. Net Income per Share

Net Income per Basic and Diluted Share:	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
(in thousands except per share amounts)				
Numerator				
Net income used to compute net income per basic and diluted share	$ 69,459	$ 102,235	$ 232,221	$ 267,173
Denominator				
Weighted average shares used to compute net income per basic share	163,560	160,268	163,314	157,274
Restricted stock outstanding	167	96	131	113
Effect of dilutive stock options	15	22	18	22
Assumed conversion of Series 2012 Notes	—	2,247	33	3,301
Assumed conversion of warrants	—	—	403	—
Assumed conversion of May 2015 Notes	—	4,261	—	4,431
Weighted average shares used to compute net income per diluted share	163,742	166,894	163,899	165,141
Net income per share - basic	$ 0.42	$ 0.64	$ 1.42	$ 1.70
Net income per share - diluted	$ 0.42	$ 0.61	$ 1.42	$ 1.62

We compute diluted net income per share using the sum of the weighted average number of common and common equivalent shares outstanding. Common equivalent shares used in the computation of diluted net income per share include shares that may be issued under our stock options and restricted stock awards, our February 2018 Notes, our Series 2012 Notes and our May 2015 Notes on a weighted average basis for the period that the notes were outstanding, including the effect of adding back interest expense and the underlying shares using the if-converted method. In the third quarter of 2013, $1.0 million aggregate principal of our February 2015 Notes was exchanged for our Series 2012 Notes and the February 2015 Notes were retired, in the first quarter of 2014, $131.7 million aggregate principal of our Series 2012 Notes was retired in a privately negotiated exchange and purchase agreements, in the fourth quarter of 2014, the Company entered into a privately negotiated exchange agreement by which it retired approximately $26.0 million in principal of the outstanding Series 2012 Notes, and, in the first quarter of 2015, the Company completed the retirement of the remaining $22.3 million of aggregate principal of its Series 2012 Notes.

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

In May 2011, we issued our May 2015 Notes, in January and February 2012, we issued our Series 2012 Notes, and in February 2014, we issued our February 2018 Notes. The Series 2012 Notes and May 2015 Notes were net share settled, with the principal amount settled in cash and the excess settled in our common stock. The weighted average share adjustments related to our Series 2012 Notes, May 2015 Notes and February 2018 Notes, shown in the table above, include the shares issuable in respect of such excess.

May 2015 Notes Purchased Call Option and Warrant Potential Dilution

The warrants are dilutive for the three and nine months ended September 30, 2015, as the exercise price of the warrants was lower than the average market price of our common stock. We excluded from our calculations of net income per diluted share 18.1 million and 22.2 million shares for the three months ended September 30, 2015 and 2014, respectively, and zero and 22.2 million shares for the nine months ended September 30, 2015 and 2014, respectively, for warrants issued in 2011, because the exercise price of the warrants was higher than the average market price of our common stock and thus, for the three and nine months ended September 30, 2014, no stock was issuable upon conversion. Our purchased call options, issued in 2011, will always be anti-dilutive and therefore zero and 26.1 million shares were excluded from our calculations of net income per

diluted share for the three months ended September 30, 2015 and 2014, respectively, and zero and 26.1 million shares were excluded from our calculation of diluted net income per share for the nine months ended September 30, 2015 and 2014, respectively, because they have no effect on diluted net income per share. For information related to the conversion rates on our convertible debt, see Note 9.

February 2018 Notes Purchased Call Option and Warrant Potential Dilution

We excluded from our calculation of net income per diluted share 29.0 million shares for the three and nine months ended September 30, 2015 and 2014, for warrants issued in February 2014, because the exercise price of the warrants exceeded the VWAP of our common stock and conversion of the underlying February 2018 Notes is not assumed, therefore no stock would be issuable upon conversion. These securities could be dilutive in future periods. Our purchased call options, issued in February 2014, will always be anti-dilutive and therefore 32.7 million shares were excluded from our calculation of net income per diluted share for the three and nine months ended September 30, 2015 and 2014, because they have no effect on diluted net income per share. For information related to the conversion rates on our convertible debt, see Note 9.

Anti-Dilutive Effect of Stock Options and Restricted Stock Awards

For the three months ended September 30, 2015 and 2014, we excluded approximately 42,000 and 4,000 shares underlying outstanding stock options, respectively, and for the nine months ended September 30, 2015 and 2014, we excluded approximately 39,000 and 4,000 shares underlying outstanding stock options, respectively. For the three months ended September 30, 2015 and 2014, we excluded approximately 475,000 and zero shares underlying restricted stock awards, respectively, and for the nine months ended September 30, 2015 and 2014, we excluded approximately 437,000 and zero shares underlying restricted stock awards, respectively, calculated on a weighted average basis, from our net income per diluted share calculations because their effect was anti-dilutive.

3. Fair Value Measurements

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

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

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

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

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

	September 30, 2015				December 31, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
(In thousands)								
Financial assets:								
Money market funds	$ 139,850	$ —	$ —	$ 139,850	$ 221,792	$ —	$ —	$ 221,792
Corporate securities	—	1,827	—	1,827	—	2,310	—	2,310
Foreign currency hedge contracts	—	4,597	—	4,597	—	4,069	—	4,069
Warrants	—	1,258	—	1,258	—	—	—	—
Royalty rights - at fair value	—	—	384,572	384,572	—	—	259,244	259,244
Total	$ 139,850	$ 7,682	$ 384,572	$ 532,104	$ 221,792	$ 6,379	$ 259,244	$ 487,415

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

Corporate Securities

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

Royalty Rights - At Fair Value

Depomed Royalty Agreement

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

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

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

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

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

The asset acquired represents a single unit of accounting. The fair value of the asset acquired was determined by using a discounted cash flow analysis related to the expected future cash flows to be generated by each licensed product. This asset is classified as a Level 3 asset within the fair value hierarchy, as our valuation utilized significant unobservable inputs, including estimates as to the probability and timing of future commercialization for products not yet approved by the FDA or other regulatory agencies. The discounted cash flows are based upon expected royalties from sales of licensed products over a eight-year period. The discount rates utilized range from approximately 21% to 25%. Significant judgment is required in selecting appropriate discount rates. At September 30, 2015, an evaluation was performed to assess those rates and general market conditions potentially affecting the fair market value. Should these discount rates increase or decrease by 5%, the fair value of the asset could decrease by $18.3 million or increase by $23.2 million, respectively. A third-party expert was engaged to help management develop its original estimate of the expected future cash flows. The fair value of the asset is subject to variation should those cash flows vary significantly from those estimates. We periodically assess the expected future cash flows and to the extent such payments are greater or less than our initial estimates, or the timing of such payments is materially different than our original estimates, we will adjust the estimated fair value of the asset. Certain manufacturers of generic equivalents to Glumetza will be permitted to enter the market starting in February and August 2016. Our current expected future cash flows anticipate a reduction in future cash flows of Glumetza as result of the generic competition in 2016. Should the expected

royalties increase or decrease by 5%, the fair value of the asset could increase by $7.1 million or decrease by $7.7 million, respectively.

When PDL acquired the Depomed royalties, Glumetza was marketed by Santarus. In January 2014, Salix acquired Santarus and assumed responsibility for commercializing Glumetza, which was generally perceived to be a positive development because of Salix's larger sales force and track record in the successful commercialization of therapies. In late 2014, Salix made a number of disclosures relating to an excess of supply at the distribution level of Glumetza and other drugs that it commercialized, the practices leading to this excess of supply which were under review by Salix's audit committee in relation to the related accounting practices. Because of these disclosures and PDL's lack of direct access to information as to the levels of inventory of Glumetza in the distribution channels, PDL reviewed of all public statements by Salix, publicly available historical third-party prescription data, analyst reports and other relevant data sources. PDL also engaged a third-party expert to specifically assess estimated inventory levels of Glumetza in the distribution channel and to ascertain the potential effects those inventory levels may have on expected future cash flows. We have received no royalties from Glumetza sales in 2015. Salix was acquired by Valeant Pharmaceuticals in early April 2015. On June 18, 2015, Valeant Pharmaceuticals implemented a price increase on Glumetza and implemented an additional price increase on July 31, 2015. As of September 30, 2015, our discounted cash flow analysis reflects our expectations as to the amount and timing of future cash flows up to the valuation date. We will monitor whether the acquisition or price increase by Valeant Pharmaceuticals has any effect on sales of Glumetza and thus royalties on such sales paid to PDL. Due to the uncertainty around Valeant's marketing and pricing strategy, as well as the near-term generic competition, we may be unable to fully assess the impact of the acquisition or price increase on sales of Glumetza and thus royalties on such sales paid to PDL. PDL expects to exercise its royalty audit right for Glumetza in the near future.

As of September 30, 2015, and December 31, 2014, the carrying value of the asset acquired as reported in our Condensed Consolidated Balance Sheets was approximately $178.2 million and $176.2 million, respectively. As of September 30, 2015, the maximum loss exposure was $178.2 million.

VB Royalty Agreement

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

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

The fair value of the VB Royalty Agreement royalty right at September 30, 2015, was determined by using a discounted cash flow analysis related to the expected future cash flows to be received. This asset is classified as a Level 3 asset, as our valuation utilized significant unobservable inputs, including estimates as to the probability and timing of future sales of the licensed product. The discounted cash flow was based upon expected royalties from sales of licensed product over a nine-year period. The discount rate utilized was approximately 17.5%. Significant judgment is required in selecting the appropriate discount rate. Should this discount rate increase or decrease by 5%, the fair value of this asset could decrease by $2.4 million or increase by $3.2 million, respectively. Should the expected royalties increase or decrease by 5%, the fair value of the asset could increase by $0.8 million or decrease by $0.8 million, respectively. A third-party expert is engaged to assist management with the development of its estimate of the expected future cash flows, when deemed necessary. The fair value of the asset is subject to variation should those cash flows vary significantly from our estimates. At each reporting period, an evaluation is performed to assess those estimates, discount rates utilized and general market conditions affecting fair market value.

As of September 30, 2015, and December 31, 2014, the carrying value of the asset acquired as reported in our Condensed Consolidated Balance Sheets was $16.9 million and $16.1 million, respectively. As of September 30, 2015, the maximum loss exposure was $16.9 million.

University of Michigan Royalty Agreement

On November 6, 2014, PDL acquired a portion of all royalty payments of U-M’s worldwide royalty interest in Cerdelga (Eliglustat) for $65.6 million. Under the terms of the Michigan Royalty Agreement, PDL will receive 75% of all royalty payments due under U-M’s license agreement with Genzyme until expiration of the licensed patents, excluding any patent term

extension. Cerdelga, an oral therapy for adult patients with Gaucher disease type 1, was developed by Genzyme. Cerdelga was approved in the United States on August 19, 2014, in the European Union on January 22, 2015, and in Japan on March 25, 2015. In addition, marketing applications for Cerdelga are under review by other regulatory authorities.

The fair value of the royalty right at September 30, 2015, was determined by using a discounted cash flow analysis related to the expected future cash flows to be received. This asset is classified as a Level 3 asset, as our valuation utilized significant unobservable inputs, including estimates as to the probability and timing of future sales of the licensed product. The discounted cash flow was based upon expected royalties from sales of licensed product over a seven-year period. The discount rate utilized was approximately 12.8%. Significant judgment is required in selecting the appropriate discount rate. Should this discount rate increase or decrease by 5%, the fair value of this asset could decrease by $11.1 million or increase by $14.5 million, respectively. Should the expected royalties increase or decrease by 5%, the fair value of the asset could increase by $3.6 million or decrease by $3.6 million, respectively. A third-party expert is engaged to assist management with the development of its estimate of the expected future cash flows, when deemed necessary. The fair value of the asset is subject to variation should those cash flows vary significantly from our estimates. An evaluation of those estimates, discount rates utilized and general market conditions affecting fair market value is performed in each reporting period.

As of September 30, 2015, and December 31, 2014, the fair value of the asset acquired as reported in our Condensed Consolidated Balance Sheets was $71.6 million and $66.9 million. As of September 30, 2015, the maximum loss exposure was $71.6 million.

ARIAD Royalty Agreement

On July 28, 2015, PDL entered into the ARIAD Royalty Agreement, whereby the Company acquired the rights to receive royalties payable from ARIAD's net revenues generated by the sale, distribution or other use of Iclusig® (ponatinib), a cancer medicine for the treatment of adult patients with chronic myeloid leukemia, in exchange for up to $200.0 million in cash payments. The purchase price of $100.0 million is payable in two tranches of $50.0 million each, with the first tranche funded on the closing date and the second tranche to be funded on the 12-month anniversary of the closing date. The ARIAD Royalty Agreement provides ARIAD with an option to draw up to an additional $100.0 million in up to two draws at any time between the six- and 12-month anniversaries of the closing date. ARIAD may repurchase the royalty rights at any time for a specified amount. Upon the occurrence of certain events, PDL has the right to require ARIAD to repurchase the royalty rights for a specified amount. Under the ARIAD Royalty Agreement, the Company has the right to a make-whole payment from ARIAD if the Company does not receive payments equal to or greater than the amounts funded on or prior to the fifth anniversary of each of the respective fundings. In such case, ARIAD will pay to the Company the difference between the amounts paid to such date by ARIAD (excluding any delinquent fee payments) and the amounts funded by the Company. PDL has elected the fair value option to account for the hybrid instrument in its entirety. Any embedded derivative shall not be separated from the host contract.

Under the terms of the ARIAD Royalty Agreement, the Company will receive royalty payments at a royalty rate ranging from 2.5% to 7.5% of Iclusig revenue until the first to occur of (i) repurchase of the royalty rights by ARIAD or (ii) December 31, 2033. The annual royalty payments shall not exceed $20.0 million is any fiscal year for the years ended December 31, 2015 through December 31, 2018. If Iclusig revenue does not meet certain agreed-upon projections on an annual basis, PDL is entitled to certain royalty payments from net revenue of another ARIAD product, brigatinib, up to the amount of the shortfall from the projections for the applicable year.

The asset acquired pursuant to the ARIAD Royalty Agreement represents a single unit of accounting. The fair value of the royalty right at September 30, 2015, was determined by using a discounted cash flow analysis related to the expected future cash flows to be received. This asset is classified as a Level 3 asset, as our valuation utilized significant unobservable inputs, including estimates as to the probability and timing of future sales of the licensed product. The discounted cash flow was based upon expected royalties from sales of licensed product over a seven-year period. The discount rate utilized was approximately 10.0%. Significant judgment is required in selecting the appropriate discount rate. Should this discount rate increase or decrease by 5%, the fair value of this asset could decrease by $15.1 million or increase by $20.0 million, respectively. Should the expected royalties increase or decrease by 5%, the fair value of the asset could increase by $2.5 million or decrease by $2.5 million, respectively. A third-party expert is engaged to assist management with the development of its estimate of the expected future cash flows, when deemed necessary. The fair value of the asset is subject to variation should those cash flows vary significantly from our estimates. An evaluation of those estimates, discount rates utilized and general market conditions affecting fair market value is performed in each reporting period.

As of September 30, 2015, and December 31, 2014, the fair value of the asset acquired as reported in our Condensed Consolidated Balance Sheets was $49.9 million and zero. As of September 30, 2015, the maximum loss exposure was $49.9 million.

AcelRx Royalty Agreement

On September 18, 2015, PDL entered into the AcelRx Royalty Agreement with ARPI LLC, a wholly owned subsidiary of AcelRx, whereby the Company acquired the rights to receive a portion of the royalties and certain milestone payments on sales of Zalviso™ (sufentanil sublingual tablet system) in the European Union, Switzerland and Australia by AcelRx's commercial partner, Grünenthal, in exchange for a $65.0 million cash payment. Under the terms of the AcelRx Royalty Agreement, the Company will receive 75% of all royalty payments and 80% of the first four commercial milestone payments due under AcelRx's license agreement with Grünenthal until the earlier to occur of (i) receipt by the Company of payments equal to three times the cash payments made to AcelRx and (ii) the expiration of the licensed patents.

As of September 30, 2015, and December 31, 2014, the Company determined that its royalty rights under the agreement with ARPI LLC represented a variable interest in a variable interest entity. However, the Company does not have the power to direct the activities of ARPI LLC that most significantly impact ARPI LLC's economic performance and is not the primary beneficiary of ARPI LLC; therefore, ARPI LLC is not subject to consolidation by the Company.

The fair value of the royalty right at September 30, 2015, was determined by using a discounted cash flow analysis related to the expected future cash flows to be received. This asset is classified as a Level 3 asset, as our valuation utilized significant unobservable inputs, including estimates as to the probability and timing of future sales of the licensed product. The discounted cash flow was based upon expected royalties from sales of licensed product over a sixteen-year period. The discount rate utilized was approximately 13.4%. Significant judgment is required in selecting the appropriate discount rate. Should this discount rate increase or decrease by 5%, the fair value of this asset could decrease by $18.4 million or increase by $29.2 million, respectively. Should the expected royalties increase or decrease by 5%, the fair value of the asset could increase by $3.3 million or decrease by $3.3 million, respectively. A third-party expert is engaged to assist management with the development of its estimate of the expected future cash flows, when deemed necessary. The fair value of the asset is subject to variation should those cash flows vary significantly from our estimates. An evaluation of those estimates, discount rates utilized and general market conditions affecting fair market value is performed in each reporting period.

As of September 30, 2015, and December 31, 2014, the fair value of the asset acquired as reported in our Condensed Consolidated Balance Sheets was $65.3 million and zero. As of September 30, 2015, the maximum loss exposure was $65.3 million.

Avinger Credit and Royalty Agreement

On April 18, 2013, PDL entered into the Avinger Credit and Royalty Agreement, under which we made available to Avinger up to $40.0 million (of which only $20.0 million was funded) to be used by Avinger in connection with the commercialization of its lumivascular catheter devices and the development of Avinger's lumivascular atherectomy device. On September 22, 2015, Avinger elected to prepay the note receivable in whole for a payment of $21.4 million in cash (see Note 6).

Under the terms of the Avinger Credit and Royalty Agreement, the Company is entitled to receive royalties at a rate of 1.8% on Avinger's net revenues. As Avinger repaid the note receivable prior to its maturity date in April 2018, the royalty rate was reduced to 0.9% and will be subject to certain minimum payments from the prepayment date until April 2018. PDL has accounted for the royalty rights in accordance with the fair value option. The fair value of the royalty rights at September 30, 2015, was determined by using a discounted cash flow analysis related to the expected future cash flows to be received. This asset is classified as a Level 3 asset, as our valuation utilized significant unobservable inputs, including estimates as to the probability and timing of future sales of the licensed product. The discounted cash flow was based upon expected royalties from sales of licensed product over a three-year period. The discount rate utilized was approximately 15.0%. Significant judgment is required in selecting the appropriate discount rate. Should this discount rate increase or decrease by 5.0%, the fair value of this asset could decrease by $158,000 or increase by $179,000, respectively. Should the expected royalties increase or decrease by 5%, the fair value of the asset could increase by $137,000 or decrease by $137,000, respectively. Management considered the contractual minimum payments when developing its estimate of the expected future cash flows. The fair value of the asset is subject to variation should those cash flows vary significantly from our estimates. An evaluation of those estimates, discount rates utilized and general market conditions affecting fair market value is performed in each reporting period.

As of September 30, 2015, and December 31, 2014, the fair value of the royalty asset as reported in our Condensed Consolidated Balance Sheets was $2.7 million and zero. As of September 30, 2015, the maximum loss exposure was $2.7 million.

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

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

(in thousands)	Royalty Rights - At Fair Value
Beginning Balance at December 31, 2014	$ 259,244
Total net change in fair value for the period	
Change in fair value of royalty rights - at fair value	$ 19,298
Proceeds from royalty rights - at fair value	$ (8,970)
Total net change in fair value for the period	10,328
Purchases, issues, sales, and settlements	
Purchases	115,000
Ending Balance at September 30, 2015	$ 384,572

The changes in the estimated fair value included in earnings for each period are presented in "Royalty rights - change in fair value" as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2015	2014	2015	2014
Total change in fair value for the period included in earnings for assets held at the end of the reporting period	$ (4,280)	$ 26,787	$ 19,298	$ 72,992

Foreign Currency Hedge Contracts

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

Warrants

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

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

	September 30, 2015			December 31, 2014		
	Carrying Value	Fair Value Level 2	Fair Value Level 3	Carrying Value	Fair Value Level 2	Fair Value Level 3
(In thousands)						
Assets:						
Wellstat Diagnostics note receivable	$ 50,191	$ —	$ 50,191	$ 50,191	$ —	$ 50,191
Hyperion note receivable	1,200	—	1,200	1,200	—	1,200
Avinger note receivable	—	—	—	20,611	—	20,760
LENSAR note receivable	50,266	—	50,266	39,668	—	40,451
Direct Flow Medical note receivable	51,772	—	52,052	50,397	—	49,940
Paradigm Spine note receivable	49,909	—	51,071	49,571	—	50,125
kaléo note receivable	151,496	—	151,476	151,574	—	151,073
Total[1]	$ 354,834	$ —	$ 356,256	$ 363,212	$ —	$ 363,740
Liabilities:						
Series 2012 Notes	$ —	$ —	$ —	$ 22,261	$ 33,506	$ —
May 2015 Notes	—	—	—	153,235	205,534	—
February 2018 Notes	281,581	262,313	—	276,228	289,665	—
March 2015 Term Loan	49,842	50,000	—	—	—	—
Total	$ 331,423	$ 312,313	$ —	$ 451,724	$ 528,705	$ —

[1] The carrying amount of notes receivable excludes the debt discount of $1.4 million arisen from the CareView transaction (Note 6).

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

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

The Wellstat Diagnostics Note Receivable and Credit Agreement, as amended and restated, is secured by all assets and equity interests in Wellstat Diagnostics. The estimated fair value of the collateral was determined by using an asset approach related to the underlying collateral and was adjusted to consider estimated costs to sell the assets.

The loans under the credit agreement with LENSAR are secured by substantially all of the assets of LENSAR. The estimated fair value of the collateral was determined by using an asset approach related to the underlying collateral and was adjusted to consider estimated costs to sell the assets.

On September 30, 2015, the carrying values of several of our notes receivable differed from their fair value. This is the result of discount rates used when performing a discounted cash flow for fair value valuation purposes. We determined these notes

receivable to be Level 3 assets, as our valuations utilized significant unobservable inputs, estimates of future revenues, expectations about settlement and required yield. To provide support for the fair value measurements, we considered forward-looking performance, and current measures associated with high yield and published indices, and reviewed the terms and yields of notes placed by specialty finance and venture firms both across industries and in a similar sector.

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

4. Cash Equivalents and Short-Term Investments

As of September 30, 2015, and December 31, 2014, we had invested our excess cash balances primarily in money market funds, and a corporate equity security. Our securities are classified as available-for-sale and are carried at estimated fair value, with unrealized gains and losses reported in "Accumulated other comprehensive income" in stockholders' equity, net of estimated taxes. See Note 3 for fair value measurement information. The cost of securities sold is based on the specific identification method. To date, we have not experienced credit losses on investments in these instruments, and we do not require collateral for our investment activities.

Summary of Cash and Available-For-Sale Securities	Adjusted Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value	Cash and Cash Equivalents	Short-Term Investments
(In thousands)						
September 30, 2015						
Cash	$ 88,005	$ —	$ —	$ 88,005	$ 88,005	$ —
Money market funds	139,850	—	—	139,850	139,850	—
Corporate securities	1,206	621	—	1,827	—	1,827
Total	$ 229,061	$ 621	$ —	$ 229,682	$ 227,855	$ 1,827
December 31, 2014						
Cash	$ 69,585	$ —	$ —	$ 69,585	$ 69,585	$ —
Money market funds	221,792	—	—	221,792	221,792	—
Corporate securities	1,750	560	—	2,310	—	2,310
Total	$ 293,127	$ 560	$ —	$ 293,687	$ 291,377	$ 2,310

For the three and nine months ended September 30, 2015, recognized realized gains of available-for-sale securities was $580,000. There were no gains or losses on sales of available-for-sale securities recognized for the three and nine months ended September 31, 2014.

The unrealized gains on investments included in "Other comprehensive income (loss), net of tax" was approximately $404,000 and $364,000 as of September 30, 2015, and December 31, 2014, respectively.

5. Foreign Currency Hedging

We designate the foreign currency exchange contracts used to hedge our royalty revenues based on underlying Euro-denominated sales as cash flow hedges. Euro forward contracts are presented on a net basis on our Condensed Consolidated Balance Sheets as we have entered into a netting arrangement with the counterparty. As of September 30, 2015, and December 31, 2014, all outstanding Euro forward contracts were classified as cash flow hedges.

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

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

Euro Forward Contracts			September 30, 2015		December 31, 2014	
			(In thousands)		*(In thousands)*	
Currency	Settlement Price ($ per Euro)	Type	Notional Amount	Fair Value	Notional Amount	Fair Value
Euro	1.256	Sell Euro	$ —	$ —	$ 6,000	$ 241
Euro	1.257	Sell Euro	—	—	15,750	728
Euro	1.259	Sell Euro	—	—	16,125	752
Euro	1.260	Sell Euro	33,000	4,597	33,000	1,468
Euro	1.270	Sell Euro	—	—	7,000	377
Euro	1.281	Sell Euro	—	—	8,000	503
Total			$ 33,000	$ 4,597	$ 85,875	$ 4,069

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

Cash Flow Hedge	Location	September 30, 2015	December 31, 2014
(In thousands)			
Euro contracts	Prepaid and other current assets	$ 4,597	$ 3,352
Euro contracts	Other assets	$ —	$ 717

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
(In thousands)				
Net gain (loss) recognized in OCI, net of tax [1]	$ (57)	$ 1,974	$ 4,306	$ 2,305
Gain (loss) reclassified from accumulated OCI into royalty revenue, net of tax [2]	$ 1,495	$ (989)	$ 3,903	$ (3,744)
Net gain (loss) recognized in interest and other income, net - cash flow hedges [3]	$ —	$ 2	$ —	$ 5

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

(2) Effective portion classified as royalty revenue.

(3) Ineffectiveness from excess hedge was approximately zero and ($2) for the three months ended September 30, 2015 and 2014, respectively, and zero and ($5) for the nine months ended September 30, 2015 and 2014, respectively.

6. Notes Receivable and Other Long-Term Receivables

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

Wellstat Diagnostics Note Receivable and Credit Agreement

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

original $7.5 million note receivable. This $10.0 million note receivable was repaid on November 2, 2012, using the proceeds of the $40.0 million credit facility entered into with the Company on the same date.

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

In January 2013, the Company was informed that, as of December 31, 2012, Wellstat Diagnostics had used funds contrary to the terms of the credit agreement and breached Sections 2.1.2 and 7 of the credit agreement. PDL sent Wellstat Diagnostics a notice of default on January 22, 2013, and accelerated the amounts owed under the credit agreement. In connection with the notice of default, PDL exercised one of its available remedies and transferred approximately $8.1 million of available cash from a bank account of Wellstat Diagnostics to PDL and applied the funds to amounts due under the credit agreement. On February 28, 2013, the parties entered into a forbearance agreement whereby PDL agreed to refrain from exercising additional remedies for 120 days while Wellstat Diagnostics raised funds to capitalize the business and the parties attempted to negotiate a revised credit agreement. PDL agreed to provide up to $7.9 million to Wellstat Diagnostics to fund the business for the 120-day forbearance period under the terms of the forbearance agreement. Following the conclusion of the forbearance period that ended on June 28, 2013, the Company agreed to forbear its exercise of remedies for additional periods of time to allow the owners and affiliates of Wellstat Diagnostics to complete a pending financing transaction. During such forbearance period, the Company provided approximately $1.3 million to Wellstat Diagnostics to fund ongoing operations of the business. During the year ended December 31, 2013, approximately $8.7 million was advanced pursuant to the forbearance agreement.

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

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

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

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

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

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

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

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

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

On September 4, 2015, PDL filed in the Supreme Court of New York a motion for summary judgment in lieu of complaint which requested that the court enter judgment against Wellstat Diagnostics Guarantors for the total amount due on the Wellstat Diagnostics debt, plus all costs and expenses including lawyers' fees incurred by the Company in enforcement of the related guarantees. On September 23, 2015, PDL filed in the same court an ex parte application for a temporary restraining order and order of attachment of the Wellstat Diagnostics Guarantors' assets. At a hearing on September 24, 2015, regarding the Company's request for a temporary restraining order, the court ordered that the Company's request for attachment and for summary judgment would be heard at a hearing on November 5, 2015. Although the court denied the Company's request for a temporary restraining order at the hearing on September 24, it ordered that assets of the Wellstat Diagnostics Guarantors should be held in *status quo ante* and only used in the normal course of business pending the outcome of the hearing.

On October 22, 2015, the Wellstat Diagnostics Guarantors filed a complaint against the Company in the Supreme Court of New York seeking a declaratory judgment that certain contractual arrangements entered into between the parties subsequent to Wellstat Diagnostics' default, and which relate to a split of proceeds in the event that the Wellstat Diagnostics Guarantors voluntarily monetize any assets that are the Company's collateral, is of no force or effect.

Through the period ended September 30, 2015, PDL has advanced to Wellstat Diagnostics $11.1 million to fund the ongoing operations of the business and other associated costs. This funding has been expensed as incurred.

Effective April 1, 2014, and as a result of the event of default, we determined the loan to be impaired and we ceased to accrue interest revenue. At that time and as of September 30, 2015 it has been determined that an allowance on the carrying value of the note was not necessary as the Company believes the value of the collateral securing Wellstat Diagnostics' obligations exceeds the carrying value of the asset and is sufficient to enable the Company to recover the current carrying value of $50.2 million. There can be no assurance that this will be true in the event of the Company's foreclosure on the collateral, nor can

there be any assurance of the timing in realizing value from such collateral, whether from the sale process currently underway or a subsequent monetization event if PDL makes a successful credit bid for the assets.

Hyperion Agreement

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

AxoGen Note Receivable and AxoGen Royalty Agreement

In October 2012, PDL entered into the AxoGen Royalty Agreement with AxoGen pursuant to which the Company would receive specified royalties on AxoGen’s net revenues (as defined in the AxoGen Royalty Agreement) generated by the sale, distribution or other use of AxoGen’s products. The AxoGen Royalty Agreement had an eight-year term and provided PDL with royalties of 9.95% based on AxoGen's net revenues, subject to agreed-upon guaranteed quarterly minimum payments of approximately $1.3 million to $2.5 million, which were to begin in the fourth quarter of 2014, and the right to require AxoGen to repurchase the royalties under the AxoGen Royalty Agreement at the end of the fourth year. AxoGen was granted certain rights to call the contract in years five through eight. The total consideration PDL paid to AxoGen for the royalty rights was $20.8 million, including an interim funding of $1.8 million in August 2012. AxoGen was required to use a portion of the proceeds from the AxoGen Royalty Agreement to pay the outstanding balance under its existing credit facility. The royalty rights were secured by the cash and accounts receivable of AxoGen.

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

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

Subsequent to the pay-off, the Company acquired 643,382 shares of registered common stock of AxoGen for approximately $1.7 million at a public offering price of $2.72 per share. The shares are classified as available for sale securities and recorded as short-term investments on the Condensed Consolidated Balance Sheets. On September 15, 2015, PDL sold 200,000 shares at $5.62 per share, totaling approximately $1.1 million. As of September 30, 2015, the remaining shares were valued at $1.8 million, which resulted in an unrealized gain of $0.6 million and is recorded in "Other comprehensive income (loss), net of tax."

Avinger Credit and Royalty Agreement

On April 18, 2013, PDL entered into the Avinger Credit and Royalty Agreement, under which we made available to Avinger up to $40.0 million to be used by Avinger in connection with the commercialization of its lumivascular catheter devices and the development of Avinger's lumivascular atherectomy device. Of the $40.0 million initially available to Avinger, we funded an initial $20.0 million, net of fees, at the close of the transaction. Outstanding borrowings under the initial loan bore interest at a stated rate of 12% per annum.

On September 22, 2015, Avinger elected as per the voluntary prepayment provision under the Avinger Credit and Royalty Agreement to prepay the notes receivable in whole for a payment of $21.4 million in cash, which was the sum of the outstanding principal, interest and a prepayment fee.

Under the terms of the Avinger Credit and Royalty Agreement, the Company will receive a low, single-digit royalty on Avinger's net revenues until April 2018. Avinger repaid the note receivable prior to its maturity date in April 2018, which resulted in the royalty on Avinger's net revenues being reduced by 50% and subject to certain minimum payments from the

prepayment date until April 2018. PDL has accounted for the royalty rights in accordance with the fair value option (see Note 3).

LENSAR Credit Agreement

On October 1, 2013, PDL entered into a credit agreement with LENSAR, under which PDL made available to LENSAR up to $60.0 million to be used by LENSAR in connection with the commercialization of its currently marketed LENSAR™ Laser System. Of the $60.0 million available to LENSAR, an initial $40.0 million, net of fees, was funded by the Company at the close of the transaction. The additional $20.0 million in the form of a second tranche is no longer available to LENSAR under the terms of the credit agreement. Outstanding borrowings under the loans bear interest at the rate of 15.5% per annum, payable quarterly in arrears.

Principal repayment will commence on the thirteenth interest payment date or December 31, 2016. The principal amount outstanding at the commencement of repayment will be repaid in equal installments until final maturity of the loans. The loans will mature on October 1, 2018. LENSAR may elect to prepay the loans at any time, subject to a prepayment penalty that decreases over the life of the loans. The loans are secured by all of the assets of LENSAR.

On May 12, 2015, PDL entered into a forbearance agreement with LENSAR under which PDL agreed to refrain from exercising certain remedies available to it resulting from the failure of LENSAR to comply with a liquidity covenant and make interest payments due under the credit agreement. Under the forbearance agreement, PDL has agreed to provide LENSAR with up to an aggregate of $8.5 million in weekly increments through the period ending September 30, 2015 plus employee retention amounts of approximately $0.5 million in the form of additional loans subject to LENSAR meeting certain milestones related to LENSAR obtaining additional capital to fund the business or selling itself and repaying outstanding amounts under the credit agreement. As of September 30, 2015, PDL has funded an additional $9.0 million of principal under the forbearance agreement. In exchange for the forbearance, LENSAR agreed to additional reporting covenants, the engagement of a chief restructuring officer and an increase on the interest rate to 18.5%, applicable to all outstanding amounts under the credit agreement. On September 30, 2015, PDL agreed to extend the forbearance agreement until October 9, 2015 and provide for up to an additional $0.8 million in funding while LENSAR negotiated a potential sale of its assets. On October 9, 2015, the forbearance agreement expired, but PDL has agreed to fund LENSAR's operations while LENSAR continues to negotiate a potential sale of its assets.

The Company completed an impairment analysis as of September 30, 2015. Effective April 1, 2015 and as a result of the forbearance, we determined the loan to be impaired and we ceased to accrue interest revenue.

Durata Credit Agreement

On October 31, 2013, PDL entered into a credit agreement with Durata, under which the Company made available to Durata up to $70.0 million. Of the $70.0 million available to Durata, an initial $25.0 million (tranche one), net of fees, was funded by the Company at the close of the transaction. On May 27, 2014, the Company funded Durata an additional $15.0 million (tranche two) as a result of Durata's marketing approval of dalbavancin in the United States, which occurred on May 23, 2014, and was the milestone needed to receive the tranche two funding. Until the occurrence of the tranche two milestone, outstanding borrowings under tranche one bore interest at the rate of 14.0% per annum, payable quarterly in arrears. Upon occurrence of the tranche two milestone, the interest rate of the loans decreased to 12.75%.

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

Direct Flow Medical Credit Agreement

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

On November 10, 2014, PDL and Direct Flow Medical agreed to an amendment to the credit agreement to permit Direct Flow Medical to borrow the $15.0 million second tranche upon receipt by Direct Flow Medical of a specified minimum amount of

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

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

Paradigm Spine Credit Agreement

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

Principal repayment will commence on the twelfth interest payment date, December 31, 2016. The principal amount outstanding at commencement of repayment will be repaid in equal installments until final maturity of the loans. The loans will mature on February 14, 2019. Paradigm Spine may elect to prepay the loans at any time, subject to a prepayment penalty that decreases over the life of the loans. The obligations under the Paradigm Spine Credit Agreement are secured by a pledge of substantially all of the assets of Paradigm Spine and its domestic subsidiaries and, initially, certain assets of Paradigm Spine’s German subsidiaries.

On October 27, 2015, PDL and Paradigm Spine entered into an amendment to the Paradigm Spine Credit Agreement to provide additional term loan commitments of up to $7.0 million payable in two tranches of $4.0 million and $3.0 million, of which the first tranche was drawn on the closing date of the amendment, net of fees, and the second tranche is to be funded at the option of Paradigm Spine prior to June 30, 2016.

kaléo Note Purchase Agreement

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

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

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

On October 28, 2015, Sanofi US initiated a voluntary nationwide recall of all Auvi-Q® units effectively immediately. Sanofi is the exclusive licensee of kaléo for the manufacturing and commercialization of Auvi-Q. While Sanofi has not identified the reason for the recall, press reports indicate that a small number of units have failed to activate or delivered inadequate doses of epinephrine. It is not known at this time when Sanofi will reintroduce Auvi-Q in the U.S.

As part of our financing transaction, kaléo was required to establish an interest reserve account of $20 million from the $150 million provided by PDL. The purpose of this interest reserve account is to cover any possible shortfalls in interest payments

owed to PDL. As of this date, despite the recall of Auvi-Q, it is projected that the interest reserve account alone is sufficient to cover possible interest shortfalls until at least through the first quarter of 2016. PDL will monitor the recall situation and how it may impact the ability of kaléo to meet its obligations under the Notes, but at this point it has been determined that there is no impairment.

CareView Credit Agreement

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

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

On October 7, 2015, PDL and CareView entered into an amendment of the credit agreement to modify certain definitions related to the first and second tranche milestones. On this date, PDL also funded the first tranche of $20.0 million, net of fees, upon attainment of the modified first tranche milestone relating to the placement of CareView Systems. The additional $20.0 million in the form of a second tranche continues to be available upon CareView's attainment of specified milestones relating to the placement of CareView Systems and Consolidated EBITDA, to be accomplished no later than June 30, 2017 under the terms of the amended credit agreement.

In connection with the amendment of the credit agreement, PDL and CareView also agreed to amend the warrant to purchase common stock agreement by reducing the warrant's exercise price from $0.45 to $0.40 per share. At September 30, 2015, we determined an estimated fair value of the warrant of approximately $1.3 million.

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

7. Accrued Liabilities

	September 30, 2015	December 31, 2014
(In thousands)		
Compensation	$ 3,588	$ 1,332
Interest	2,000	6,210
Dividend payable	24,735	90
Legal	1,139	296
Other	1,249	948
Total	$ 32,711	$ 8,876

8. Commitments and Contingencies

Legal Proceedings

From time to time, we are involved in lawsuits, arbitrations, claims, investigations and proceedings, consisting of intellectual property, commercial, employment and other matters, which arise in the ordinary course of business. We make provisions for liabilities when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Such provisions are reviewed at least quarterly and adjusted to reflect the impact of settlement negotiations, judicial and administrative rulings, advice of legal counsel, and other information and events pertaining to a particular case. Litigation is inherently unpredictable. If any unfavorable ruling were to occur in any specific period, there exists the possibility of a material adverse impact on the results of our operations of that period and on our cash flows and liquidity.

PDL BioPharma, Inc. v Merck Sharp & Dohme, Corp.

On October 28, 2015, the Company filed a Complaint against Merck Sharp & Dohme, Corp ("Merck") for patent infringement. In the Complaint, the Company alleges that manufacture and sales of certain of Merck's Keytruda product infringes one or more claims of the Company's '761 Patent. The Company has requested judgment that Merck has infringed the '761 Patent, an award of damages due to the infringement, a finding that such infringement was willful and deliberate and trebling of damages therefore, and a declaration that the case is exceptional and warrants an award of attorney's fees and costs. Although the '761 Patent expired on December 2, 2014, the Company believes that Merck infringed the patent through, e.g., manufacture and/or sale of Keytruda prior to the expiration of the '761 Patent.

Wellstat Litigation

On September 4, 2015, PDL filed in the Supreme Court of New York a motion for summary judgment in lieu of complaint which requested that the court enter judgment against Wellstat Diagnostics' Guarantors for the total amount due on the Wellstat Diagnostics debt, plus all costs and expenses including lawyers' fees incurred by the Company in enforcement of the related guarantees. On September 23, 2015, PDL filed in the same court an ex parte application for a temporary restraining order and order of attachment of the Wellstat Diagnostics' Guarantors assets. At a hearing on September 24, 2015, regarding the Company's request for a temporary restraining order, the court ordered that the Company's request for attachment and for summary judgment would be heard at a hearing on November 5, 2015. Although the court denied the Company's request for a temporary restraining order at the hearing on September 24, it ordered that assets of the Wellstat Diagnostics Guarantors should be held in *status quo ante* and only used in the normal course of business pending the outcome of the hearing.

On October 22, 2015, the Wellstat Diagnostics Guarantors filed a complaint against the Company in the Supreme Court of New York seeking a declaratory judgment that certain contractual arrangements entered into between the parties subsequent to Wellstat Diagnostics' default, and which relate to a split of proceeds in the event that the Wellstat Diagnostics Guarantors voluntarily monetize any assets that are the Company's collateral, is of no force or effect.

Lease Guarantee

In connection with the Spin-Off, we entered into amendments to the leases for our former facilities in Redwood City, California, under which Facet was added as a co-tenant, and a Co-Tenancy Agreement, under which Facet agreed to indemnify us for all matters related to the leases attributable to the period after the Spin-Off date. Should Facet default under its lease obligations, we could be held liable by the landlord as a co-tenant and, thus, we have in substance guaranteed the payments under the lease agreements for the Redwood City facilities. As of September 30, 2015, the total lease payments for the duration of the guarantee, which runs through December 2021, are approximately $70.5 million. In April 2010, Abbott Laboratories acquired Facet and later renamed the entity AbbVie. If AbbVie were to default, we could also be responsible for lease-related costs including utilities, property taxes and common area maintenance, which may be as much as the actual lease payments.

We have recorded a liability of $10.7 million on our Condensed Consolidated Balance Sheets as of September 30, 2015, and December 31, 2014, related to this guarantee. In future periods, we may adjust this liability for any changes in the ultimate outcome of this matter that are both probable and estimable.

9. Convertible Notes and Term Loans

Description	Maturity Date	Principal Balance Outstanding September 30, 2015	Carrying Value September 30, 2015	Carrying Value December 31, 2014
(In thousands)				
Convertible Notes				
Series 2012 Notes	February 15, 2015	$ —	$ —	$ 22,261
May 2015 Notes	May 1, 2015	$ —	—	153,235
February 2018 Notes	February 1, 2018	$ 300,000	281,581	276,228
March 2015 Term Loan	February 15, 2016	$ 50,000	49,842	—
Total			$ 331,423	$ 451,724

As of September 30, 2015, PDL was in compliance with all applicable debt covenants, and embedded features of all debt agreements were evaluated and did not need to be accounted for separately.

Series 2012 Notes

In January 2012, we exchanged $169.0 million aggregate principal of Series 2012 Notes for an identical principal amount of our then existing February 2015 Notes, plus a cash payment of $5.00 for each $1,000 principal amount tendered, totaling approximately $845,000. The cash incentive payment was allocated to deferred issue costs of $765,000, additional paid-in capital of $52,000 and deferred tax assets of $28,000. The deferred issue costs will be recognized over the life of the Series 2012 Notes as interest expense. In February 2012, we entered into separate privately negotiated exchange agreements under which we exchanged an additional $10.0 million aggregate principal amount of the Series 2012 Notes for an identical principal amount of our then existing February 2015 Notes. In August 2013, the Company entered into a separate privately negotiated exchange agreement under which it retired the final $1.0 million aggregate principal amount of the Company's outstanding February 2015 Notes. Pursuant to the exchange agreement, the holder of the February 2015 Notes received $1.0 million aggregate principal amount of the Company's Series 2012 Notes. Immediately following the exchange, no principal amount of the February 2015 Notes remained outstanding and $180.0 million principal amount of the Series 2012 Notes was outstanding.

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

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

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

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	**2015**	**2014**	**2015**	**2014**
Contractual coupon interest	$ —	$ 347	$ 80	$ 1,455
Amortization of debt issuance costs	—	64	13	996
Amortization of debt discount	—	404	76	1,783
Total	$ —	$ 815	$ 169	$ 4,234

May 2015 Notes

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

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

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	**2015**	**2014**	**2015**	**2014**
Contractual coupon interest	$ —	$ 1,455	$ 1,938	$ 4,366
Amortization of debt issuance costs	—	320	435	952
Amortization of debt discount	—	1,308	1,815	3,852
Total	$ —	$ 3,083	$ 4,188	$ 9,170

Purchased Call Options and Warrants

In connection with the issuance of our May 2015 Notes, we entered into purchased call option transactions with two hedge counterparties. We paid an aggregate amount of $20.8 million, plus legal fees, for the purchased call options with terms substantially similar to the embedded conversion options in our May 2015 Notes. We exercised the purchased call options upon conversion of our May 2015 Notes on May 1, 2015, which required the hedge counterparties to deliver shares to the Company. The hedge counterparties delivered to us approximately 5.2 million of PDL common shares, which was the amount equal to the shares required to be delivered by us to the note holders for the excess conversion value.

In addition, we sold to the hedge counterparties warrants exercisable, on a cashless basis, for the sale of rights to receive up to 27.5 million shares of common stock underlying our May 2015 Notes. We received an aggregate amount of $10.9 million for

the sale from the two counterparties. The warrant counterparties may exercise the warrants on their specified expiration dates through the 120 scheduled trading days beginning on July 30, 2015 and ending on January 20, 2016. If the VWAP of our common stock, as defined in the warrant agreement, exceeds the strike price of the warrants on the date of conversion, we will deliver to the warrant counterparties shares of our common stock equal to the spread between the VWAP on the date of exercise or expiration and the strike price. If the VWAP is less than the strike price, neither party is obligated to deliver anything to the other.

The purchased call option transactions and warrant sales effectively serve to reduce the potential dilution associated with conversion of our May 2015 Notes. The strike price is approximately $6.40, subject to further adjustment upon certain events including dividend payments, for the warrants.

Because the share price was above $5.44, but below $6.40, upon conversion of our May 2015 Notes, the purchased call options offset the share dilution, and the Company received shares on exercise of the purchased call options equal to the shares that the Company delivered to the note holders. If the share price is above $6.40, upon exercise of the warrants, the Company will deliver shares to the counterparties in an amount equal to the excess of the share price over $6.40. For example, a 10% increase in the share price above $6.40 would result in the issuance of 2.1 million incremental shares upon exercise of the warrants. If our share price continues to increase, additional dilution would occur.

While the purchased call options reduced the potential equity dilution upon conversion of our May 2015 Notes, prior to the conversion or exercise, our May 2015 Notes and the warrants had a dilutive effect on the Company’s earnings per share to the extent that the price of the Company’s common stock during a given measurement period exceeds the respective exercise prices of those instruments. As of September 30, 2015, and December 31, 2014, there were no related warrants exercised.

The warrants are considered indexed to PDL stock, require net-share settlement and met all criteria for equity classification at inception and at September 30, 2015, and December 31, 2014. The purchased call options cost, including legal fees, of $20.8 million, less deferred taxes of $7.2 million, and the $10.9 million received for the warrant issuance, was recorded as adjustments to additional paid-in capital. Subsequent changes in fair value will not be recognized as long as the warrants continue to meet all criteria for equity classification.

February 2018 Notes

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

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

- During any fiscal quarter ending after the quarter ended June 30, 2014, if the last reported sale price of our common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter exceeds 130% of the conversion price for the notes on the last day of such preceding fiscal quarter;
- During the five business-day period immediately after any five consecutive trading-day period, which we refer to as the measurement period, in which the trading price per $1,000 principal amount of notes for each trading day of that measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate for the notes for each such day;
- Upon the occurrence of specified corporate events as described further in the indenture; or
- At any time on or after August 1, 2017.

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

In accordance with the accounting guidance for convertible debt instruments that may be settled in cash or other assets on conversion, we were required to separately account for the liability component of the instrument in a manner that reflects the market interest rate for a similar nonconvertible instrument at the date of issuance. As a result, we separated the principal balance of our February 2018 Notes between the fair value of the debt component and the fair value of the common stock conversion feature. Using an assumed borrowing rate of 7.0%, which represents the estimated market interest rate for a similar nonconvertible instrument available to us on the date of issuance, we recorded a total debt discount of $29.7 million, allocated $19.3 million to additional paid-in capital and allocated $10.4 million to deferred tax liability. The discount is being amortized to interest expense over the term of our February 2018 Notes and increases interest expense during the term of our February 2018 Notes from the 4.0% cash coupon interest rate to an effective interest rate of 6.9%. As of September 30, 2015, the remaining discount amortization period is 2.3 years.

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

(In thousands)	**September 30, 2015**	**December 31, 2014**
Principal amount of the February 2018 Notes	$ 300,000	$ 300,000
Unamortized discount of liability component	(18,419)	(23,772)
Total	$ 281,581	$ 276,228

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

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
(In thousands)	**2015**	**2014**	**2015**	**2014**
Contractual coupon interest	$ 3,000	$ 3,000	$ 9,000	$ 7,633
Amortization of debt issuance costs	510	536	1,599	1,358
Amortization of debt discount	1,830	1,688	5,353	4,238
Total	$ 5,340	$ 5,224	$ 15,952	$ 13,229

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

Purchased Call Options and Warrants

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

In addition, we sold to the hedge counterparties warrants exercisable, on a cashless basis, for the sale of rights to receive shares of common stock that will initially underlie our February 2018 Notes at a strike price of $10.3610 per share, which represents a premium of approximately 30% over the last reported sale price of the Company's common stock of $7.97 on February 6, 2014. The warrant transactions could have a dilutive effect to the extent that the market price of the Company's common stock exceeds the applicable strike price of the warrants on the date of conversion. We received an aggregate amount of $11.4 million for the sale from the two counterparties. The warrant counterparties may exercise the warrants on their specified expiration dates that occur over a period of time. If the VWAP of our common stock, as defined in the warrant agreement, exceeds the strike price of the warrants, we will deliver to the warrant counterparties shares equal to the spread between the VWAP on the date of exercise or expiration and the strike price. If the VWAP is less than the strike price, neither party is obligated to deliver anything to the other.

The purchased call option transactions and warrant sales effectively serve to reduce the potential dilution associated with conversion of our February 2018 Notes. The strike price is subject to further adjustment in the event that future quarterly dividends exceed $0.15 per share.

The purchased call options and warrants are considered indexed to PDL stock, require net-share settlement, and met all criteria for equity classification at inception and at September 30, 2015. The purchased call options cost of $31.0 million, less deferred taxes of $10.8 million, and the $11.4 million received for the warrants, was recorded as adjustments to additional paid-in capital. Subsequent changes in fair value will not be recognized as long as the purchased call options and warrants continue to meet all criteria for equity classification.

March 2015 Term Loan

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

The interest rates per annum applicable to amounts outstanding under the term loan are, at the Company's option, either (a) the alternate base rate (as defined in the credit agreement) plus 0.75%, or (b) the adjusted Eurodollar rate (as defined in the credit agreement) plus 1.75% per annum. As of September 30, 2015, the interest rate, based upon the adjusted Eurodollar rate, was 2.09%. Interest payments under the credit agreement are due on the interest payment dates specified in the credit agreement.

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

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

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

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

October 2013 Term Loan

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

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

10. Other Long-Term Liabilities

	September 30, 2015	December 31, 2014
(In thousands)		
Accrued lease liability	$ 10,700	$ 10,700
Long-term incentive accrual	2,446	578
Uncertain tax positions	35,035	26,356
Dividend payable	293	68
Total	$ 48,474	$ 37,702

In connection with the Spin-Off, we entered into amendments to the leases for our former facilities in Redwood City, California, under which Facet was added as a co-tenant, and a Co-Tenancy Agreement, under which Facet agreed to indemnify us for all matters related to the leases attributable to the period after the Spin-Off date. Should Facet default under its lease obligations, we could be held liable by the landlord as a co-tenant and, thus, we have in substance guaranteed the payments under the lease agreements for the Redwood City facilities. As of September 30, 2015, the total lease payments for the duration of the guarantee, which runs through December 2021, are approximately $70.5 million. If Facet were to default, we could also be responsible for lease-related costs including utilities, property taxes and common area maintenance that may be as much as the actual lease payments. We have recorded a liability of $10.7 million on our Condensed Consolidated Balance Sheets as of September 30, 2015, and December 31, 2014, related to this guarantee.

11. Stock-Based Compensation

The Company grants stock options and restricted stock awards pursuant to a stockholder approved stock-based incentive plan. This incentive plan is described in further detail in Note 13, Stock-Based Compensation, of Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, as amended.

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

		Stock Options		Restricted Stock Awards	
(In thousands except per share amounts)	Shares Available for Grant	Number of Shares Outstanding	Weighted Average Exercise Price	Number of Shares Outstanding	Weighted Average Grant-date Fair Value Per Share
Balance at December 31, 2014	4,166	58	$ 5.41	277	$ 8.39
Granted	(522)	—		522	6.40
Shares released	—	—		(46)	8.58
Forfeited or canceled	40	—		(40)	6.46
Balance at September 30, 2015	3,684	58	$ 5.41	713	$ 7.36

12. Cash Dividends

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

13. Income Taxes

Income tax expense for the three months ended September 30, 2015 and 2014, was $40.9 million and $47.4 million, respectively, and for the nine months ended September 30, 2015 and 2014, was $135.2 million and $144.1 million, respectively, which resulted primarily from applying the federal statutory income tax rate to income before income taxes.

The uncertain tax positions increased during the three and nine months ended September 30, 2015, by $2.4 million and $7.0 million, respectively, resulting from an increase in tax uncertainties and estimated tax liabilities.

In general, our income tax returns are subject to examination by U.S. federal, state and local tax authorities for tax years 1996 forward. In May 2012, PDL received a "no-change" letter from the IRS upon completion of an examination of the Company's 2008 federal tax return. We are currently under income tax examination in the state of California for tax years 2009 and 2010. Although the timing of the resolution of income tax examinations is highly uncertain, and the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year, we do not anticipate any material change to the amount of our unrecognized tax benefit over the next 12 months.

14. Accumulated Other Comprehensive Income

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

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

	Unrealized gains (losses) on available-for-sale securities	Unrealized gains on cash flow hedges	Total Accumulated Other Comprehensive Income
(In thousands)			
Beginning Balance at December 31, 2014	$ 364	$ 2,585	$ 2,949
Activity for the nine months ended September 30, 2015	39	403	442
Ending Balance at September 30, 2015	$ 403	$ 2,988	$ 3,391

15. Subsequent Event

CareView

On October 7, 2015, PDL and CareView entered into an amendment of the credit agreement to modify certain definitions related to the first and second tranche milestones. On this date, PDL also funded the first tranche of $20.0 million, net of fees, upon attainment of the modified first tranche milestone relating to the placement of CareView Systems. The additional $20.0 million in the form of a second tranche continues to be available upon CareView's attainment of specified milestones relating to the placement of CareView Systems and Consolidated EBITDA, to be accomplished no later than June 30, 2017 under the terms of the amended credit agreement.

In connection with the amendment of the credit agreement, PDL and CareView also agreed to amend the warrant to purchase common stock agreement by reducing the warrant's exercise price from $0.45 to $0.40 per share.

Paradigm Spine

On October 27, 2015, PDL and Paradigm Spine entered into an amendment to the Paradigm Spine Credit Agreement to provide additional term loan commitments of up to $7.0 million payable in two tranches of $4.0 million and $3.0 million, of which the first tranche was drawn on the closing date of the amendment, net of fees, and the second tranche is to be funded at the option of Paradigm Spine prior to June 30, 2016.

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

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts are "forward-looking statements" for purposes of these provisions, including any projections of earnings, revenues or other financial items, any statements of the plans and objectives of management for future operations, including any statements concerning new licensing, any statements regarding future economic conditions or performance, and any statement of assumptions underlying any of the foregoing. In some cases, forward-looking statements can be identified by the use of terminology such as "may," "will," "intends," "plans," "believes," "anticipates," "expects," "estimates," "predicts," "potential," "continue" or "opportunity," or the negative thereof or other comparable terminology. Although we believe that the expectations presented in the forward-looking statements contained herein are reasonable at the time they were made, there can be no assurance that such expectations or any of the forward-looking statements will prove to be correct, and actual results could differ materially from those projected or assumed in the forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to inherent risks and uncertainties, including but not limited to the risk factors set forth below or incorporated by reference herein, and for the reasons described elsewhere in this Quarterly Report on Form 10-Q. All forward-looking statements and reasons why results may differ included in this Quarterly Report on Form 10-Q are made as of the date hereof, and we assume no obligation to update these forward-looking statements or reasons why actual results might differ.

OVERVIEW

PDL manages a portfolio of patents and royalty assets, consisting of its Queen et al. patents, license agreements with various biotechnology and pharmaceutical companies, and royalty and other assets acquired. To acquire new income generating assets, PDL provides non-dilutive growth capital and financing solutions to late-stage public and private healthcare companies and offers immediate financial monetization of royalty streams to companies, academic institutions, and inventors. PDL has committed over $1 billion and funded approximately $919 million in these investments to date. PDL evaluates its investments based on the quality of the income generating assets and potential returns on investment. PDL is currently focused on acquiring new income generating assets, the management of its intellectual property and income generating assets, and maximizing value for its stockholders.

The Company was formerly known as Protein Design Labs, Inc. and changed its name to PDL BioPharma, Inc. in 2006. PDL was founded in 1986 and is headquartered in Incline Village, Nevada. PDL pioneered the humanization of monoclonal antibodies and, by doing so, enabled the discovery of a new generation of targeted treatments for cancer and immunologic diseases for which it receives significant royalty revenue.

Intellectual Property

Patents

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

Our '761 Patent, which expired on December 2, 2014, covered methods and materials used in the manufacture of humanized antibodies. In addition to covering methods and materials used in the manufacture of humanized antibodies, coverage under our ‘761 Patent typically extended to the use or sale of compositions made with those methods and/or materials.

Our '216B Patent expired in Europe in December 2009. We have been granted SPCs for the Avastin®, Herceptin®, Lucentis®, Xolair® and Tysabri® products in many of the jurisdictions in the European Union in connection with the ‘216B Patent. The SPCs effectively extended our patent protection with respect to Avastin, Herceptin, Lucentis, Xolair and Tysabri generally until December 2014, except that the SPCs for Herceptin expired in July 2014. Because SPCs are granted on a jurisdiction-by-jurisdiction basis, the duration of the extension varies slightly in certain jurisdictions. We expect to receive royalties beyond expiration of our patents and SPCs based on the terms of our licenses and our legal settlements. We do not expect to receive any meaningful revenue from our Queen et al. patents or the related license and settlement agreements beyond the first quarter of 2016.

Licensing Agreements

We have entered into licensing agreements under our Queen et al. patents with numerous entities that are independently developing or have developed humanized antibodies. Although the Queen et al. patents and related rights have expired, we are entitled under our license agreements to continue to receive royalties in certain instances based on net sales of products that were made prior to but sold after patent expiry. In addition, in one instance we are entitled to royalties based on know-how provided to a licensee, noted below with respect to Lilly. In general, these agreements cover antibodies targeting antigens specified in the license agreements. Under our licensing agreements, we are entitled to receive a flat-rate based upon our licensees’ net sales of covered antibodies.

Our total revenues from licensees under our Queen et al. patents were $119.2 million and $123.9 million, net of rebates and foreign exchange hedge adjustments, for the three months ended September 30, 2015 and 2014, respectively, and $363.9 million and $355.0 million for the nine months ended September 30, 2015 and 2014, respectively.

Licensing Agreements for Marketed Products

In the nine months ended September 30, 2015, we received royalties on sales of the ten humanized antibody products listed below, all of which are currently approved for use by the FDA and other regulatory agencies outside the United States.

Licensee	**Product Names**
Genentech	Avastin
	Herceptin
	Xolair
	Lucentis
	Perjeta®
	Kadcyla®
Biogen	Tysabri
Chugai	Actemra®
Roche	Gazyva™
Takeda	Entyvio®

Genentech

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

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

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

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

Biogen

We entered into a patent license agreement, effective April 24, 1998, under which we granted to Elan a license under our Queen et al. patents to make, use and sell antibodies that bind to the cellular adhesion molecule α4 in patients with multiple sclerosis. Under the agreement, we are entitled to receive a flat royalty rate in the low, single digits based on Elan's net sales of the Tysabri product. Our license agreement with Elan entitles us to royalties following the expiration of our patents with respect to sales of licensed product manufactured prior to patent expiry in jurisdictions providing patent protection. In April 2013, Biogen completed its purchase of Elan's interest in Tysabri. All obligations under our original patent license agreement with Elan were assumed by Biogen.

Chugai

We entered into a patent license agreement, effective May 18, 2000, with Chugai, a majority owned subsidiary of Roche, under which we granted to Chugai a license under our Queen et al. patents to make, use and sell antibodies that bind to interleukin-6 receptors to prevent inflammatory cascades involving multiple cell types for the treatment of rheumatoid arthritis. Under the agreement, we are entitled to receive a flat royalty rate in the low, single digits based on net sales of the Actemra product manufactured in the United States prior to patent expiry. The agreement continued until the expiration of the last to expire of our Queen et al. patents. Chugai is obligated to pay us royalties on sales occurring prior to the expiration of any Queen et al. patent which covers the manufacture, use or sale of Actemra. Because the relevant patent rights expired in the fourth quarter of 2014, we did not receive any revenues from Actemra after the first quarter of 2015.

Licensing Agreements for Non-Marketed Products

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

Protection of our Intellectual Property

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

Genentech - Roche Matter

Settlement Agreement

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

Economic and Industry-wide Factors

Various economic and industry-wide factors are relevant to us and could affect our business, including changes to laws and interpretation of those laws that protect our intellectual property rights, our licensees ability to obtain or retain regulatory approval for products licensed under our patents, fluctuations in foreign currency exchange rates, the ability to attract, retain and integrate qualified personnel, as well as overall global economic conditions. We actively monitor economic, industry and market factors affecting our business; however, we cannot predict the impact such factors may have on our future results of operations, liquidity and cash flows. See also the “Risk Factors” section of this Quarter Report on Form 10-Q for additional factors that may impact our business and results of operations.

Dividend Payment

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

Subsequent Event

CareView

On October 7, 2015, PDL and CareView entered into an amendment of the credit agreement to modify certain definitions related to the first and second tranche milestones. On this date, PDL also funded the first tranche of $20.0 million, net of fees, upon attainment of the modified first tranche milestone relating to the placement of CareView Systems. The additional $20.0 million in the form of a second tranche continues to be available upon CareView’s attainment of specified milestones relating to the placement of CareView Systems and Consolidated EBITDA, to be accomplished no later than June 30, 2017 under the terms of the amended credit agreement.

In connection with the amendment of the credit agreement, PDL and CareView also agreed to amend the warrant to purchase common stock agreement by reducing the warrant's exercise price from $0.45 to $0.40 per share.

Paradigm Spine

On October 27, 2015, PDL and Paradigm Spine entered into an amendment to the Paradigm Spine Credit Agreement to provide additional term loan commitments of up to $7.0 million payable in two tranches of $4.0 million and $3.0 million, of which the first tranche was drawn on the closing date of the amendment, net of fees, and the second tranche is to be funded at the option of Paradigm Spine prior to June 30, 2016.

Critical Accounting Policies and Uses of Estimates

During the nine months ended September 30, 2015, there have been no significant changes to our critical accounting policies since those presented in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, as amended.

Operating Results

Three and nine months ended September 30, 2015, compared to three and nine months ended September 30, 2014

Revenues

	Three Months Ended September 30,		Change from Prior	Nine Months Ended September 30,		Change from Prior
	2015	2014	Year %	2015	2014	Year %
(Dollars in thousands)						
Revenues						
Royalties from Queen et al. patents	$ 119,222	$ 123,916	(4%)	$ 363,916	$ 355,008	3%
Royalty rights - change in fair value	(4,280)	27,602	(116%)	19,298	73,807	(74%)
Interest revenue	9,096	13,076	(30%)	28,596	34,760	(18%)
License and other	580	—	100%	580	575	1%
Total revenues	$ 124,618	$ 164,594	(24%)	$ 412,390	$ 464,150	(11%)

Total revenues were $124.6 million and $164.6 million for the three months ended September 30, 2015 and 2014, respectively, and $412.4 million and $464.2 million for the nine months ended September 30, 2015 and 2014, respectively. During the three and nine months ended September 30, 2015 and 2014, our Queen et al. royalty revenues consisted of royalties and maintenance fees earned on sales of products under license agreements associated with our Queen et al. patents. During the three and nine months ended September 30, 2015 and 2014, royalty rights - change in fair value consisted of revenues associated with the change in fair value of our royalty right assets, Depomed, U-M, VB, ARIAD, Avinger and AcelRx. Revenues for the nine months ended September 30, 2015 and three and nine months ended September 30, 2014, are net of the payments made under the February 2011 settlement agreement with Novartis, which is based on a portion of the royalties that the Company receives from Lucentis sales made by Novartis outside the United States. No royalties were received on Lucentis sales in the second and third quarters of 2015 and consequently no payments were made to Novartis.

Total revenues decreased by 24% and 11%, respectively, for the three and nine months ended September 30, 2015, when compared to the same periods in 2014. The decrease is primarily driven by the decrease in the Depomed royalty rights cash proceeds related to the Salix (recently acquired by Valeant Pharmaceuticals) excess supply of inventory of Glumetza at the distribution level, decreased interest revenues due to the early payoff of the AxoGen and Durata notes receivables, and the conclusion of the Actemra and Lucentis license agreements, partially offset by increased royalties from sales of Perjeta, Xolair and Kadcyla and the conclusion of the Novartis rebate payments on sales of Lucentis.

The following table summarizes the percentage of our total revenues earned from our licensees' net product sales that individually accounted for 10% or more of our total revenues for the three and nine months ended September 30, 2015 and 2014:

		Three Months Ended September 30,		Nine Months Ended September 30,	
Licensee	**Product Name**	**2015**	**2014**	**2015**	**2014**
Genentech	*Avastin*	32 %	24%	28%	25%
	Herceptin	32 %	24%	28%	25%
	Xolair	10 %	6%	8%	6%
Biogen	*Tysabri*	11 %	10%	10%	9%
Depomed	*Glumetza*	(10)%	14%	—%	13%

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

For the three and nine months ended September 30, 2015 and 2014, we hedged certain Euro-denominated currency exposures related to our licensees' product sales with Euro forward contracts. We designate foreign currency exchange contracts used to hedge royalty revenues based on underlying Euro-denominated sales as cash flow hedges. The aggregate unrealized gain or loss, net of tax, on the effective portion of the hedge is recorded in stockholders' equity as "Accumulated other comprehensive income". Realized gains or losses on cash flow hedges are recognized as an adjustment to royalty revenue in the same period that the hedged transaction impacts earnings. For the three months ended September 30, 2015 and 2014, we recognized $2.3 million and ($1.5) million as additions/(reductions) in royalty revenues from our Euro contracts, respectively, and for the nine months ended September 30, 2015 and 2014, we recognized $6.0 million and ($5.8) million as additions/(reductions) in royalty revenues from our Euro contracts, respectively.

Operating Expenses

	Three Months Ended September 30,		Change from Prior	Nine Months Ended September 30,		Change from Prior
	2015	**2014**	**Year %**	**2015**	**2014**	**Year %**
(In thousands)						
General and administrative	$ 8,450	$ 5,686	49%	$ 23,545	$ 17,188	37%
Percentage of total revenues	7%	3%		6%	4%	

The increase in operating expenses for the three months ended September 30, 2015, as compared to the same period in 2014, was a result of an increase in general and administrative expenses of $1.1 million for professional service expenses mostly related to the asset management of Wellstat Diagnostics, $0.8 million for compensation and $0.6 million for legal services.

The increase in operating expenses for the nine months ended September 30, 2015, as compared to the same period in 2014, was a result of an increase in general and administrative expenses of $3.9 million for professional service expenses mostly related to the asset management of Wellstat Diagnostics, $1.7 million for compensation and $0.3 million for legal services.

Non-operating Expense, Net

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

Income Taxes

Income tax expense for the three months ended September 30, 2015 and 2014, was $40.9 million and $47.4 million, respectively, and for the nine months ended September 30, 2015 and 2014, was $135.2 million and $144.1 million, respectively, which resulted primarily from applying the federal statutory income tax rate to income before income taxes.

The uncertain tax positions increased during the three and nine months ended September 30, 2015, by $2.4 million and $7.0 million, respectively, resulting from an increase in tax uncertainties and estimated tax liabilities.

In general, our income tax returns are subject to examination by U.S. federal, state and local tax authorities for tax years 1996 forward. In May 2012, PDL received a “no-change” letter from the IRS upon completion of an examination of the Company's 2008 federal tax return. We are currently under income tax examination in the state of California for tax years 2009 and 2010. Although the timing of the resolution of income tax examinations is highly uncertain, and the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year, except as noted above, we do not anticipate any material change to the amount of our unrecognized tax benefit over the next 12 months.

Net Income per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	**2014**	**2015**	**2014**
Net income per share - basic	$ 0.42	$ 0.64	$ 1.42	$ 1.70
Net income per share - diluted	$ 0.42	$ 0.61	$ 1.42	$ 1.62

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

Liquidity and Capital Resources

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

We had cash, cash equivalents and short-term investments in the aggregate of $229.7 million and $293.7 million at September 30, 2015, and December 31, 2014, respectively. The decrease was primarily attributable to retirement of the Series 2012 Notes and May 2015 Notes for $177.4 million, the purchase of royalty right assets for $115.0 million, payment of dividends of $73.6 million, repayment of a portion of the March 2015 Term Loan for $50.0 million, additional note receivable purchases of $9.0 million, and the payment of $0.6 million for debt issuance costs related to the March 2015 Term Loan, offset in part by net cash provided by the proceeds from the March 2015 Term Loan of $100.0 million, repayment of notes receivables of $20.6 million, proceeds from royalty rights of $9.0 million, and cash generated by operating activities of $231.4 million.

Although the last of our Queen et al. patents expired in December 2014, we expect to receive royalties beyond expiration based on the terms of our licenses and our legal settlements. We do not expect to receive any meaningful revenue from our Queen et

al. patents beyond the first quarter of 2016. We believe that cash from future revenues from the Queen et al. patent royalties through the first quarter of 2016 and from acquired revenue generating assets, net of operating expenses, debt service and income taxes, plus cash on hand, will be sufficient to fund our operations over the next several years. However, we do not expect that our acquired revenue generating assets will, in the near term, replace the revenues we generate from our license agreements related to the Queen et al. patents. In the second quarter of 2016, our revenues are likely to materially decrease after we stop receiving payments from these Queen et al. patents license agreements, which currently account for 88% of our year to date revenue. The continued success of the Company will become more dependent on the timing and our ability to acquire new income generating assets in order to provide recurring revenues going forward and to support our business model and ability to pay dividends.

We continuously evaluate alternatives to increase return for our stockholders by, for example, purchasing income generating assets, selling discreet assets, buying back our convertible notes, repurchasing our common stock, paying dividends and selling the Company. On January 27, 2015, our board of directors declared regular quarterly dividends of $0.15 per share of common stock, payable on March 12, June 12, September 11 and December 11 of 2015 to stockholders of record on March 5, June 5, September 4 and December 4 of 2015, the record dates for each of the dividend payments, respectively.

Notes and Other Long-Term Receivables

Wellstat Diagnostics Note Receivable and Credit Agreement

In March 2012, the Company executed a $7.5 million two-year senior secured note receivable with the holders of the equity interests in Wellstat Diagnostics. In addition to bearing interest at 10% per annum, the note receivable gave PDL certain rights to negotiate for certain future financing transactions. In August 2012, PDL and Wellstat Diagnostics amended the note receivable, providing a senior secured note receivable of $10.0 million, bearing interest at 12% per annum, to replace the original $7.5 million note receivable. This $10.0 million note receivable was repaid on November 2, 2012, using the proceeds of the $40.0 million credit facility entered into with the Company on the same date.

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

In January 2013, the Company was informed that, as of December 31, 2012, Wellstat Diagnostics had used funds contrary to the terms of the credit agreement and breached Sections 2.1.2 and 7 of the credit agreement. PDL sent Wellstat Diagnostics a notice of default on January 22, 2013, and accelerated the amounts owed under the credit agreement. In connection with the notice of default, PDL exercised one of its available remedies and transferred approximately $8.1 million of available cash from a bank account of Wellstat Diagnostics to PDL and applied the funds to amounts due under the credit agreement. On February 28, 2013, the parties entered into a forbearance agreement whereby PDL agreed to refrain from exercising additional remedies for 120 days while Wellstat Diagnostics raised funds to capitalize the business and the parties attempted to negotiate a revised credit agreement. PDL agreed to provide up to $7.9 million to Wellstat Diagnostics to fund the business for the 120-day forbearance period under the terms of the forbearance agreement. Following the conclusion of the forbearance period that ended on June 28, 2013, the Company agreed to forbear its exercise of remedies for additional periods of time to allow the owners and affiliates of Wellstat Diagnostics to complete a pending financing transaction. During such forbearance period, the Company provided approximately $1.3 million to Wellstat Diagnostics to fund ongoing operations of the business. During the year ended December 31, 2013, approximately $8.7 million was advanced pursuant to the forbearance agreement.

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

Except as otherwise described here, the material terms of the amended and restated credit agreement are substantially the same as those of the original credit agreement, including quarterly interest payments at the rate of 5% per annum (payable in cash or in kind). In addition, PDL was to continue to receive quarterly royalty payments based on a low double-digit royalty rate of Wellstat Diagnostics' net revenues. However, pursuant to the amended and restated credit agreement: (i) the principal amount was reset to approximately $44.1 million, which was comprised of approximately $33.7 million original loan principal and interest, $1.3 million term loan principal and interest and $9.1 million forbearance principal and interest; (ii) the specified internal rates of return increased; (iii) the default interest rate was increased; (iv) Wellstat Diagnostics' obligation to provide

certain financial information increased in frequency to monthly; (v) internal financial controls were strengthened by requiring Wellstat Diagnostics to maintain an independent, third-party financial professional with control over fund disbursements; (vi) the Company waived the existing events of default; and (vii) the owners and affiliates of Wellstat Diagnostics were required to contribute additional capital to Wellstat Diagnostics upon the sale of an affiliate entity. The amended and restated credit agreement had an ultimate maturity date of December 31, 2021 (but has subsequently been accelerated as described below).

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

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

On August 5, 2014, the Company received notice that the short-term funding being provided pursuant to the agreement with the other lender entered into during June 2014, was being terminated. Wellstat Diagnostics remained in default because it was still unable to pay its debts as they became due. Accordingly, the Company delivered the Wellstat Diagnostics Borrower Notice. The Wellstat Diagnostics Borrower Notice accelerated all obligations under the amended and restated credit agreement and demanded immediate payment in full in an amount equal to approximately $53.9 million, (which amount, in accordance with the terms of the amended and restated credit agreement, included an amount that, together with interest and royalty payments already made to the Company, would generate a specified internal rate of return to the Company), plus accruing fees, costs and interest, and demanded that Wellstat Diagnostics protect and preserve all collateral securing its obligations. On August 7, 2014, the Company delivered the Wellstat Diagnostics Guarantor Notice. The Wellstat Diagnostics Guarantor Notice included a demand that the guarantors remit payment to the Company in the amount of the outstanding obligations. The guarantors include certain affiliates and related companies of Wellstat Diagnostics, including Wellstat Therapeutics and Wellstat Diagnostics' stockholders.

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

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

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

On September 4, 2015, PDL filed in the Supreme Court of New York a motion for summary judgment in lieu of complaint which requested that the court enter judgment against Wellstat Diagnostics Guarantors for the total amount due on the Wellstat Diagnostics debt, plus all costs and expenses including lawyers' fees incurred by the Company in enforcement of the related guarantees. On September 23, 2015, PDL filed in the same court an ex parte application for a temporary restraining order and order of attachment of the Wellstat Diagnostics Guarantors' assets. At a hearing on September 24, 2015, regarding the Company's request for a temporary restraining order, the court ordered that the Company's request for attachment and for summary judgment would be heard at a hearing on November 5, 2015. Although the court denied the Company's request for a temporary restraining order at the hearing on September 24, it ordered that assets of the Wellstat Diagnostics Guarantors should be held in *status quo ante* and only used in the normal course of business pending the outcome of the hearing.

On October 22, 2015, the Wellstat Diagnostics Guarantors filed a complaint against the Company in the Supreme Court of New York seeking a declaratory judgment that certain contractual arrangements entered into between the parties subsequent to Wellstat Diagnostics' default, and which relate to a split of proceeds in the event that the Wellstat Diagnostics Guarantors voluntarily monetize any assets that are the Company's collateral, is of no force or effect.

Through the period ended September 30, 2015, PDL has advanced to Wellstat Diagnostics $11.1 million to fund the ongoing operations of the business and other associated costs. This funding has been expensed as incurred.

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

Hyperion Agreement

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

AxoGen Note Receivable and AxoGen Royalty Agreement

In October 2012, PDL entered into the AxoGen Royalty Agreement with AxoGen pursuant to which the Company would receive specified royalties on AxoGen's net revenues (as defined in the AxoGen Royalty Agreement) generated by the sale, distribution or other use of AxoGen's products. The AxoGen Royalty Agreement had an eight-year term and provided PDL with royalties of 9.95% based on AxoGen's net revenues, subject to agreed-upon guaranteed quarterly minimum payments of approximately $1.3 million to $2.5 million, which were to begin in the fourth quarter of 2014, and the right to require AxoGen to repurchase the royalties under the AxoGen Royalty Agreement at the end of the fourth year. AxoGen was granted certain rights to call the contract in years five through eight. The total consideration PDL paid to AxoGen for the royalty rights was $20.8 million, including an interim funding of $1.8 million in August 2012. AxoGen was required to use a portion of the proceeds from the AxoGen Royalty Agreement to pay the outstanding balance under its existing credit facility. The royalty rights were secured by the cash and accounts receivable of AxoGen.

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

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

Subsequent to the pay-off, the Company acquired 643,382 shares of registered common stock of AxoGen for approximately $1.7 million at a public offering price of $2.72 per share. The shares are classified as available for sale securities and recorded as short-term investments on the Condensed Consolidated Balance Sheets. On September 15, 2015, PDL sold 200,000 shares at $5.62 per share, totaling approximately $1.1 million. As of September 30, 2015, the remaining shares were valued at $1.8 million, which resulted in an unrealized gain of $0.6 million and is recorded in "Other comprehensive income (loss), net of tax."

Avinger Credit and Royalty Agreement

On April 18, 2013, PDL entered into the Avinger Credit and Royalty Agreement, under which we made available to Avinger up to $40.0 million to be used by Avinger in connection with the commercialization of its lumivascular catheter devices and the development of Avinger's lumivascular atherectomy device. Of the $40.0 million initially available to Avinger, we funded an initial $20.0 million, net of fees, at the close of the transaction. Outstanding borrowings under the initial loan bore interest at a stated rate of 12% per annum.

On September 22, 2015, Avinger elected as per the voluntary prepayment provision under the Avinger Credit and Royalty Agreement to prepay the notes receivable in whole for a payment of $21.4 million in cash, which was the sum of the outstanding principal, interest and a prepayment fee (see Royalty Rights - At Fair Value).

LENSAR Credit Agreement

On October 1, 2013, PDL entered into a credit agreement with LENSAR, under which PDL made available to LENSAR up to $60.0 million to be used by LENSAR in connection with the commercialization of its currently marketed LENSAR™ Laser System. Of the $60.0 million available to LENSAR, an initial $40.0 million, net of fees, was funded by the Company at the close of the transaction. The additional $20.0 million in the form of a second tranche is no longer available to LENSAR under the terms of the credit agreement. Outstanding borrowings under the loans bear interest at the rate of 15.5% per annum, payable quarterly in arrears.

Principal repayment will commence on the thirteenth interest payment date or December 31, 2016. The principal amount outstanding at the commencement of repayment will be repaid in equal installments until final maturity of the loans. The loans will mature on October 1, 2018. LENSAR may elect to prepay the loans at any time, subject to a prepayment penalty that decreases over the life of the loans. The loans are secured by all of the assets of LENSAR.

On May 12, 2015, PDL entered into a forbearance agreement with LENSAR under which PDL agreed to refrain from exercising certain remedies available to it resulting from the failure of LENSAR to comply with a liquidity covenant and make interest payments due under the credit agreement. Under the forbearance agreement, PDL has agreed to provide LENSAR with up to an aggregate of $8.5 million in weekly increments through the period ending September 30, 2015 plus employee retention amounts of approximately $0.5 million in the form of additional loans subject to LENSAR meeting certain milestones related to LENSAR obtaining additional capital to fund the business or selling itself and repaying outstanding amounts under the credit agreement. As of September 30, 2015, PDL has funded an additional $9.0 million of principal under the forbearance agreement. In exchange for the forbearance, LENSAR agreed to additional reporting covenants, the engagement of a chief restructuring officer and an increase on the interest rate to 18.5%, applicable to all outstanding amounts under the credit agreement. On September 30, 2015, PDL agreed to extend the forbearance agreement until October 9, 2015 and provide for up to an additional $0.8 million in funding while LENSAR negotiated a potential sale of its assets. On October 9, 2015, the forbearance agreement expired, but PDL has agreed to fund LENSAR's operations while LENSAR continues to negotiate a potential sale of its assets.

The Company completed an impairment analysis as of September 30, 2015. Effective April 1, 2015 and as a result of the forbearance, we determined the loan to be impaired and we ceased to accrue interest revenue.

Durata Credit Agreement

On October 31, 2013, PDL entered into a credit agreement with Durata, under which the Company made available to Durata up to $70.0 million. Of the $70.0 million available to Durata, an initial $25.0 million (tranche one), net of fees, was funded by the Company at the close of the transaction. On May 27, 2014, the Company funded Durata an additional $15.0 million (tranche two) as a result of Durata's marketing approval of dalbavancin in the United States, which occurred on May 23, 2014, and was the milestone needed to receive the tranche two funding. Until the occurrence of the tranche two milestone, outstanding

borrowings under tranche one bore interest at the rate of 14.0% per annum, payable quarterly in arrears. Upon occurrence of the tranche two milestone, the interest rate of the loans decreased to 12.75%.

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

Direct Flow Medical Credit Agreement

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

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

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

Paradigm Spine Credit Agreement

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

Principal repayment will commence on the twelfth interest payment date, December 31, 2016. The principal amount outstanding at commencement of repayment will be repaid in equal installments until final maturity of the loans. The loans will mature on February 14, 2019. Paradigm Spine may elect to prepay the loans at any time, subject to a prepayment penalty that decreases over the life of the loans. The obligations under the Paradigm Spine Credit Agreement are secured by a pledge of substantially all of the assets of Paradigm Spine and its domestic subsidiaries and, initially, certain assets of Paradigm Spine’s German subsidiaries.

On October 27, 2015, PDL and Paradigm Spine entered into an amendment to the Paradigm Spine Credit Agreement to provide additional term loan commitments of up to $7.0 million payable in two tranches of $4.0 million and $3.0 million, of which the first tranche was drawn on the closing date of the amendment, net of fees, and the second tranche is to be funded at the option of Paradigm Spine prior to June 30, 2016.

kaléo Note Purchase Agreement

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

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

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

On October 28, 2015, Sanofi US initiated a voluntary nationwide recall of all Auvi-Q® units effectively immediately. Sanofi is the exclusive licensee of kaléo for the manufacturing and commercialization of Auvi-Q. While Sanofi has not identified the reason for the recall, press reports indicate that a small number of units have failed to activate or delivered inadequate doses of epinephrine. It is not known at this time when Sanofi will reintroduce Auvi-Q in the U.S.

As part of our financing transaction, kaléo was required to establish an interest reserve account of $20 million from the $150 million provided by PDL. The purpose of this interest reserve account is to cover any possible shortfalls in interest payments owed to PDL. As of this date, despite the recall of Auvi-Q, it is projected that the interest reserve account alone is sufficient to cover possible interest shortfalls until at least through the first quarter of 2016. PDL will monitor the recall situation and how it may impact the ability of kaléo to meet its obligations under the Notes, but at this point it has been determined that there is no impairment.

CareView Credit Agreement

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

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

On October 7, 2015, PDL and CareView entered into an amendment of the credit agreement to modify certain definitions related to the first and second tranche milestones. On this date, PDL also funded the first tranche of $20.0 million, net of fees, upon attainment of the modified first tranche milestone relating to the placement of CareView Systems. The additional $20.0 million in the form of a second tranche continues to be available upon CareView's attainment of specified milestones relating to the placement of CareView Systems and Consolidated EBITDA, to be accomplished no later than June 30, 2017 under the terms of the amended credit agreement.

In connection with the amendment of the credit agreement, PDL and CareView also agreed to amend the warrant to purchase common stock agreement by reducing the warrant's exercise price from $0.45 to $0.40 per share. At September 30, 2015, we determined an estimated fair value of the warrant of approximately $1.3 million.

Royalty Rights - At Fair Value

Depomed Royalty Agreement

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

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

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

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

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

The asset acquired represents a single unit of accounting. The fair value of the asset acquired was determined by using a discounted cash flow analysis related to the expected future cash flows to be generated by each licensed product. This asset is classified as a Level 3 asset within the fair value hierarchy, as our valuation utilized significant unobservable inputs, including estimates as to the probability and timing of future commercialization for products not yet approved by the FDA or other regulatory agencies. The discounted cash flows are based upon expected royalties from sales of licensed products over a eight-year period. The discount rates utilized range from approximately 21% to 25%. Significant judgment is required in selecting appropriate discount rates. At September 30, 2015, an evaluation was performed to assess those rates and general market conditions potentially affecting the fair market value. Should these discount rates increase or decrease by 5%, the fair value of the asset could decrease by $18.3 million or increase by $23.2 million, respectively. A third-party expert was engaged to help management develop its original estimate of the expected future cash flows. The fair value of the asset is subject to variation should those cash flows vary significantly from those estimates. We periodically assess the expected future cash flows and to the extent such payments are greater or less than our initial estimates, or the timing of such payments is materially different than our original estimates, we will adjust the estimated fair value of the asset. Certain manufacturers of generic equivalents to Glumetza will be permitted to enter the market starting in February and August 2016. Our current expected future cash flows anticipate a reduction in future cash flows of Glumetza as result of the generic competition in 2016. Should the expected royalties increase or decrease by 5%, the fair value of the asset could increase by $7.1 million or decrease by $7.7 million, respectively.

When PDL acquired the Depomed royalties, Glumetza was marketed by Santarus. In January 2014, Salix acquired Santarus and assumed responsibility for commercializing Glumetza, which was generally perceived to be a positive development because of Salix's larger sales force and track record in the successful commercialization of therapies. In late 2014, Salix made a number of disclosures relating to an excess of supply at the distribution level of Glumetza and other drugs that it commercialized, the practices leading to this excess of supply which were under review by Salix's audit committee in relation to the related accounting practices. Because of these disclosures and PDL's lack of direct access to information as to the levels of inventory of Glumetza in the distribution channels, PDL commenced a review of all public statements by Salix, publicly available historical third-party prescription data, analyst reports and other relevant data sources. PDL also engaged a third-party expert to specifically assess estimated inventory levels of Glumetza in the distribution channel and to ascertain the potential effects those inventory levels may have on expected future cash flows. We have received no royalties from Glumetza sales in 2015. Salix was acquired by Valeant Pharmaceuticals in early April 2015. On June 18, 2015, Valeant Pharmaceuticals implemented a price increase on Glumetza and implemented an additional price increase on July 31, 2015. As of September 30, 2015, our discounted cash flow analysis reflects our expectations as to the amount and timing of future cash flows up to the valuation date. We will monitor whether the acquisition or price increase by Valeant Pharmaceuticals has any effect on sales of Glumetza and thus royalties on such sales paid to PDL. Due to the uncertainty around Valeant's marketing and pricing strategy, as well as the near-term generic competition, we maybe unable to fully assess the impact of the acquisition or price increase on sales of

Glumetza and thus royalties on such sales paid to PDL. PDL expects to exercise its royalty audit right for Glumetza in the near future.

VB Royalty Agreement

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

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

The fair value of the VB Royalty Agreement royalty right at September 30, 2015, was determined by using a discounted cash flow analysis related to the expected future cash flows to be received. This asset is classified as a Level 3 asset, as our valuation utilized significant unobservable inputs, including estimates as to the probability and timing of future sales of the licensed product. The discounted cash flow was based upon expected royalties from sales of licensed product over a nine-year period. The discount rate utilized was approximately 17.5%. Significant judgment is required in selecting the appropriate discount rate. Should this discount rate increase or decrease by 5%, the fair value of this asset could decrease by $2.4 million or increase by $3.2 million, respectively. Should the expected royalties increase or decrease by 5%, the fair value of the asset could increase by $0.8 million or decrease by $0.8 million, respectively. A third-party expert is engaged to assist management with the development of its estimate of the expected future cash flows, when deemed necessary. The fair value of the asset is subject to variation should those cash flows vary significantly from our estimates. At each reporting period, an evaluation is performed to assess those estimates, discount rates utilized and general market conditions affecting fair market value.

University of Michigan Royalty Agreement

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

The fair value of the royalty right at September 30, 2015, was determined by using a discounted cash flow analysis related to the expected future cash flows to be received. This asset is classified as a Level 3 asset, as our valuation utilized significant unobservable inputs, including estimates as to the probability and timing of future sales of the licensed product. The discounted cash flow was based upon expected royalties from sales of licensed product over a seven-year period. The discount rate utilized was approximately 12.8%. Significant judgment is required in selecting the appropriate discount rate. Should this discount rate increase or decrease by 5%, the fair value of this asset could decrease by $11.1 million or increase by $14.5 million, respectively. Should the expected royalties increase or decrease by 5%, the fair value of the asset could increase by $3.6 million or decrease by $3.6 million, respectively. A third-party expert is engaged to assist management with the development of its estimate of the expected future cash flows, when deemed necessary. The fair value of the asset is subject to variation should those cash flows vary significantly from our estimates. An evaluation of those estimates, discount rates utilized and general market conditions affecting fair market value is performed in each reporting period.

ARIAD Royalty Agreement

On July 28, 2015, PDL entered into the ARIAD Royalty Agreement, whereby the Company acquired the rights to receive royalties payable from ARIAD's net revenues generated by the sale, distribution or other use of Iclusig® (ponatinib), a cancer medicine for the treatment of adult patients with chronic myeloid leukemia, in exchange for up to $200.0 million in cash payments. The purchase price of $100.0 million is payable in two tranches of $50.0 million each, with the first tranche funded on the closing date and the second tranche to be funded on the 12-month anniversary of the closing date. The ARIAD Royalty Agreement provides ARIAD with an option to draw up to an additional $100.0 million in up to two draws at any time between the six- and 12-month anniversaries of the closing date. ARIAD may repurchase the royalty rights at any time for a specified amount. Upon the occurrence of certain events, PDL has the right to require ARIAD to repurchase the royalty rights for a

specified amount. Under the ARIAD Royalty Agreement, the Company has the right to a make-whole payment from ARIAD if the Company does not receive payments equal to or greater than the amounts funded on or prior to the fifth anniversary of each of the respective fundings. In such case, ARIAD will pay to the Company the difference between the amounts paid to such date by ARIAD (excluding any delinquent fee payments) and the amounts funded by the Company. PDL has elected the fair value option to account for the hybrid instrument in its entirety. Any embedded derivative shall not be separated from the host contract.

Under the terms of the ARIAD Royalty Agreement, the Company will receive royalty payments at a royalty rate ranging from 2.5% to 7.5% of Iclusig revenue until the first to occur of (i) repurchase of the royalty rights by ARIAD or (ii) December 31, 2033. The annual royalty payments shall not exceed $20.0 million is any fiscal year for the years ended December 31, 2015 through December 31, 2018. If Iclusig revenue does not meet certain agreed-upon projections on an annual basis, PDL is entitled to certain royalty payments from net revenue of another ARIAD product, brigatinib, up to the amount of the shortfall from the projections for the applicable year.

The asset acquired pursuant to the ARIAD Royalty Agreement represents a single unit of accounting. The fair value of the royalty right at September 30, 2015, was determined by using a discounted cash flow analysis related to the expected future cash flows to be received. This asset is classified as a Level 3 asset, as our valuation utilized significant unobservable inputs, including estimates as to the probability and timing of future sales of the licensed product. The discounted cash flow was based upon expected royalties from sales of licensed product over a seven-year period. The discount rate utilized was approximately 10.0%. Significant judgment is required in selecting the appropriate discount rate. Should this discount rate increase or decrease by 5%, the fair value of this asset could decrease by $15.1 million or increase by $20.0 million, respectively. Should the expected royalties increase or decrease by 5%, the fair value of the asset could increase by $2.5 million or decrease by $2.5 million, respectively. A third-party expert is engaged to assist management with the development of its estimate of the expected future cash flows, when deemed necessary. The fair value of the asset is subject to variation should those cash flows vary significantly from our estimates. An evaluation of those estimates, discount rates utilized and general market conditions affecting fair market value is performed in each reporting period.

AcelRx Royalty Agreement

On September 18, 2015, PDL entered into the AcelRx Royalty Agreement with ARPI LLC, a wholly owned subsidiary of AcelRx, whereby the Company acquired the rights to receive a portion of the royalties and certain milestone payments on sales of Zalviso™ (sufentanil sublingual tablet system) in the European Union, Switzerland and Australia by AcelRx's commercial partner, Grünenthal, in exchange for a $65.0 million cash payment. Under the terms of the AcelRx Royalty Agreement, the Company will receive 75% of all royalty payments and 80% of the first four commercial milestone payments due under AcelRx's license agreement with Grünenthal until the earlier to occur of (i) receipt by the Company of payments equal to three times the cash payments made to AcelRx and (ii) the expiration of the licensed patents. Dr. Stephen Hoffman is the President of 10x Capital, Inc., a third-party consultant to the Company, and is also a member of the board of directors of AcelRx. Dr. Hoffman recused himself from the AcelRx board of directors with respect to the entirety of its discussions and considerations of the transaction. Dr. Hoffman is being compensated for his contribution to consummate this transaction by PDL as part of his consulting agreement. PDL concluded Dr. Hoffman is not considered a related party in accordance with FASB ASC 850, *Related Party Disclosures* and SEC Regulation S-X, *Related Party Transactions Which Affect the Financial Statements*.

As of September 30, 2015, and December 31, 2014, the Company determined that its royalty rights under the agreement with ARPI LLC represented a variable interest in a variable interest entity. However, the Company does not have the power to direct the activities of ARPI LLC that most significantly impact ARPI LLC's economic performance and is not the primary beneficiary of ARPI LLC; therefore, ARPI LLC is not subject to consolidation by the Company.

The fair value of the royalty right at September 30, 2015, was determined by using a discounted cash flow analysis related to the expected future cash flows to be received. This asset is classified as a Level 3 asset, as our valuation utilized significant unobservable inputs, including estimates as to the probability and timing of future sales of the licensed product. The discounted cash flow was based upon expected royalties from sales of licensed product over a sixteen-year period. The discount rate utilized was approximately 13.4%. Significant judgment is required in selecting the appropriate discount rate. Should this discount rate increase or decrease by 5%, the fair value of this asset could decrease by $18.4 million or increase by $29.2 million, respectively. Should the expected royalties increase or decrease by 5%, the fair value of the asset could increase by $3.3 million or decrease by $3.3 million, respectively. A third-party expert is engaged to assist management with the development of its estimate of the expected future cash flows, when deemed necessary. The fair value of the asset is subject to variation should those cash flows vary significantly from our estimates. An evaluation of those estimates, discount rates utilized and general market conditions affecting fair market value is performed in each reporting period.

Avinger Credit and Royalty Agreement

On April 18, 2013, PDL entered into the Avinger Credit and Royalty Agreement, under which we made available to Avinger up to $40.0 million (of which only $20.0 million was funded) to be used by Avinger in connection with the commercialization of its lumivascular catheter devices and the development of Avinger's lumivascular atherectomy device. On September 22, 2015, Avinger elected to prepay the note receivable in whole for a payment of $21.4 million in cash.

Under the terms of the Avinger Credit and Royalty Agreement, the Company is entitled to receive royalties at a rate of 1.8% on Avinger's net revenues. As Avinger repaid the note receivable prior to its maturity date in April 2018, the royalty rate was reduced to 0.9% and will be subject to certain minimum payments from the prepayment date until April 2018. PDL has accounted for the royalty rights in accordance with the fair value option. The fair value of the royalty right at September 30, 2015, was determined by using a discounted cash flow analysis related to the expected future cash flows to be received. This asset is classified as a Level 3 asset, as our valuation utilized significant unobservable inputs, including estimates as to the probability and timing of future sales of the licensed product. The discounted cash flow was based upon expected royalties from sales of licensed product over a seven-year period. The discount rate utilized was approximately 15.0%. Significant judgment is required in selecting the appropriate discount rate. Should this discount rate increase or decrease by 5.0%, the fair value of this asset could decrease by $158,000 or increase by $179,000, respectively. Should the expected royalties increase or decrease by 5%, the fair value of the asset could increase by $137,000 or decrease by $137,000, respectively. Management considered the contractual minimum payments when developing its estimate of the expected future cash flows. The fair value of the asset is subject to variation should those cash flows vary significantly from our estimates. An evaluation of those estimates, discount rates utilized and general market conditions affecting fair market value is performed in each reporting period.

Convertible Notes

Series 2012 Notes

In January 2012, we exchanged $169.0 million aggregate principal of Series 2012 Notes for an identical principal amount of our then existing February 2015 Notes, plus a cash payment of $5.00 for each $1,000 principal amount tendered, totaling approximately $845,000. The cash incentive payment was allocated to deferred issue costs of $765,000, additional paid-in capital of $52,000 and deferred tax assets of $28,000. The deferred issue costs will be recognized over the life of the Series 2012 Notes as interest expense. In February 2012, we entered into separate privately negotiated exchange agreements under which we exchanged an additional $10.0 million aggregate principal amount of the Series 2012 Notes for an identical principal amount of our then existing February 2015 Notes. In August 2013, the Company entered into a separate privately negotiated exchange agreement under which it retired the final $1.0 million aggregate principal amount of the Company's outstanding February 2015 Notes. Pursuant to the exchange agreement, the holder of the February 2015 Notes received $1.0 million aggregate principal amount of the Company's Series 2012 Notes. Immediately following the exchange, no principal amount of the February 2015 Notes remained outstanding and $180.0 million principal amount of the Series 2012 Notes was outstanding.

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

On October 20, 2014, the Company entered into a privately negotiated exchange agreement under which it retired approximately $26.0 million in principal of the outstanding Series 2012 Notes. The exchange agreement provided for the issuance, by the Company, of shares of common stock and a cash payment for the Series 2012 Notes being exchanged. The

Company issued approximately 1.8 million shares of its common stock and made a cash payment of approximately $26.2 million. Immediately following the exchange, $22.3 million principal amount of the Series 2012 Notes was outstanding with approximately $0.1 million of remaining original issuance discount to be amortized over the remaining life of the Series 2012 Notes.

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

May 2015 Notes

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

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

Purchased Call Options and Warrants

In connection with the issuance of our May 2015 Notes, we entered into purchased call option transactions with two hedge counterparties. We paid an aggregate amount of $20.8 million, plus legal fees, for the purchased call options with terms substantially similar to the embedded conversion options in our May 2015 Notes. We exercised the purchased call options upon conversion of our May 2015 Notes on May 1, 2015, which required the hedge counterparties to deliver shares to the Company. The hedge counterparties delivered to us approximately 5.2 million of PDL common shares, which was the amount equal to the shares required to be delivered by us to the note holders for the excess conversion value.

In addition, we sold to the hedge counterparties warrants exercisable, on a cashless basis, for the sale of rights to receive up to 27.5 million shares of common stock underlying our May 2015 Notes. We received an aggregate amount of $10.9 million for the sale from the two counterparties. The warrant counterparties may exercise the warrants on their specified expiration dates through the 120 scheduled trading days beginning on July 30, 2015 and ending on January 20, 2016. If the VWAP of our common stock, as defined in the warrant agreement, exceeds the strike price of the warrants on the date of conversion, we will deliver to the warrant counterparties shares of our common stock equal to the spread between the VWAP on the date of exercise or expiration and the strike price. If the VWAP is less than the strike price, neither party is obligated to deliver anything to the other.

The purchased call option transactions and warrant sales effectively serve to reduce the potential dilution associated with conversion of our May 2015 Notes. The strike price is approximately $6.40, subject to further adjustment upon certain events including dividend payments, for the warrants.

Because the share price was above $5.44, but below $6.40, upon conversion of our May 2015 Notes, the purchased call options offset the share dilution, and the Company received shares on exercise of the purchased call options equal to the shares that the Company delivered to the note holders. If the share price is above $6.40, upon exercise of the warrants, the Company will deliver shares to the counterparties in an amount equal to the excess of the share price over $6.40. For example, a 10% increase in the share price above $6.40 would result in the issuance of 2.1 million incremental shares upon exercise of the warrants. If our share price continues to increase, additional dilution would occur.

While the purchased call options reduced the potential equity dilution upon conversion of our May 2015 Notes, prior to the conversion or exercise, our May 2015 Notes and the warrants had a dilutive effect on the Company’s earnings per share to the extent that the price of the Company’s common stock during a given measurement period exceeds the respective exercise prices of those instruments. As of September 30, 2015, and December 31, 2014, there were no related warrants exercised.

The warrants are considered indexed to PDL stock, require net-share settlement and met all criteria for equity classification at inception and at September 30, 2015, and December 31, 2014. The purchased call options cost, including legal fees, of $20.8 million, less deferred taxes of $7.2 million, and the $10.9 million received for the warrant issuance, was recorded as adjustments to additional paid-in capital. Subsequent changes in fair value will not be recognized as long as the warrants continue to meet all criteria for equity classification.

February 2018 Notes

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

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

- During any fiscal quarter ending after the quarter ended June 30, 2014, if the last reported sale price of our common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter exceeds 130% of the conversion price for the notes on the last day of such preceding fiscal quarter;
- During the five business-day period immediately after any five consecutive trading-day period, which we refer to as the measurement period, in which the trading price per $1,000 principal amount of notes for each trading day of that measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate for the notes for each such day;
- Upon the occurrence of specified corporate events as described further in the indenture; or
- At any time on or after August 1, 2017.

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

In accordance with the accounting guidance for convertible debt instruments that may be settled in cash or other assets on conversion, we were required to separately account for the liability component of the instrument in a manner that reflects the market interest rate for a similar nonconvertible instrument at the date of issuance. As a result, we separated the principal balance of our February 2018 Notes between the fair value of the debt component and the fair value of the common stock conversion feature. Using an assumed borrowing rate of 7.0%, which represents the estimated market interest rate for a similar nonconvertible instrument available to us on the date of issuance, we recorded a total debt discount of $29.7 million, allocated $19.3 million to additional paid-in capital and allocated $10.4 million to deferred tax liability. The discount is being amortized to interest expense over the term of our February 2018 Notes and increases interest expense during the term of our February 2018 Notes from the 4.0% cash coupon interest rate to an effective interest rate of 6.9%. As of September 30, 2015, the remaining discount amortization period is 2.3 years.

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

Purchased Call Options and Warrants

In connection with the issuance of our February 2018 Notes, we entered into purchased call option transactions with two hedge counterparties. We paid an aggregate amount of $31.0 million for the purchased call options with terms substantially similar to the embedded conversion options in our February 2018 Notes. The purchased call options cover, subject to anti-dilution and certain other customary adjustments substantially similar to those in our February 2018 Notes, approximately 32.7 million shares of our common stock. We may exercise the purchased call options upon conversion of our February 2018 Notes and require the hedge counterparty to deliver shares to the Company in an amount equal to the shares required to be delivered by

the Company to the note holder for the excess conversion value. The purchased call options expire on February 1, 2018, or the last day any of our February 2018 Notes remain outstanding.

In addition, we sold to the hedge counterparties warrants exercisable, on a cashless basis, for the sale of rights to receive shares of common stock that will initially underlie our February 2018 Notes at a strike price of $10.3610 per share, which represents a premium of approximately 30% over the last reported sale price of the Company's common stock of $7.97 on February 6, 2014. The warrant transactions could have a dilutive effect to the extent that the market price of the Company's common stock exceeds the applicable strike price of the warrants on the date of conversion. We received an aggregate amount of $11.4 million for the sale from the two counterparties. The warrant counterparties may exercise the warrants on their specified expiration dates that occur over a period of time. If the VWAP of our common stock, as defined in the warrant agreement, exceeds the strike price of the warrants, we will deliver to the warrant counterparties shares equal to the spread between the VWAP on the date of exercise or expiration and the strike price. If the VWAP is less than the strike price, neither party is obligated to deliver anything to the other.

The purchased call option transactions and warrant sales effectively serve to reduce the potential dilution associated with conversion of our February 2018 Notes. The strike price is subject to further adjustment in the event that future quarterly dividends exceed $0.15 per share.

The purchased call options and warrants are considered indexed to PDL stock, require net-share settlement, and met all criteria for equity classification at inception and at September 30, 2015. The purchased call options cost of $31.0 million, less deferred taxes of $10.8 million, and the $11.4 million received for the warrants, was recorded as adjustments to additional paid-in capital. Subsequent changes in fair value will not be recognized as long as the purchased call options and warrants continue to meet all criteria for equity classification.

March 2015 Term Loan

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

The interest rates per annum applicable to amounts outstanding under the term loan are, at the Company’s option, either (a) the alternate base rate (as defined in the credit agreement) plus 0.75%, or (b) the adjusted Eurodollar rate (as defined in the credit agreement) plus 1.75% per annum. As of September 30, 2015, the interest rate, based upon the adjusted Eurodollar rate, was 2.09%. Interest payments under the credit agreement are due on the interest payment dates specified in the credit agreement.

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

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

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

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

October 2013 Term Loan

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

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

Off-Balance Sheet Arrangements

As of September 30, 2015, we did not have any off-balance sheet arrangements, as defined under SEC Regulation S-K Item 303(a)(4)(ii).

Contractual Obligations

Convertible Notes and Term Loans

As of September 30, 2015, our convertible notes and term loan contractual obligations consisted primarily of our February 2018 Notes and March 2015 Term Loan, which in the aggregate totaled $350.0 million in principal.

We expect that our debt service obligations over the next several years will consist of interest payments and repayment of our February 2018 Notes and March 2015 Term Loan. We may further seek to exchange, repurchase or otherwise acquire the convertible notes in the open market in the future, which could adversely affect the amount or timing of any distributions to our stockholders. We would make such exchanges or repurchases only if we deemed it to be in our stockholders' best interest. We may finance such repurchases with cash on hand and/or with public or private equity or debt financings if we deem such financings to be available on favorable terms.

Notes Receivable and Other Long-Term Receivables

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

On October 7, 2015, PDL and CareView agreed to an amendment of the credit agreement to modify certain definitions related to the first and second tranche milestones. On this date, the Company funded the first tranche of $20.0 million, net of fees, upon attainment of the modified first tranche milestone relating to the placement of CareView Systems. The additional $20.0 million in the form of a second tranche continues to be available upon CareView's attainment of specified milestones relating to the placement of CareView Systems and Consolidated EBITDA, to be accomplished no later than June 30, 2017 under the terms of the amended credit agreement.

On October 27, 2015, PDL and Paradigm Spine entered into an amendment to the Paradigm Spine Credit Agreement to provide additional term loan commitments of up to $7.0 million payable in two tranches of $4.0 million and $3.0 million, of which the first tranche was drawn on the closing date of the amendment, net of fees, and the second tranche is to be funded at the option of Paradigm Spine prior to June 30, 2016.

Royalty Rights - At Fair Value

On July 28, 2015, PDL entered into a revenue interests assignment agreement with ARIAD pursuant to which ARIAD sold to the Company the right to receive specified royalties on ARIAD's Net Revenues (as defined in the ARIAD Royalty Agreement) generated by the sale, distribution or other use of ARIAD's product Iclusig (ponatinib). In exchange for the ARIAD Royalty Rights, the ARIAD Royalty Agreement provides for the funding of up to $200.0 million in cash to ARIAD. Funding of the first $100.0 million will be made in two tranches of $50.0 million each, with the initial amount funded on the closing date of the ARIAD Royalty Agreement and an additional $50.0 million to be funded on the 12-month anniversary of the closing date. In addition, ARIAD has an option to draw up to an additional $100.0 million in up to two draws at any time between the six- and 12-month anniversaries of the closing date.

Lease Guarantee

In connection with the Spin-Off, we entered into amendments to the leases for our former facilities in Redwood City, California, under which Facet was added as a co-tenant, and a Co-Tenancy Agreement, under which Facet agreed to indemnify us for all matters related to the leases attributable to the period after the Spin-Off date. Should Facet default under its lease obligations, we could be held liable by the landlord as a co-tenant and, thus, we have in substance guaranteed the payments under the lease agreements for the Redwood City facilities. As of September 30, 2015, the total lease payments for the duration of the guarantee, which runs through December 2021, were approximately $70.5 million.

We recorded a liability of $10.7 million on our Condensed Consolidated Balance Sheets as of September 30, 2015, and December 31, 2014, for the estimated liability resulting from this guarantee. We prepared a discounted, probability-weighted cash flow analysis to calculate the estimated fair value of the lease guarantee as of the Spin-Off. We were required to make assumptions regarding the probability of Facet's default on the lease payment, the likelihood of a sublease being executed and the times at which these events could occur. These assumptions are based on information that we received from real estate brokers and the then-current economic conditions, as well as expectations of future economic conditions. The fair value of this lease guarantee was charged to additional paid-in capital upon the Spin-Off and any future adjustments to the carrying value of the obligation will also be recorded in additional paid-in capital. In future periods, we may increase the recorded liability for this obligation if we conclude that a loss, which is larger than the amount recorded, is both probable and estimable.

Indemnification

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Risk

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

We hedge Euro-denominated risk exposures related to our licensees' product sales with Euro forward contracts. In general, these contracts are intended to offset the underlying Euro market risk in our royalty revenues. Our current contracts extend through the first quarter of 2016 and are all classified for accounting purposes as cash flow hedges. We continue to monitor the change in the Euro exchange rate and regularly purchase additional forward contracts to achieve hedged rates that approximate the average exchange rate of the Euro over the year, which we anticipate will better offset potential changes in exchange rates than simply entering into larger contracts at a single point in time.

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

Gains or losses on our cash flow hedges are recognized in the same period that the hedged transaction impacts earnings as an adjustment to royalty revenue. Ineffectiveness, if any, resulting from the change in fair value of the modified 2012 hedge or lower than forecasted Euro-based royalties will be reclassified from "Other comprehensive income (loss), net of tax" and recorded as "Interest and other income, net", in the period it occurs. The following table summarizes the notional amounts, Euro exchange rates and fair values of our outstanding Euro contracts designated as hedges at September 30, 2015, and December 31, 2014:

Euro Forward Contracts			**September 30, 2015**		**December 31, 2014**	
			(In thousands)		***(In thousands)***	
Currency	**Settlement Price ($ per Euro)**	**Type**	**Notional Amount**	**Fair Value**	**Notional Amount**	**Fair Value**
Euro	1.256	Sell Euro	$ —	$ —	$ 6,000	$ 241
Euro	1.257	Sell Euro	—	—	15,750	728
Euro	1.259	Sell Euro	—	—	16,125	752
Euro	1.260	Sell Euro	33,000	4,597	33,000	1,468
Euro	1.270	Sell Euro	—	—	7,000	377
Euro	1.281	Sell Euro	—	—	8,000	503
Total			$ 33,000	$ 4,597	$ 85,875	$ 4,069

Interest Rate Risk

Our investment portfolio was approximately $141.7 million at September 30, 2015, and $224.1 million at December 31, 2014, and consisted of investments in Rule 2a-7 money market funds and a corporate security. If market interest rates were to have increased by 1% in either of these years, there would have been no material impact on the fair value of our portfolio.

The aggregate fair value of our convertible notes was estimated to be $312.3 million at September 30, 2015, and $528.7 million at December 31, 2014, based on available pricing information. At September 30, 2015, and December 31, 2014, our convertible note consisted of our February 2018 Notes, with a fixed interest rate of 4.0%. At December 31, 2014, our convertible notes also consisted of our Series 2012 Notes, with a fixed interest rate of 2.875%, and our May 2015 Notes, with a fixed interest rate of 3.75%. These obligations are subject to interest rate risk because the fixed interest rates under these obligations may exceed current market interest rates.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2015, our disclosure controls and procedures were effective to ensure the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure and recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Changes in Internal Controls

There were no changes in our internal controls over financial reporting during the quarter ended September 30, 2015, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

During the nine months ended September 30, 2015, there were no material changes to the risk factors included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, as amended. Please carefully consider the information set forth in this Quarterly Report on Form 10-Q and the risk factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, as amended, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K for the year ended December 31, 2014, as amended, as well as other risks and uncertainties, could materially and adversely affect our business, results of operations and financial condition, which in turn could materially and adversely affect the trading price of shares of our common stock. Additional risks not currently known or currently material to us may also harm our business.

ITEM 6. EXHIBITS

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

SIGNATURES

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

Dated: November 4, 2015

PDL BIOPHARMA, INC. (REGISTRANT)

/s/ John P. McLaughlin

John P. McLaughlin

President and Chief Executive Officer (Principal Executive Officer)

/s/ Peter S. Garcia

Peter S. Garcia

Vice President and Chief Financial Officer (Principal Financial Officer)

/s/ Steffen Pietzke

Steffen Pietzke

Controller and Chief Accounting Officer (Principal Accounting Officer)

EXHIBIT INDEX

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

Filed herewith.

* Management contract or compensatory plan or arrangement

** This certification accompanies the Quarterly Report on Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the registrant under

the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Quarterly Report on Form 10-Q), irrespective of any general incorporation language contained in such filing.

† 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.

PDL BIOPHARMA, INC.

Amended and Restated 2015 Annual Bonus Plan

This Amended and Restated 2015 Annual Bonus Plan (the "**Plan**") is intended to enhance stockholder value by promoting a connection between the performance of PDL BioPharma, Inc. (the "**Company**") and the compensation of personnel of the Company and to promote retention of high performing personnel. The Plan is being implemented under the Company's 2005 Equity Incentive Plan (as amended, the "2005 Equity Plan"), which was approved by the Company's stockholders. The annual bonuses will be granted as a Cash-Based Award pursuant to the 2005 Equity Plan.

1. All employees of the Company working 30 hours per week or more (each, a "**Participant**") are eligible to receive annual bonuses for 2015 according to this Plan. The Plan will be administered by the Compensation Committee of the Board of Directors of the Company (the "**Committee**"). The Committee shall have all powers and discretion necessary to administer the Plan and to control its operation and may delegate responsibilities to Company officers as it deems appropriate. Participants are eligible to receive bonuses upon the achievement of the threshold goal specified in Section 2. A Participant who does not demonstrate satisfactory individual performance (50% or higher), however, will not be eligible for any portion of his or her bonus, including the portion based on Company performance.

2. For the purpose of payments under the Plan qualifying as Performance-Based Compensation under the 2005 Equity Plan, the threshold goal shall be the consummation of corporate transactions resulting in the acquisition of income generating assets with an aggregate value of not less than $100 million on or prior to December 31, 2015.

3. The determination of the amount of payments under the plan shall be based on the performance of the 2015 Corporate Goals and the 2015 Individual Goals as well as the other factors set forth in this Section 3. Company performance shall be determined by the Committee based on the Company's ability to meet or exceed corporate goals ("**2015 Corporate Goals**") as approved by the Board of Directors and set forth in **Exhibit A**. Additionally, the Committee may adjust or modify the 2015 Corporate Goals to reflect changed Company objectives. Individual performance of the Company's officers shall be reviewed and recommended to the Committee by the Chief Executive Officer, except for the performance of the Chief Executive Officer, which shall be determined by the Committee based on the Company's achievement of established Corporate Goals. Individual performance of employees shall be reviewed by the appropriate manager and approved by the Chief Executive Officer. In all cases, individual performance shall be based on the 2015 Individual Goals that have been approved by the Chief Executive Officer and set forth as **Exhibit B** (the "**2015 Individual Goals**").

The Committee shall have the sole discretion on the basis of individual or corporate performance metrics to determine that the actual amount paid with respect to a Participant's award will be equal to or less than (but not greater than) the

maximum payout calculated. For clarification, the Committee may determine, in its sole discretion on the basis of individual or corporate performance metrics, that a reduced bonus, or no bonus, shall be paid to individual, regardless of achievement of the 2015 Corporate Goals or the 2015 Individual Goals.

4. To be eligible for a bonus, a Participant must be on payroll prior to October 1, 2015, and must be employed by the Company as of the date of payment of the bonus. A Participant hired after April 1, 2015, shall be eligible for a pro-rated bonus.

5. A Participant who has taken an approved leave of absence pursuant to the Company's policies during 2015 shall receive a pro-rated bonus, at the Compensation Committee's discretion.

6. The amount of a Participant's bonus is based on a target percentage of such Participant's annual average base salary throughout the 2015 calendar year. The target percentage for executives has been determined by the Committee and for employees has been determined by the manager at the beginning of the Plan Year. The target percentage shall then be adjusted based on the attainment of 2015 Corporate Goals and Individual Goals over the course of the Plan Year to arrive at a final performance percentage. For each person, the target percentage and ratio of attainment of 2015 Corporate Goals and 2015 Individual Goals is set forth as **Exhibit C.**

7. The Company performance percentage and/or the individual performance percentage may exceed 100% in the event the Company or the individual Participant exceeds expected goals, provided that neither percentage may exceed 200%. For example, assuming the Company has met 100% of its 2015 Corporate Goals, a Participant, who has met 150% of his or her 2015 Individual Goals, has a target percentage of 25%, has a corporate-to-individual goal ratio of 50%/50% and a base pay rate of $100,000 will receive a bonus of $31,250 (100% x 0.5 + 150% x 0.5 = 125%; and 125% x 25% = 31.25%; and 31.25% of Participant's base pay rate of $100,000 = $31,250). All determinations and decisions made by the Committee shall be final, conclusive and binding on all persons and shall be given the maximum deference permitted by law.

8. This Plan is effective for the Company's 2015 calendar year beginning January 1, 2015, through December 31, 2015 (the "**Plan Year**"), and will expire automatically on December 31, 2015. Bonus payments will be made no later than February 15th, 2016.

9. The Company shall withhold all applicable taxes from any bonus payment, including any federal, state and local taxes.

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

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

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

13. It is the intent of the Company that the Plan, and all payments made hereunder, satisfy and be interpreted in a manner that, in the case of Participants who are persons whose compensation is subject to Section 162(m), qualify as Performance-Based Compensation under Section 162(m). Any provision, application or interpretation of the Plan inconsistent with this intent to satisfy the requirements of Section 162(m) shall be disregarded. However, notwithstanding anything to the contrary in the Plan, the provisions of the Plan may at any time be bifurcated by the Committee in any manner so that certain provisions of the Plan or any payment intended (or required in order) to satisfy the applicable requirements of Section 162(m) are only applicable to persons whose compensation is subject to the limitations on deductibility of compensation provided under Section 162(m).

Name	Title	Target Bonus	Ratio of 2015 Corporate Goals/2015 Individual Goals
John McLaughlin	President & CEO	100%	100%/0%
Peter Garcia	VP & CFO	75%	75%/25%
Christopher Stone	VP, General Counsel & Secretary	75%	75%/25%
Danny Hart	Vice President, Business Development	75%	75%/25%
Steffen Pietzke	Controller and Chief Accounting Officer	45%	75%/25%
Nathan Kryszak	Senior Counsel & Assistant Secretary	45%	75%/25%

PDL BIOPHARMA, INC.

Amended and Restated 2015/19 Long-Term Incentive Plan

This Amended and Restated 2015/19 Long-Term Incentive Plan (the "**Plan**") is intended to enhance stockholder value by promoting a connection between the performance of PDL BioPharma, Inc. (the "**Company**") and the compensation of personnel of the Company and retaining high performing personnel. This Plan is the fifth long-term incentive plan in a series of long-term incentive plans, each plan overlapping the previous plan and having a subsequent vesting date to provide maximum continuity and retention effects. The Plan is being implemented under the Company's 2005 Equity Incentive Plan, as amended (the "**Equity Plan**"), which was approved by the Company's stockholders. The Plan will be administered by the Compensation Committee of the Board of Directors of the Company (the "**Committee**"). The Committee shall have all powers and discretion necessary to administer the Plan and to control its operation, and may delegate any and all such powers and discretion to any officer of the Company. The Plan is effective as of January 1, 2015 (the "**Effective Date**"), and will 50% vest and be payable on December 12, 2016 (the "**Initial Vesting Period Date**") and will 16.667% vest and be payable on each of December 12 of 2017, 2018 and 2019 (each a "**Subsequent Vesting Period Date**") upon attainment of specified goals**.** The Plan will terminate when all payments and benefits under the Plan have been made.

1. Eligibility

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

2. Performance Goals

Long-term incentives under this Plan will vest and are payable on the Initial Vesting Period Date and on applicable Subsequent Vesting Period Dates upon attainment of the Initial Performance Goal or a Subsequent Performance Goal, as applicable on such date. Failure to accomplish a Subsequent Performance Goal shall not affect any payments awarded on the Initial Vesting Period Date. Failure to achieve the Initial Performance Goal will eliminate a Participant's eligibility under the Subsequent Performance Goals.

The Initial Performance Goal is: deployment of $500 million or more in the aggregate in income-generating assets in the two calendar-year period of 2015 and 2016. Upon

attainment of the Initial Performance Goal, 50% of the long-term incentives of cash and restricted stock will vest and be payable on the Initial Vesting Period Date.

Each of the Subsequent Performance Goals is: the basket of income-generating assets acquired during the two calendar-year period of 2015 and 2016 generates at least 80% of the projected cash flow for such basket in the calendar year of the applicable Subsequent Vesting Period Date. Upon attainment of a Subsequent Performance Goal, 16.667% of the long-term incentive set forth on **Exhibit A** will vest and be payable as of the applicable Subsequent Vesting Period Date. In the event that a Subsequent Performance Goal is not obtained in any calendar year, such long-term incentive may vest and be payable on the final Subsequent Vesting Period Date if the basket of income-generating assets acquired during the two calendar-year period of 2015 and 2016 generates at least 80% of the total projected cash flow for such basket during the combined calendar years of 2017-19.

3. Incentive

The long-term incentive consists of: (i) a cash payment and (ii) a grant of restricted stock, in each case awarded pursuant to the Company's 2005 Equity Incentive Plan, as amended. All incentives shall vest and pay on the Initial Vesting Period Date and Subsequent Vesting Period Date, as applicable, subject to compliance with Section 409A of the Internal Revenue Code and except as accelerated by a Change in Control. The number of shares underlying the initial Restricted Stock Award shall be determined based on the closing price of the Company's common stock on January 28, 2015 and the number of shares underlying the additional Restricted Stock Award shall be determined based on the closing price of the Company's common stock on September 29, 2015.

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

4. Adjustments

There are circumstances in which adjustments to the Plan may be necessary. The following are examples and are not intended to be an exhaustive list of such circumstances.

Early repayment of debt or buy out of a royalty: PDL acquires an income-generating asset from Company A in early 2015 which is structured as debt requiring repayment of principal and interest in 2016 through 2019. It is part of the basket of 2015-16 income-generating assets against which the Initial and Subsequent Performance Goals under this Plan are measured. Company A is acquired and the debt is fully repaid in June 2016. For purposes of measuring the attainment of the Initial Performance Goal and Subsequent Performance Goals, the income-generating asset of Company A shall be treated as if it generated 100% of the projected income for purposes of attainment of the Initial and Subsequent Performance Goals even though the debt is no longer outstanding during the applicable measurement periods.

Positive or Neutral restructuring of an income-generating asset: PDL provides a loan of $50 million to Company A in 2015. In 2016, PDL modifies the terms of the loan to provide an additional tranche of cash upon attainment of a sales milestone. The restructuring is beneficial to PDL because the asset is performing and the additional amount of the loan

allows PDL to deploy more cash into an income-generating asset. Attainment of the Initial and Subsequent Performance Goals is measured against the restructured deal.

Negative restructuring of an income-generating asset: Whether facts or circumstances warrant using a revised projection of cash flow based on the restructuring (as compared to the original projected cash flow) is solely within the discretion of the Committee.

5. Change in Control

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

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

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

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

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

6. 409A

This Plan is intended to be exempt from the requirements of Section 409A of the Internal Revenue Code of 1986, as amended (the "**Code**"), pursuant to the short term deferral exemption of Code Section 409A, so that none of the payments or benefits under this Plan, or shares of Company common stock issuable pursuant to this Plan, will be subject

to the additional tax, penalties or other sanctions imposed under Code Section 409A and this Plan shall in all respects be administered, and any ambiguities herein will be interpreted, to be so exempt. For purposes of Code Section 409A, each payment under this Plan shall be treated as a separate payment. In no event may a Participant, directly or indirectly, designate the calendar year of any payment to be made under this Plan.

7. 162(m)

It is the intent of the Company that the Plan, and all payments made hereunder, satisfy and be interpreted in a manner that, in the case of Participants who are persons whose compensation is subject to Section 162(m), qualify as Performance-Based Compensation under Section 162(m). Any provision, application or interpretation of the Plan inconsistent with this intent to satisfy the requirements of Section 162(m) shall be disregarded. However, notwithstanding anything to the contrary in the Plan, the provisions of the Plan may at any time be bifurcated by the Committee in any manner so that certain provisions of the Plan or any payment intended (or required in order) to satisfy the applicable requirements of Section 162(m) are only applicable to persons whose compensation is subject to the limitations on deductibility of compensation provided under Section 162(m).

8. Miscellaneous

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

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

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

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

Exhibit A

Participant Incentive

Name	Title	Target Cash Payment	Value of Restricted Stock Award
John P. McLaughlin	President and Chief Executive Officer	$2,297,190	$984,510
Peter Garcia	Vice President, Chief Financial Officer	$759,229	$325,384
Christopher L. Stone	Vice President, General Counsel and Secretary	$765,310	$327,990
Danny Hart	Vice President, Business Development	$710,500	$304,500
Steffen Pietzke	Controller & Chief Accounting Officer	$233,920	$100,254
Nathan Kryszak	Senior Counsel and Assistant Secretary	$328,020	$140,580

Exhibit 10.3

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 INTEREST ASSIGNMENT AGREEMENT

Dated as of July 28, 2015

between

ARIAD PHARMACEUTICALS, INC.

and

PDL BIOPHARMA, INC.

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REVENUE INTEREST ASSIGNMENT AGREEMENT

This **REVENUE INTEREST ASSIGNMENT AGREEMENT** (as amended, supplemented or otherwise modified from time to time, this "**Agreement**") is made and entered into as of July 28, 2015, by and between ARIAD Pharmaceuticals, Inc., a Delaware corporation ("**ARIAD**" or the "**Company**"), and PDL BioPharma, Inc., a Delaware corporation ("**Purchaser**").

WHEREAS, the Company wishes to obtain financing in respect of the development of its pipeline product Brigatinib and the commercialization of the Product (as hereinafter defined);

WHEREAS, the Company wishes to sell, assign, convey and transfer to Purchaser the Assigned Interests in consideration for its payment of the Purchase Price (as hereinafter defined) to raise such financing;

WHEREAS, the 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;

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:

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

"Additional Purchase Price" shall mean $50,000,000.

"Additional Product Financing Trigger Event" shall mean the first date on which the Net Revenue for the Product for the immediately preceding four fiscal quarters of the Company and its Subsidiaries, calculated as of the end of any fiscal quarter, exceeds $* * *.

"Additional Purchase Price Closing Date" shall have the meaning set forth in Section 2.03(d).

"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.

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

"Allowable Additional Product Financing" shall mean, after the occurrence of an Additional Product Financing Trigger Event, (a) any Indebtedness secured by Liens granted on the Shared Assigned Interest Collateral that is incurred by the Company or any Subsidiary of the Company to any Third Party (other than Purchaser) and (b) any sale of Revenue Interests other than the Assigned Interests by the Company or any Subsidiary of the Company to any Third Party not to exceed * * * percent (* * *%) of the total Revenue Interest; provided, however, that (i) in the case of any such Indebtedness, any such Liens must be granted *pari passu* with, or junior to, but not senior to, the Liens on the Shared Assigned Interests Collateral granted by the Company to the Purchaser pursuant to this Agreement and the Security Agreement, (ii) the terms of any such Indebtedness or sale shall not conflict in any respect with the terms of the Transaction Documents (including, without limitation, Section 5.08(c)), (iii) the sum of the aggregate principal amount of any such Indebtedness and the aggregate amount of any payments on account of the acceleration of all or a substantial portion of payments, mandatory redemption or repurchase, put or sinking fund or similar payment of any such sale (not including payment of the Revenue Interest itself) shall not exceed $* * *, (iv) in the case of any such Indebtedness, such Indebtedness has a maturity date that is a date (such date, the "Outside Date") at least 91 days after the latest of (X) the * * * anniversary of the Closing Date, (Y) the * * * anniversary of the payment of the Additional Purchase Price by Purchaser to the Company and (Z) the * * * anniversary of the payment of the final Second Tranche Purchase Price by Purchaser to the Company (and the terms of such Indebtedness shall not provide for any scheduled repayment, mandatory redemption, put or sinking fund obligations prior to the Outside Date (other than customary offers to, or put right to require, repurchase upon a change of control, asset sale or casualty event and customary acceleration rights after an event of default)), (v) in the case of any such sale, (1) such sale shall not provide for any acceleration of all or a substantial portion of payments, mandatory redemption or repurchase, put or sinking fund or similar payment obligation prior to the Outside Date and (2) the Third Party purchaser in any such sale shall have entered into one or more inter-creditor agreements with respect to its rights in the portion of the Revenue Interests it purchased in form and substance reasonably satisfactory to Purchaser, whose consent shall not be unreasonably withheld or delayed and (vi) after giving effect to all such Allowable Additional Product Financings and any working capital revolving loans and equipment financings described in clause (iii) of the definition of Permitted Secured Financings, at least * * *% of the Revenue Interests shall remain unsold and subject to no Liens other than (1) any Lien or agreements in favor of Purchaser granted under or pursuant to this Agreement and the other Transaction Documents; and (2) liens for taxes or other governmental charges arising by operation of law in the ordinary course of business for sums which are not yet due and payable.

"Allowable Back-up Product Financing" shall mean the incurrence of any Indebtedness secured by Liens granted on the Net Revenue of the Back-up Product that is incurred by the Company or any Subsidiary of the Company to any Third Party; provided, however, that such Indebtedness has a maturity date that is not earlier than the Outside Date (as defined above in the definition of "Allowable Additional Product Financing") (and the terms of such Indebtedness shall not provide for any scheduled repayment, mandatory redemption, put or sinking fund obligations prior to the Outside Date (other than customary offers to, or put right to require,

repurchase upon a change of control, asset sale or casualty event and customary acceleration rights after an event of default)).

"Applicable Percentage" shall mean, as of any date of determination (i) from the Closing through the Second Drawdown Date, 2.5%, (ii) from the Second Drawdown Date through and including December 31, 2018, 5.0% and (iii) thereafter, 6.5%; provided, however, that Applicable Percentage pursuant to this clause (iii) shall increase to 7.5% if the aggregate Purchase Price paid by the Purchaser exceeds $150,000,000.

"Assigned Interests" shall mean Purchaser's right to receive amounts equal to the product of the Applicable Percentage multiplied by the worldwide Net Revenues of the Product during the Revenue Interest Period, subject to the Yearly Payment Cap, pursuant to the terms and conditions of this Agreement.

"Assigned Interests Collateral" shall mean the property included in the definition of "Collateral" in the Security 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 or its Subsidiaries 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.

"Back-up Product" shall mean Brigatinib.

"Back-up Product True-Up Amount" shall have the meaning set forth in Section 5.08(f)(iv).

"Back-up Product True-Up Cap" shall have the meaning set forth in Section 5.08(f)(v).

"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 un-dismissed, undischarged or un-bonded 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, restraint or similar process against (i) all or a substantial portion of its assets and/or (ii) the Product or a 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;

(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; or

(f) an affirmative vote by the Board to commence any case, proceeding or other action described in clause (a) above.

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

"Brigatinib" means the compound currently known as brigatinib, also known as AP26113, which is an inhibitor of anaplastic lymphoma kinase and is currently under investigation as a potential treatment for non-small cell lung cancer, regardless of the drug formulation or dosage form that is made with brigatinib and regardless of the indication or purpose for which the drug incorporating brigatinib is ultimately marketed or sold.

"Brigatinib Divestiture Account" shall have the meaning set forth in Section 5.17.

"Brigatinib Divestiture Collateral Amount" shall have the meaning set forth in Section 5.17.

"Brigatinib Divestiture Event" shall have the meaning set forth in Section 5.17.

"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(b).

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

"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; or

(c) 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.

"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).

"Closing Purchase Price" shall mean $50,000,000.

"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 laws, rules and regulations of any Governmental Authority 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.

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

"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(f)(iii) that is not paid when due, 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) * * * percent (* * *%) per year, compounded annually; provided, however, if Purchaser has Knowledge of a delinquent payment and fails to give notice to the Company of such delinquency, then no interest shall accrue in respect of such delinquent payment until notice is given to the Company or the Company otherwise becomes of aware of such delinquency.

"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, regardless of whether or not any Allowable Additional Product Financings have been entered into by the Company or any Subsidiary.

"Deposit Agreement" shall mean the agreement to be entered into by a Deposit Bank, ARIAD and Purchaser in accordance with Section 5.08, pursuant to which, among other things, the Deposit Account, the Joint Concentration Account, the Purchaser Concentration Account, the Company Concentration Account and, upon the occurrence of a Brigatinib Divestiture Event, the Brigatinib Divestiture Account shall be established and maintained.

"Deposit Bank" shall mean the bank or financial institution approved by each of Purchaser and the Company in accordance with Section 5.08 that is a party to any Deposit Agreement.

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

"European Subsidiaries" shall mean ARIAD Pharmaceuticals (Luxembourg) S.a.r.l, ARIAD Pharmaceuticals (Europe) S.a.r.l, ARIAD Pharmaceuticals (Denmark) ApS, ARIAD Pharmaceuticals (Finland) Oy, ARIAD Pharmaceuticals (Germany) GmbH, ARIAD Pharmaceuticals (Benelux) B.V., ARIAD Pharmaceuticals (Spain) S.L.U., ARIAD Pharma (UK) Ltd., ARIAD Pharmaceuticals (Austria) GmbH, ARIAD Pharmaceuticals (France), ARIAD Pharmaceuticals (Italy) S.R.L., ARIAD Pharmaceuticals (Norway) AS, ARIAD Pharma S.A. (Greece), and ARIAD Pharmaceuticals (Nordic) AB.

"Excluded Liabilities and Obligations" shall have the meaning set forth in Section 2.05.

"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 Subsidiaries as of December 31, 2014, and December 31, 2013, 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 Subsidiaries as of March 31, 2015, and the related unaudited consolidated statements of operations, cash flows and shareholders' equity for the three (3) 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 or termination 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 during the Revenue Interest Period, the amount equal to the sum of the following for such period: (a) the amounts invoiced and recognized as revenue in accordance with GAAP by the Company or its Affiliates with respect to the sale by the Company or its Affiliates of Product to a Third Party (including distributors), (b) to the extent not covered by (a) above, any amounts invoiced and recognized as revenue in accordance with GAAP by the Company or its Affiliates from a Third Party solely with respect to the sale, distribution or other use of the Product by such Third Party (including any royalties received by the Company, but excluding (i) * * *, (ii) * * *, or (iii) * * *), 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); provided, however, that with respect to the use of this definition in the definition of "Quarterly Report" and Section 5.02(f) only, "Gross Product Revenue" shall include revenue with respect to the sale of both the Product and, when and as relevant, the Back-up Product.

"Gross Back-up Product Revenues" shall have the same meaning as "Gross Product Revenues" except shall be determined with respect to the Back-up Product.

"Gross Product Revenues of the Company" shall mean Gross Product Revenues that are owned, invoiced, and recognized as revenue in accordance with GAAP by the Company and its Subsidiaries (other than the European Subsidiaries), which correspond to the Revenue Interest (excluding the European Subsidiaries).

"Indebtedness" shall mean all indebtedness for borrowed money and all obligations issued, undertaken or assumed as the deferred purchase price of property or services.

"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); 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 or its Subsidiaries, in each case solely relating to the manufacture and sale of the Product.

"IRR" shall mean the internal rate of return calculated on a quarterly basis 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, which shall only be exercisable by Purchaser during the occurrence and continuation of the Security Agreement Remedies Period (as defined in the Security Agreement), 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 of the Company" shall mean the * * *.

"Knowledge of Purchaser" shall mean the actual knowledge of Purchaser's * * *, 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 that grants a license to a Third Party under the Intellectual Property covering the Product.

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

"Liens" shall mean all liens, encumbrances, security interests, mortgages, rights to preferential payments or charges of any kind, but excluding any License Agreements.

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

"Major Countries" shall mean the United States, Germany, France, Great Britain, Spain, Italy and Japan.

"Make Whole Payment" shall have the meaning set forth in Section 2.04.

"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 in the business, operations, assets or financial condition 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 material obligations under the Transaction Documents, (d) the inability or failure of the Company to make payment of the Assigned Interests in violation of this Agreement, (e) any material adverse effect on the Product or the ability of the Company and its Subsidiaries to distribute, market and/or sell the Product or (f) any material adverse effect on the Revenue Interests.

"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, in each case, for which breach, non-performance or failure to renew by the Company or its Subsidiaries could reasonably be expected to have a Material Adverse Effect.

"Material Patents" means U.S. Patent Nos. * * *; * * * and * * *; EPO Patent Nos. * * * and EPO Application No. * * *.

"Net Back-up Product Revenues" shall have the same meaning as "Net Revenues" except shall be determined with respect to the Back-up Product.

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

(a) Gross Product Revenues for such period, less

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

(i) * * *;

(ii) * * *,

(iii) * * *,

(iv) * * *,

(v) * * *,

(vi) * * *, and

(vii) * * *.

Net Revenues shall be determined in accordance with GAAP as applied by the Company during the Term; provided that if there is any change in GAAP or its application by the Company during the Term that would reasonably be expected to result in an adverse effect on the Assigned Interests, the Company and Purchaser shall negotiate in good faith to make such adjustments as may be reasonably necessary to compensate PDL based on how such Net Revenues would have been calculated using GAAP as applied by the Company on the date of this Agreement. In

calculating Net Revenues, any transfer from the Company to an Affiliate shall be disregarded and the calculation shall instead be based on the first transfer to a Third Party.

"Net Revenues of the Company" shall mean the Net Revenues of the Product that are invoiced and recognized as revenue in accordance with GAAP by the Company and its Subsidiaries (other than the European Subsidiaries) and shall be calculated based on Gross Product Revenues of the Company and its Subsidiaries (other than the European Subsidiaries).

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

"Officer's Certificate" shall mean the duly executed 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 authorizing and approving the execution, delivery and performance by the Company of this Agreement and the other Transaction Documents 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 Delaware.

"Outside Date" shall have the meaning set forth in the definition of "Allowable Additional Product Financing".

"Patents" shall mean all patents, patent rights, patent applications, patent disclosures and invention disclosures issued or filed, together with all reissues, divisions, continuations, 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 Term, including, without limitation, those identified in Schedule 3.12(a) in each case, which are owned by the Company, its Subsidiaries or any of its Affiliates.

"Permitted Liens" shall mean (i) Liens created in favor of Purchaser on or after the Closing pursuant to the Security Agreement, the Assignment of Interests, and any other Transaction Document; (ii) liens for taxes or other governmental charges arising by operation of law in the ordinary course of business for sums which are not yet due and payable, and (iii) any other Liens permitted pursuant to any Permitted Secured Financing.

"Permitted Secured Financings" shall mean, as of any date of determination, (i) the Allowable Additional Product Financing, (ii) the Allowable Back-up Product Financing, (iii) working capital revolving loans and equipment financings secured by the Shared Assigned Interests Collateral in an aggregate principal amount not to exceed $* * *; and (iv) secured financings that are not secured by the Product or Back-up Product or any of the assets or collateral included in the Shared Assigned Interest Collateral; provided that with respect to any of the foregoing set forth in item (i) above that are secured by a security interest in the Shared Assigned Interests Collateral,

Purchaser and all other providers (or any designated agent thereof) of any such Permitted Secured Financing shall have entered into one or more inter-creditor agreements with respect to the Shared Assigned Interests Collateral in form and substance reasonably satisfactory to Purchaser, whose consent shall not be unreasonably withheld or delayed; and provided, further, that with respect to any of the foregoing set forth in item (iv) above, such Indebtedness has a maturity date that is not earlier than the Outside Date (and the terms of such Indebtedness shall not provide for any scheduled repayment, mandatory redemption, put or sinking fund obligations prior to the Outside Date (other than customary offers to, or put right to require, repurchase upon a change of control, asset sale or casualty event and customary acceleration rights after an event of default)).

"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.

"Prior Fiscal Quarter" shall mean the most recent prior Fiscal Quarter for which the Net Revenues of the Product were calculated and reported in a True-Up Statement in accordance with this Agreement.

"Product" shall mean the product currently known as Iclusig, also known as ponatinib hydrochloride, the chemical name for which is 3-(imidazo[1,2-b]pyridazin-3ylethynyl)-4-methyl-N-{4-[(4-methylpiperazin-1-yl)methyl]-3-(trifluoromethyl)phenyl}benzamide hydrochloride having molecular formula $C_{29}H_{28}ClF_3N_6O$ and marketed and sold by the Company, regardless of the formulation or dosage form of such product and regardless of the indication or purpose for which such product is marketed or sold, and any and all future drug formulations and dosage forms incorporating ponatinib hydrochloride that are developed or licensed by the Company or its Subsidiaries.

"Projected Net Product Revenues" shall mean the projected annual Net Revenues of the Product as listed on Schedule A hereto.

"Purchase Price" shall mean the Closing Purchase Price, the Additional Purchase Price and any Second Tranche Purchase Price.

"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 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(a).

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

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

(a) any Bankruptcy Event;

(b) any Change of Control of the Company;

(c) any Transfer to a Third Party by the Company or its Subsidiaries of its interest in the Revenue Interests or all or substantially all of its interest in the Product, in each case that results in a reduction of the amount of the Assigned Interests other than in connection with a Permitted Secured Financing or a License Agreement; or

(d) any failure by the Company to pay any amounts due and owing from the Company to Purchaser under this Agreement within * * * days of receipt of written notice from Purchaser of the failure by the Company to make payment of any such amounts, unless such amounts have been validly disputed (and remain in dispute) in the good faith determination of the Company and the Company has delivered written notice to Purchaser within such * * * period detailing such amounts in dispute.

"Put/Call Price" shall mean, as of any date of determination, the greater of (i) (X) an amount that, when paid to Purchaser, would generate an IRR to Purchaser of 10.0% after taking into account the amount and timing of all payments made by Purchaser to the Company pursuant to this Agreement as of the date of payment of the Put/Call Price, and taking into account the amount and timing of all payments made by the Company to Purchaser (and retained by Purchaser) pursuant to this Agreement plus (Y) any Delinquent Assigned Interest Payment owed; and (ii) the multiple of all payments made by Purchaser to the Company as of the date of determination pursuant to this Agreement as set forth below with respect to the period in which such date falls, less the amount of payments already received by Purchaser from the Company pursuant to this Agreement as of such date of determination (excluding any amounts attributable to Delinquent Assigned Interest Payments.)

Period	Multiple
On or prior to the first anniversary of the Closing Date	1.15x
After the first anniversary of the Closing Date through and including the second anniversary of the Closing Date	1.20x
After the second anniversary of the Closing Date and thereafter	1.30x

"Quarterly Report" shall mean, with respect to the relevant Fiscal Quarter of the Company, (a) a report showing Gross Product Revenues for both the Product and the Back-Up Product 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(f) 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 or other regulation of pharmaceuticals in any Major Country.

"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 Major Country.

"Revenue Interest Period" shall mean the period from and including the Closing Date through and including December 31, 2033, unless earlier terminated upon (i) Purchaser's exercise of the Put Option in accordance with Section 5.07(a) or the Company's exercise of the Call Option in accordance with Section 5.07(b), in each case upon the payment of the Put/Call Price, or (ii) Company's termination pursuant to Section 6.01.

"Revenue Interests" shall mean all of the interest of the Company and its Subsidiaries in the Gross Product Revenues.

"Second Drawdown Date" shall mean the one-year anniversary of the date hereof.

"Second Tranche Purchase Price" shall have the meaning set forth in Section 2.03(e).

"Second Tranche Purchase Price Closing Date" shall have the meaning set forth in Section 2.03(e).

"Security Agreement" shall mean the Security 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 Security Agreement shall be substantially in the form of Exhibit A.

"Shared Assigned Interests Collateral" shall mean the Assigned Interests Collateral in which Purchaser and, as applicable, the purchaser or provider of any Permitted Secured Financing has been granted a Lien. For the avoidance of doubt, the Shared Assigned Interests Collateral shall not include the Assigned Interests.

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

"Sweep Percentage" shall mean (i) for the period from the Closing Date through the date of the delivery by the Company to the Purchaser of the first True-Up Statement, * * *%, and (ii)

for any given Fiscal Quarter thereafter, the percentage equal to (i) the Applicable Percentage multiplied by worldwide Net Revenues of the Product for the Prior Fiscal Quarter, divided by (ii) the Net Revenues of the Company with respect to the Product for the Prior Fiscal Quarter. The Sweep Percentage shall be calculated on a quarterly basis and shall be set forth in the True-Up Statement for each Fiscal Quarter.

"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 discussed between the Company and Purchaser, on or around June 12, 2015.

"Third Party" shall mean any Person other than the Purchaser or the Company and its Subsidiaries.

"Transaction Documents" shall mean, collectively, this Agreement, the Assignment of Interests, the Security Agreement, the Deposit Agreement, and the Officer's Certificate.

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

"True-Up Statement" shall have the meaning set forth in Section 5.08(f)(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 by Purchaser, with the assistance of the Company as reasonably requested by the Purchaser, 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 Applicable Net Revenues" shall have the meaning set forth in Section 5.08(f)(i).

"Yearly Payment Cap" shall have the meaning set forth in Section 2.02(a).

ARTICLE II

PURCHASE OF ASSIGNED 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 Permitted Liens), all of the Company's rights and interests in and to the Assigned Interests on the Closing Date. Purchaser's ownership interest in the Assigned Interests so acquired shall vest immediately upon the Company's receipt of payment of the Closing Purchase Price for such Assigned Interests pursuant to Section 2.03(b), subject to the termination provisions of Section 6.01.

(b) The Company hereby consents to Purchaser recording and filing, at Purchaser's sole responsibility, 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 Applicable Percentage of Net Revenues. In connection with the assignment of the Assigned Interests, Purchaser shall be entitled to receive (i) the Applicable Percentage of worldwide Net Revenues of the Product earned during the Revenue Interest Period; provided however, that the yearly amount required to be paid to Purchaser pursuant to this Section 2.02(a)(i) and Section 2.02(a)(ii) below shall not exceed $20,000,000 in any Fiscal Year for the years ended December 31, 2015, December 31, 2016, December 31, 2017 and December 31, 2018 (in each case, the "**Yearly Payment Cap**"); (ii) payments in respect of the Back-up Product True-Up Amount as provided in Section 5.08(f) (subject to the Yearly Payment Cap); and (iii) without giving effect to any Yearly Payment Cap, any Delinquent Assigned Interests Payment, as and when due. Except with respect to any Delinquent Assigned Interests Payment, any amounts in excess of the Yearly Payment Cap shall be retained by the Company and shall not be part of the Assigned Interest for that year or any prior or subsequent year(s).

(b) Payments into Deposit Accounts. Commencing on the effective date of the Deposit Agreement, the applicable Sweep Percentage of the cash and cash equivalents deposited into the Deposit Account (subject to the Yearly Payment Cap) shall be swept from the Joint Concentration Account into the Purchaser Concentration Account on a daily basis (the "**Daily Amount**") pursuant to Section 5.08. Prior to the establishment of the Deposit Account and 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. All payments required to be made by the Company under this Agreement (including pursuant to this Section 2.02) shall be the obligations of the Company; provided, however, that the Company will use its best efforts to obtain payment from its Subsidiaries

to the extent necessary for the Company to satisfy all of its monetary Obligations hereunder. 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 of Closing Purchase Price; Closing Deliveries; Payment of Additional Purchase Price**.**

(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 Mintz, Levin, Cohn, Ferris, Glovsky & Popeo, PC, The Chrysler Center, 666 Third Avenue, New York, NY 10017.

(b) Payment of Closing Purchase Price. At the Closing, Purchaser shall pay to the Company the Closing 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 this Agreement, the Assignment of Interests, and the Security Agreement;

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

C. a legal opinion, including certain customary qualifications, exceptions, limitations and assumptions, reasonably satisfactory to Purchaser from Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, PC addressing such matters with respect to the Transaction Documents as set forth on Exhibit C 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 this Agreement, the Assignment of Interests, and the Security Agreement.

(d) Payment of Additional Purchase Price. On the twelve-month anniversary of the Closing Date (or the first Business Day following such date if such date is not a Business Day) (the "Additional Purchase Price Closing Date"), Purchaser shall pay to the Company the Additional Purchase Price by wire transfer of immediately available funds to the account designated by the Company prior to the date thereof. Such additional purchase price payment shall have no contingencies. The failure by Purchaser to pay the Additional Purchase Price when due in accordance with this Section 2.03(d) shall constitute a material breach of this Agreement and shall give rise to the immediate right of the Company to terminate this Agreement in accordance with Section 6.01.

(e) Payment of Second Tranche Purchase Price. At any time from the six month anniversary to the twelve-month anniversary of the Closing Date (or the first Business Day following such date if such date is not a Business Day), at the election of the Company, Purchaser shall pay to the Company up to $100,000,000 in the aggregate (the "Second Tranche Purchase Price") in no more than two payments (the first of such payments, the "Initial Second Tranche Payment," and the last of such payments, the "Final Second Tranche Payment") on dates specified by the Company within such period (with the first such payment date, the "Initial Second Tranche Closing Date," the second such payment date, the "Final Second Tranche Closing Date" and either such date, a "Second Tranche Purchase Price Closing Date") by wire transfer of immediately available funds to the account designated by the Company prior to the date thereof; provided, the Company shall provide a written request to Purchaser for any such payment of the Second Tranche Purchase Price at least 30 days prior to any Second Tranche Purchase Price Closing Date. Any such payment of the Second Tranche Purchase Price shall have no contingencies. The failure by Purchaser to pay Second Tranche Purchase Price when due in accordance with this Section 2.03(e) shall constitute a material breach of this Agreement and shall give rise to the immediate right of the Company to terminate this Agreement in accordance with Section 6.01.

Section 2.04 Make Whole Payments.

Notwithstanding any provision in this Agreement or any other writing to the contrary, in the event the Purchaser has not received (i) payments pursuant to this Agreement (excluding any payments attributable to Delinquent Assigned Interest Payments) equal to or greater than the Closing Purchase Price by the fifth anniversary of the Closing Date, (ii) if the Initial Second Tranche Closing Date occurred prior to the Additional Purchase Price Closing Date, payments pursuant to this Agreement (excluding any payments attributable to Delinquent Assigned Interest Payments) equal to or greater than the Closing Purchase Price plus the Initial Second Tranche Payment by the fifth anniversary of the Initial Second Tranche Closing Date, (iii) if the Final Second Tranche Closing Date occurred prior to the Additional Purchase Price Closing Date, payments pursuant to this Agreement (excluding any payments attributable to Delinquent Assigned Interest Payments) equal to or greater than the Closing Purchase Price, plus the Initial Second Tranche Payment, plus the Final Second Tranche Payment by the fifth anniversary of the Final Second Tranche Closing Date, or (iv) payments pursuant to this Agreement (excluding any payments attributable to Delinquent Assigned Interest Payments) equal to or greater than the Closing Purchase Price, plus the Initial Second Tranche Payment (if any), plus the Final Second Tranche Payment (if any), plus the Additional Purchase Price by the fifth anniversary of the Additional Purchase Price Closing Date, the Company shall pay, (A) in the case of item (i), the difference between (X) the Closing Purchase Price, less (Y) the aggregate amount of all proceeds Purchaser has received pursuant to this Agreement (excluding any amounts attributable to Delinquent Assigned Interest Payments) on or prior to the last day of the fifth anniversary of the

Closing Date in payments from the Company under Section 2.02(a) and Section 5.08 in respect of such five year period for which Net Revenues is calculated, (B) in the case of item (ii), the difference between (X) the Closing Purchase Price plus the Initial Second Tranche Payment, less (Y) the aggregate amount of all proceeds Purchaser has received pursuant to this Agreement (excluding any amounts attributable to Delinquent Assigned Interest Payments) on or prior to the last day of the fifth anniversary of the Initial Second Tranche Closing Date in payments from the Company under Section 2.02(a), Section 2.04(A) and Section 5.08, (C) in the case of item (iii), the difference between (X) the Closing Purchase Price plus the Initial Second Tranche Payment plus the Final Second Tranche Payment, less (Y) the aggregate amount of all proceeds Purchaser has received pursuant to this Agreement (excluding any amounts attributable to Delinquent Assigned Interest Payments) on or prior to the last day of the fifth anniversary of the Final Second Tranche Closing Date in payments from the Company under Section 2.02(a), Section 2.04(A), Section 2.04(B) and Section 5.08, and (D) in the case of item (iv), the difference between (X) the Closing Purchase Price plus each additional Second Tranche Purchase Price (if any) plus the Additional Purchase Price, less (Y) the aggregate amount of all proceeds Purchaser has received pursuant to this Agreement on or prior to the last day of the fifth anniversary of the Additional Purchase Price Closing Date in payments from the Company under Section 2.02(a), Section 2.04(A), Section 2.04(B), Section 2.04(C) and Section 5.08, in each case within twenty (20) Business Days of the receipt by Purchaser of the True-Up Statement for the Fiscal Year in which such five year anniversary falls.

Section 2.05 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 the Product and the Back-up Product, as such products currently exist and are marketed (or in the case of the Back-up Product, as currently being developed) 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 Subsidiaries is a corporation duly incorporated, validly existing and in good standing under the laws of its respective jurisdiction of formation 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 Subsidiaries 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 those set forth on Exhibit 21.1 of the Company's most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission.

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, which are the responsibility of Purchaser.

Section 3.04 Ownership**.**

(a) The Company owns 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 (except those Liens created in favor of Purchaser pursuant to the Security Agreement and any liens for taxes or other governmental charges arising by operation of law in the ordinary course of business for sums which are not yet due and payable), and no license or covenant not to sue under any Intellectual Property has been granted by the Company or any of its Subsidiaries to any Third Party, except as set forth on Schedule 3.04(a). Neither the Company nor any of its Subsidiaries has granted, nor does there exist, any Lien on the Revenue Interests or the Assigned Interests (except those Liens created in favor of Purchaser pursuant to the Security Agreement and any liens for taxes or other governmental charges arising by operation of law in the ordinary course of business for sums which are not yet due and payable).

(b) The Company and its Subsidiaries, immediately prior to the purchase of the Assigned Interests, owns, and is the sole holder of, all the Revenue Interests and, except as provided in the Material Contracts, 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 Material Agreement to which they are a Party, in each case free and clear of any and all Liens (other than those Liens created in favor of Purchaser pursuant to the Security Agreement and any liens for taxes or other

governmental charges arising by operation of law in the ordinary course of business for sums which are not yet due and payable). The Company and its Subsidiaries have not transferred, sold, or otherwise disposed of, or agreed to transfer, sell, or otherwise dispose of any portion of the Revenue Interests other than as contemplated by this Agreement. No Person other than the Company and its Subsidiaries has any right to receive the payments payable to the Company or such Subsidiaries on account of the Revenue Interests pursuant to the terms of any License Agreement, other than Purchaser's rights with respect to the Assigned Interests. 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 (other than those Liens created in favor of Purchaser pursuant to the Security Agreement and any liens for taxes or other governmental charges arising by operation of law in the ordinary course of business for sums which are not yet due and payable). 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 (other than those Liens created in favor of Purchaser pursuant to the Security 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 Subsidiaries as of the dates and for the periods covered thereby, subject in the case of the unaudited financial statements to the absence of footnotes, year-end adjustments and other supplementary information required by GAAP.

Section 3.06 No Undisclosed Liabilities**.**

Except for those liabilities (a) identified in the Financial Statements (including the notes thereto) and/or in any current or periodic filing made by the Company with the Securities and Exchange Commission, (b) incurred by the Company in the ordinary course of business since March 31, 2015, or (c) in connection with the Obligations under the Transaction Documents, there are no material liabilities of the Company or its Subsidiaries related to the Product, of any kind whatsoever, whether accrued, contingent, absolute, determined or determinable.

Section 3.07 Solvency**.**

The Company and its Subsidiaries, 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 State of Delaware. Assuming consummation of the transactions contemplated by the Transaction Documents, (a) the present fair saleable value of the Company's and its Subsidiaries' assets, taken as a whole, is greater than the total amount of liabilities of the Company and its Subsidiaries as such liabilities mature, (b) the Company and its Subsidiaries, taken as a whole, do not have unreasonably small capital with which to engage in its business, and (c) the Company and

its Subsidiaries, taken as a whole, have not incurred, nor do they have present plans to or intend to incur, debts or liabilities beyond their ability to pay such debts or liabilities as they become absolute and matured.

Section 3.08 Litigation**.**

Other than as disclosed in any current or periodic filing made by the Company with the Securities and Exchange Commission, 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 Subsidiaries or (b) any governmental inquiry pending or, to the Knowledge of the Company, threatened against the Company or its Subsidiaries, 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 Subsidiaries 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 any of its Subsidiaries (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 Subsidiaries 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 Subsidiaries is a party or by which the Company or its Subsidiaries 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 Subsidiaries; (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, except such consents that are obtained at or prior to Closing; (d) give rise to any right of termination, cancellation or acceleration of any right or obligation of the Company, its Subsidiaries or any other Person or to a loss of any right to receive the Revenue Interests or the Assigned Interests; or (e) other than

pursuant to the Security 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 Subsidiaries 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 subordinated to any creditor of the Company or any other Person.

Section 3.12 Intellectual Property**.**

(a) For purposes of this Section 3.12 only, the use of the term "Product" shall refer to both the Product and Back-up Product. 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 that cover or are or would be used to make, have made, use, sell, have sold, offer for sale, import, develop, promote, market, distribute, manufacture, commercialize or otherwise exploit the Product, including all Material Patents. For each item of Intellectual Property listed on Schedule 3.12(a), the Company has identified (x) the owner and, if licensed from a Third Party, whether the license is exclusive or non-exclusive, (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 and the expiration date. The Intellectual Property listed in Schedule 3.12(a) as owned by the Company is exclusively owned by the Company free and clear of any Liens, except for Permitted Liens. The Intellectual Property listed in Schedule 3.12(a) as licensed to the Company is subject to a valid and enforceable license in favor of the Company, free and clear of any Liens, except for Permitted Liens. Each issued Patent and registered trademark listed on Schedule 3.12(a) is subsisting and has not lapsed, expired, been cancelled or become abandoned and, to the Company's Knowledge, is valid and enforceable. The Patent applications listed in Schedule 3.12(a) have been prosecuted by competent patent counsel in a diligent manner. To the Knowledge of the Company, all Persons relevant to the prosecution of any of the Material Patents or applications related thereto filed in the U.S. have complied with the duty to disclose information and/or the duty of candor owed to the United States Patent and Trademark Office. To the Knowledge of the Company, each of the Material Patents 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 pending, and the Company has performed appropriate reasonable inquiry with respect to such inventorship. Each Person who has or has had any rights in or to the Material Patents has executed an agreement assigning his, her or its entire right, title and interest in and to such Material Patents, and the inventions embodied, described and/or claimed therein, to the Company, and to the Knowledge of the Company, 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 Company.

(b) Except for Intellectual Property licensed to or owned by the Company and set forth on Schedule 3.12(a), to the Knowledge of the Company, 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. To the Knowledge of the Company, the use, manufacture, import, export, offer for sale, distribution, marketing and sale of the Product by the Company 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) There are no unpaid maintenance, annuity or renewal fees currently overdue for any of the issued Patents included in the 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 (other than routine prosecution before the U.S. Patent and Trademark Office) (collectively referred to hereinafter as "Disputes") related to any of the Material Patents of which the Company has received written notice, nor, to the Knowledge of the Company, has any such Dispute been threatened challenging the legality, validity, enforceability or ownership of any Material Patents. 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 Subsidiaries 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 Material Patents.

(f) There is no pending, or to the Knowledge of the Company threatened, action, suit, or proceeding, or any investigation or claim by any Governmental Authority to which the Company is a party or is the subject (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 Licensees pursuant to any related License Agreement, as applicable, does or will infringe on any Patent of any other Person.

(g) The Company has taken commercially reasonable measures and precautions to protect and maintain (i) the confidentiality of all trade secret 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 reasonably be expected to 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 reasonably be expected to have a Material Adverse Effect.

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

Section 3.13 Regulatory Approval**.**

(a) The Company and its Subsidiaries 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 likely to revise or revoke any current Regulatory Approval granted by any Regulatory Agency with respect to the Product, or (B) is likely to pursue any material compliance actions against the Company.

(b) The Company and its Subsidiaries 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 Subsidiaries has received any notice of proceedings relating to the revocation, suspension, termination or modification of any such Regulatory Approvals.

(c) The Company and its Subsidiaries are in compliance with, and has 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 Subsidiaries have not received any notice citing action or inaction by any of them that would constitute any 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, would reasonably be expected to result in a Material Adverse Effect.

(d) Preclinical and clinical trials conducted on behalf of the Company or its Subsidiaries relating to the Product were conducted in all material respects 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 complete and accurate in all material respects. Neither the Company nor its Subsidiaries 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 Subsidiaries 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**.**

Schedule 3.14 sets forth all Material Contracts. Neither the Company nor its Subsidiaries 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 Subsidiaries 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 Subsidiaries and, to the Knowledge of the Company, on each other party thereto, and are in full force and effect.

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 Subsidiaries 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 Houlihan Lokey Capital, Inc., 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 Subsidiaries and furnished to Purchaser by or on behalf of the Company or its Subsidiaries in connection with any Transaction Document or any transaction contemplated hereby or thereby, and no written representation, warranty or statement made by the Company or its Subsidiaries 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 Taxes**.**

Each of the Company and its Subsidiaries has timely filed (taking into account all extensions of due dates) all material 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 its Subsidiaries (or on any of their behalves) have been true, correct and complete in all material respects. Except as set forth on Schedule 3.18, 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 any of its Subsidiaries or their assets (including with respect to the Assigned Interests and the Revenue Interests). Except as set forth on Schedule 3.18, there are no Taxes of the Company or any of its Subsidiaries 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 or Permitted Liens) 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 or any of its Subsidiaries 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 use commercially reasonable efforts to 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 Knowledge of the Company, threatened by or against the Company or any of its Subsidiaries, or (ii) proceeding or inquiry of any Governmental Authority pending or, to the Knowledge of the Company, threatened against the Company or any of its Subsidiaries, related to any Material Contract, the Product, the Material Patents or any Transaction Document.

(c) Maintenance of 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 shall have the right, once a year, to designate a Third Party independent public accounting firm (the "Purchaser Representative") 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 and audit such books and records, during normal business hours, and, upon five (5) Business Days' written notice given by Purchaser to the Company, the Company will provide such Purchaser's Representative reasonable access to such books and records, and shall permit the Purchaser 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 the other Assigned Interests Collateral with officers of the Company and with the Company's 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 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) 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 ninety (90) 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, and shall cause each of its Subsidiaries to comply, with all terms and conditions of and fulfill all of its obligations under all the Material Contracts to which it is a Party, except for such noncompliance which would not reasonably be expected to give rise to a Material Adverse Effect. The Company shall not, and shall cause its Subsidiaries not to, amend the payment rate or payment amount that it is entitled to receive under any Material Contract or issue any consents or other approvals under any Material Contract that would change the payment rate or alter the timing of the payment amount or otherwise affect the Revenue Interests payable to Purchaser hereunder without the prior written consent of Purchaser (not to be unreasonably withheld, conditioned, or delayed), except where such amendment or consent would not reasonably be expected to give rise to a Material Adverse Effect.

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), or as may otherwise be required by applicable law. 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) Each Party is a publicly traded company and has certain disclosure obligations under the U.S. securities laws and the rules and regulations of the U.S. Securities Exchange Commission. In addition to any disclosures required by applicable law, each Party may issue a press release announcing the transactions set forth in the Transaction Documents. Prior to issuing any such press release, each Party shall provide the other Party with an advance copy of press release and provide a reasonable opportunity (not to exceed two Business days) for the other Party to comment thereon. The Party issuing the press release shall give reasonable consideration in good faith to any reasonable comments provided by the other Party. Except as required by applicable law or by the rules and regulations of any securities exchange or trading system or the FDA, taxing authority 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 other press release or make any other public disclosure containing Confidential Information with respect to the transactions contemplated by this Agreement or any other Transaction Document.

Section 5.05 Security Agreement**.**

During the Revenue Interest Period, except as permitted by Section 7.18, 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 Assigned Interests and the other Assigned Interests Collateral described in the Security 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, which are, as of the Closing, free and clear of all Liens, except for (i) Liens created in favor of Purchaser on or after the Closing pursuant to the Security Agreement, the Assignment of Interests, and any other Transaction Document, and (ii) liens for taxes or other governmental charges arising by operation of law in the ordinary course of business for sums which are not yet due and payable.

(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. In the event that the Company or any of its Affiliates enters into any license, commercialization, co-promotion, collaboration, distribution, marketing or partnering agreement before or during the Revenue Interest Period that grants a license with respect to the Intellectual Property covering the Product to any Subsidiary of the Company that is incorporated or organized under the laws of the United States, any state thereof or the District of Columbia, at least 10 Business Days prior to the consummation of any such transaction, the

Company shall give Purchaser written notice thereof and will prior to such consummation cause any such Subsidiary to execute and deliver to Purchaser a joinder agreement and other documents reasonably requested and satisfactory to Purchaser in order to cause such Subsidiary to become a party to the applicable Transaction Documents as if such Subsidiary was a party thereto as of the date hereof.

(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 Put Option; Call Option**.**

(a) 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**"), exercisable within sixty (60) days of the later of (i) Purchaser's receipt of written notice from the Company of the Put Option Event or (ii) Purchaser's discovery that a Put Option Event has occurred (other than, in either case, with respect to a Bankruptcy Event or a Put Option Event pursuant to clause (d) of said definition, which shall be exercisable immediately by the Purchaser), to require the Company to repurchase from Purchaser the Assigned Interests at the Put/Call 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/Call 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/Call Price in cash and the Put/Call Price shall be immediately due and payable without any further action or notice by any party. Immediately upon exercise by Purchaser of the Put Option and the payment by the Company to Purchaser of the Put/Call Price, Purchaser shall be deemed to have automatically assigned to the Company all right, title, and interest in and to the Assigned Interest.

(b) Call Option. At any time after the Closing Date, the Company shall have the right, but not the obligation (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 Put/Call Price. 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 Put/Call Price, the payment of which shall be made by wire transfer of immediately available funds to the account designated by Purchaser. Immediately upon exercise by the Company of the Call Option and the payment by the Company to Purchaser of the Put/Call Price, Purchaser shall be deemed to have automatically assigned to the Company all right, title, and interest in and to the Assigned Interest.

(c) Obligations of Purchaser. In connection with the consummation of a repurchase of the Assigned Interests pursuant to the Put Option or Call 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) Within sixty (60) days after the date of this Agreement, the parties hereto shall enter into a deposit agreement in form and substance reasonably satisfactory to the parties hereto and the Deposit Bank (the "Deposit Agreement"), which Deposit Agreement will 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 Security 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 on a daily basis, the Daily Amount shall be swept into the Purchaser Concentration Account; provided that once the amount of cash swept into the Purchaser Concentration Account during any of the Fiscal Years ended December 31, 2015, December 31, 2016, December 31, 2017 and December 31, 2018, reaches the Yearly Payment Cap, Deposit Bank shall not make any further sweeps from the Deposit Account into the Joint Concentration Account during the remainder of such Fiscal Year, and shall instead sweep the entirety of funds deposited into the Deposit Account for the balance of such Fiscal Year directly into the Company Concentration Account for immediate and full access by the Company. 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, subject to Purchaser's obligations under Section 5.08(f). After the Daily Amount is swept into the Purchaser Concentration Account, the amounts remaining in the Joint Concentration Account shall then be swept, automatically or as otherwise directed by 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 in accordance with the Security Agreement.

(b) The Company shall pay all fees, expenses and charges of the Deposit Bank.

(c) Commencing on the Closing Date and thereafter, any and all payments in respect of sales of the Product received by the Company or its Subsidiaries (other than the European Subsidiaries) on account of Gross Product Revenues of the Company shall be deposited into the Deposit Account within two (2) Business Days of the Company's receipt thereof, regardless of whether or not any Allowable Additional Product Financings have been entered into by the Company or any Subsidiary. In the event (i) the True-Up Statement for the second Fiscal Quarter in any Fiscal Year indicates that the Year-to-Date Net Revenues of the Product are less that * * * percent (* * *%) of the Projected Net Product Revenues set forth on Schedule A for that Fiscal Year or (ii) the True-Up Statement for the third Fiscal Quarter in any Fiscal Year indicates that the Year-to-Date Net Revenues of the Product are less that * * * percent (* * *%) of the Projected Net Product Revenues set forth on Schedule A for that Fiscal Year, the Applicable Percentage of any and all payments in respect of Net Back-up Product Revenues received by the Company (including the Applicable Percentage of any amounts held in the Brigatinib Divestiture Account pursuant to Section 5.17) shall be deposited into the Purchaser Concentration Account within two (2) Business Days of the Company's receipt of such True-Up Statement, but only until, and to the extent necessary such that, the Back-up Product True-Up Amount due and payable under Section 5.08(f) for that Fiscal Year is paid in full.

(d) With respect to any License Agreement existing on the date hereof (other than License Agreements to which a European Subsidiary is a party and License Agreements that do not call for direct payment to the Company or any Subsidiary of the Company), promptly following the entering into the Deposit Agreement, the Company shall or shall instruct such Subsidiary to instruct any party thereto under such agreement to remit to the Deposit Account when due all applicable payments in respect of Gross Product Revenues of the Company that are due and payable to the Company or such Subsidiary during the Revenue Interest Period, and the Company shall deliver to Purchaser evidence of such instruction and of such applicable party's agreement thereto. With respect to any License Agreement (other than License Agreements to which a European Subsidiary is a party and License Agreements that do not call for direct payment to the Company or any Subsidiary of the Company) entered into by the Company or any Subsidiary after the Closing Date, the Company shall or shall instruct such Subsidiary to (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 Gross Product Revenues of the Company that are due and payable to the Company or such Subsidiary during the Revenue Interest Period, and (ii) deliver to Purchaser evidence of such instruction and of such applicable party's agreement thereto.

(e) During the Revenue Interest Period and prior to the termination of this Agreement, the Company shall not have any right to terminate the Deposit Agreement 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.

(f) True-Up.

(i) Following the end of each Fiscal Quarter, as soon as the Company shall have determined the Applicable Percentage of Net Revenues of the Product 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 Applicable 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 to Purchaser a certificate of an officer of the Company, in reasonable detail with supporting calculations and information, detailing the Year-to-Date Applicable Net Revenues of the Product (broken down by U.S., Europe, and the rest of world (i.e., global Net Revenues of the Product other than in the U.S. or Europe) (the "True-Up Statement"). The True-Up Statement shall include a calculation of the Net Revenues of the Product for such Fiscal Quarter and for each other Fiscal Quarter in the Fiscal Year in which the then most recently ended Fiscal Quarter occurred, with a reconciliation of such calculation to the Year-to-Date Applicable Net Revenues and the Applicable Percentage of Net Revenues of the Product for such Fiscal Quarter. For purposes of this Section 5.08(f), the first Fiscal Quarter shall comprise the period from the Closing Date through September 30, 2015. The True-Up Statement shall also include the Sweep Percentage that will be applicable to the next successive Fiscal Quarter.

(ii) If Purchaser has received, on or prior to the last day of the most recently ended Fiscal Quarter, payments from the Company under Section 2.02 or this Section 5.08 in respect of the Fiscal Year for which Year-to-Date Applicable Net Revenues is calculated under clause (i) above which are in excess of the Applicable Percentage of Year-to-Date Net Revenues of the Product (after giving effect to the full Yearly Payment Cap (i.e., no quarterly proration)), Purchaser shall pay such excess to the Company within twenty (20) Business Days of receipt by Purchaser of the True-Up Statement.

(iii) If the Applicable Percentage of Year-to-Date Net Revenues of the Product (after giving effect to the full Yearly Payment Cap (i.e., no quarterly proration)) is in excess of the amounts Purchaser has received on or prior to the last day of the most recently ended Fiscal Quarter in respect of the Fiscal Year for which Year-to-Date Applicable Net Revenues is calculated under clause (i) above under Section 2.02 or this Section 5.08, the Company shall pay such excess to Purchaser within twenty (20) Business Days of the receipt by Purchaser of the True-Up Statement.

(iv) Following the end of each Fiscal Year, the True-Up Statement for such Fiscal Year shall also include a calculation of the difference between (A) the Projected Net Product Revenues for that Fiscal Year multiplied by the Applicable Percentage for that Fiscal Year (after giving effect to the full Yearly Payment Cap), and (B) the actual revenues received by Purchaser on account of the Applicable Percentage of the Net Revenues as of the end of Fiscal Year (including any payments received by Purchaser on account of the Back-up Product), after taking into account any true-up adjustments made pursuant to Sections 5.08(f)(ii) or (iii) above, plus any Make-Whole Payment under Section 2.04 received by Purchaser in such Fiscal Year (the "Back-Up Product True-Up Amount"). The Back-up Product True-up Statement shall also include a reconciliation against any remaining amounts held in the Brigatinib Divestiture Account (if applicable) and any debits or sweeps made to or out of such Account.

(v) If the Back-Up Product True-Up Amount calculated pursuant to clause (iv) above is positive for a Fiscal Year, the Company shall pay to Purchaser such Back-up Product True-Up Amount solely to the extent such amount does not exceed the greater of (X) the Applicable Percentage of Net Revenues of Back-up Product for that Fiscal Year and (Y) * * *% of all worldwide Net Sales of the Back-up Product for such Fiscal Year generated by the Company or any of its Affiliates as well as any Third Party, pursuant to any license, commercialization, co-promotion, collaboration, distribution, marketing or partnering agreement (the greater of (X) and (Y) being referred to herein as the "Back-up Product True-Up Cap"). The payment of such Back-up Product True-Up Amount due and owing under Section 5.08(f) shall be satisfied exclusively out of the Net Revenue of the Back-up Product, or in the event of Brigatinib Divestiture Event, exclusively out of the Net Revenue of the Back-up Product and/or the available amounts held in the Brigatinib Divestiture Collateral Account established in accordance with Section 5.17.

(vi) In the event the Net Revenues of the Back-Up Product received by the Company for that Fiscal Year are not sufficient to satisfy payment of the Back-up Product True-Up Amount required to be paid under Section 5.08(f) for that Fiscal Year (taking into account any available amounts then held in the Brigatinib Divestiture Collateral Account), no further amounts shall be due and owing by the Company to Purchaser on account of the Back-up Product True-Up Amount for that Fiscal Year. Any shortfall resulting from the failure of the Net Revenue of the Back-Up Product received by the Company for that Fiscal Year (or the funds available in the Brigatinib Divestiture Account, if applicable) to satisfy payment of the Back-up Product True-Up Amount required to be paid under Section 5.08(f) for that Fiscal Year shall impose no obligation on the Company to make any additional

payment to the Purchaser pursuant to this clause (v), and such deficiency shall not carry over to any subsequent Fiscal Year. Payment of the Back-up Product True-Up Amount required to be paid hereunder shall be made by the Company to Purchaser within fifteen (15) Business Days of receipt by Purchaser of the True-Up Statement for that Fiscal Year.

(vii) If the Back-up Product True-Up Amount calculated pursuant to clause (iv) above is negative, no further payments need be made by the Company to the Purchaser for that Fiscal Year, and any excess payments made by Company to Purchaser in accordance with Section 5.08(c) based on Net Back-up Product Revenues shall be reimbursed to Company by Purchaser within fifteen (15) Business Days of receipt by Purchaser of the True-Up Statement for that Fiscal Year.

Section 5.09 Intellectual Property.

(a) The Company shall, at its sole expense, either directly or by causing any Licensee to do so, take such 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 use commercially reasonable efforts to diligently defend or assert such Intellectual Property and such Material Patents against infringement or interference by any other Persons, and against any claims of invalidity or unenforceability, in the Major Countries (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, including timely bringing an action in response to a certification made by an applicant under paragraph IV of clause (vii) of 21 U.S.C. §355(j)(2)(A) with respect to an Abbreviated New Drug Application). 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 to prevent the disclaimer or abandonment of, the Material Patents, except where the failure to do so would not reasonably be expected to result in a Material Adverse Effect.

(b) In the event that the Company becomes aware that the Product infringes or violates any Third Party's 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 any affected Licensee, as applicable, except where the failure to do so would not reasonably be expected to result in a Material Adverse Effect and shall pay all reasonable 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 to secure and maintain, all Regulatory Approvals in the Major Countries.

Section 5.10 Protective Covenants**.**

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

(i) Forgive, release or compromise any amount owed to the Company or its Subsidiaries and relating to the Assigned Interests outside the ordinary course of business in a manner which would reasonably be expected to result in a Material Adverse Effect on the Assigned Interests;

(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, except where such failure would not reasonably be expected to result in a Material Adverse Effect on the Revenue Interest;

(iii) Amend, modify, restate, cancel, supplement, terminate or waive any material provision relating to the payment rate or payment amount the Company or its Subsidiaries are entitled to receive under any Material Contract, or grant any related 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, (in each case) if such action would result in a reduction of any royalty rate, distribution split or other sales-based payments, up-front payment or milestone payment to the Company thereunder;

(iv) Create, incur, assume or suffer to exist any new Indebtedness (not including Indebtedness incurred for the purpose of paying to Purchaser the Put/Call Price in connection with an exercise of the Put Option or Call Option), other than (i) any Permitted Secured Financings, (ii) unsecured indebtedness so long as it remains unsecured, in an aggregate incremental principal amount not to exceed $* * * at any time outstanding (not including any financings in (iii) below); provided that such Indebtedness has a maturity date that is not earlier than the Outside Date (and the terms of such Indebtedness shall not provide for any scheduled repayment, mandatory redemption, put or sinking fund obligations prior to the Outside Date (other than customary offers to repurchase upon a change of control, asset sale or casualty event and customary acceleration rights after an event of default)) and (iii) any Indebtedness incurred to refinance the Company's existing 3.625% Convertible Senior Notes due 2019 issued pursuant to the Indenture dated as of June 17, 2014, between the Company and Wells Fargo Bank, National Association, as Trustee; provided that any such refinancing Indebtedness is unsecured and has a maturity date that is not earlier than the Outside Date (and the terms of such Indebtedness shall not provide for any scheduled repayment, mandatory redemption, put or sinking fund obligations prior to the Outside Date (other than customary conversion rights, offers to, or put option to require, repurchase upon a fundamental change, change of control, asset sale or casualty event and customary acceleration rights after an event of default));

(v) 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 Deposit Account, the Joint Concentration Account or the Assigned Interests, or agree to do any of the foregoing, except for (i) any Lien or agreements in favor of Purchaser granted under or pursuant to this Agreement and the other Transaction Documents; and (ii) liens for taxes or other governmental charges arising by operation of law in the ordinary course of business for sums which are not yet due and payable;

(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 Shared Assigned Interests Collateral, or agree to do any of the foregoing, except for (i) any Lien or agreements in favor of Purchaser granted under or pursuant to this Agreement and the other Transaction Documents; and (ii) any Permitted Liens permitted by clause (ii) and clause (iv) of the definition of Permitted Liens (but, with respect to such clause (iv), only with respect to

Permitted Secured Financings described in clause (i) and clause (iii) of the definition of Permitted Secured Financings); or

(vii) Transfer to any European Subsidiary any additional rights in the Product, the Gross Product Revenues or the Collateral; provided that the Company may transfer to ARIAD Europe, via amendment of the Territory of the ARIAD Europe Buy-in License or similar transaction, Product rights in Israel, Saudi Arabia, and other countries that will be managed by ARIAD Europe, as long as the chronic myelogenous leukemia market in those countries transferred in aggregate (as measured by IMS data) does not exceed * * *% of the global chronic myelogenous leukemia market (measured in U.S. dollars).

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. and (ii) maintain Purchaser as an additional insured party with respect to its general liability and product liability insurance policies.

Section 5.12 Notice**.**

The Company shall provide Purchaser with written notice as promptly as practicable (and in any event within three (3) 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 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;

(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 development of the Back-up Product and development and commercialization 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) Purchaser shall deliver to the Company and the Deposit Bank a properly completed IRS Form W-9 at Closing. The Company shall provide the Purchaser any reasonable assistance it may seek in obtaining an exemption or reduced rate from, or refund of, any U.S. federal withholding tax, if applicable. Neither party shall have any obligation to gross-up or otherwise pay the other party (including any assignee) any amounts with respect to source withholding. The parties

furthermore agree to provide the Deposit Bank or any other party that is a withholding agent for tax purposes any requested documentation necessary to establish an exemption from or reduction of applicable withholding taxes with respect to payments under the Deposit Agreement or this Agreement to the extent it is entitled to do so under the applicable law; and in the event the failure to provide such documentation results in the imposition of withholding, then such withholding shall be attributed to the party responsible for such failure.

Section 5.15 Right of First Negotiation with respect to Allowable Additional Product Financing.

In the event the Company intends, at any time and from time to time after the occurrence of an Allowable Additional Product Financing Trigger Event, to seek to obtain Allowable Additional Product Financing, the Company shall provide to Purchaser written notice (the "Financing Notice") of such intention prior to engaging in any discussions with any Third Party with respect thereto, which Financing Notice shall include the proposed terms of such Allowable Additional Product Financing. Purchaser shall have two (2) Business Days following receipt of the Financing Notice to provide the Company written notice that it desires to enter into good faith negotiations with the Company regarding providing the Allowable Additional Product Financing. If Purchaser does not provide such written notice, the Company shall be free to negotiate and enter into an Allowable Additional Product Financing with a Third Party. If Purchaser provides such written notice, the Company shall negotiate exclusively, reasonably and in good faith with Purchaser concerning the terms of the Allowable Additional Product Financing for a period of * * * days. In the event the Parties have not executed a binding term sheet for such Allowable Additional Product Financing within such * * *-day period, the Company shall be free to pursue an Allowable Additional Product Financing with one or more Third Parties on any terms, whether or not more favorable, without first coming back to Purchaser.

Section 5.16 Right of First Negotiation with respect to Allowable Back-up Product Financing.

In the event the Company intends, at any time and from time to time after the occurrence of an Allowable Additional Product Financing Trigger Event, to seek to obtain Allowable Back-up Product Financing, the Company shall provide to Purchaser written notice (the "Backup Financing Notice") of such intention prior to engaging in any discussions with any Third Party with respect thereto, which Backup Financing Notice shall include the proposed terms of such Allowable Back-up Product Financing. Purchaser shall have two (2) Business Days following receipt of the Backup Financing Notice to provide the Company written notice that it desires to enter into good faith negotiations with the Company regarding providing the Allowable Back-up Product Financing. If Purchaser does not provide such written notice, the Company shall be free to negotiate and enter into an Allowable Back-up Product Financing with a Third Party. If Purchaser provides such written notice, the Company shall negotiate exclusively, reasonably and in good faith with Purchaser concerning the terms of the Allowable Back-up Product Financing for a period of * * * days. In the event the Parties have not executed a binding term sheet for such Allowable Back-up Product Financing within such * * *-day period, the Company shall be free to pursue an Allowable Back-up Product Financing with one or more Third Parties on any terms, whether or not more favorable, without first coming back to Purchaser.

Section 5.17 Disposition of Back-up Product.

If, during the Revenue Interest Period, the Company Transfers any of its interest in the Back-up Product to a Third Party (other than in connection with a Permitted Secured Financing or a License Agreement (as defined above, except relating to Brigatinib) (a "Brigatinib Divestiture"), the Company shall, within 30 days of the closing of such Brigatinib Divestiture, create a separate account at the Deposit Bank (the "Brigatinib Divestiture Account") and deposit into such Brigatinib Divestiture Account an amount equal to * * * percent (* * *%) of the net proceeds received by the Company on account of such Brigatinib Divestiture, subject to a maximum amount equal to the product of (a) the lesser of (i) such percent of the Company's interest in the Backup Product subject to such Brigatinib Divestiture and (ii) * * *% (provided this percentage shall be * * *%, if the FDA suspends or prohibits sales of the Product), multiplied by (b) the Put/Call Price calculated as of the closing date of such Brigatinib Divestiture. At the end of each Fiscal Quarter thereafter, the Company shall include in the True-up Statement for such Fiscal Quarter a calculation of the Put/Call Price calculated as of the end of such Fiscal Quarter (the "Brigatinib Divestiture Collateral Amount"). Any amounts remaining in the Brigatinib Divestiture Account at the end of such Fiscal Quarter in excess of the Brigatinib Divestiture Collateral Amount shall be swept into the Company Concentration Account as soon as reasonable practicable, but in no event later than two (2) Business Days of Purchaser's receipt of the True-Up Statement for such Fiscal Quarter.

ARTICLE VI

TERM AND TERMINATION

Section 6.01 Term and Termination Date**.**

Except as provided in this Section 6.01 and in Section 6.02, this Agreement shall terminate upon expiration of the Revenue Interest Period (the "Term"). If any payments are accrued hereunder on or prior to that date and are required to be made by one of the Parties hereunder, this Agreement shall remain in full force and effect until any and all such payments have been made in full, and (except as provided in Section 6.02) solely for that purpose. In addition, this Agreement shall sooner terminate if the Purchaser shall have exercised the Put Option in accordance with Section 5.07(a) or the Company shall have exercised the Call Option in accordance with Section 5.07(b), in each case upon the payment of the Put/Call Price. In addition, the Company may terminate this Agreement immediately upon Purchaser's failure to pay the Additional Purchase Price on the Additional Purchase Price Closing Date or the Second Tranche Purchase Price on the Second Tranche Purchase Price Closing Date in accordance with Section 2.03(d) and Section 2.03(e), respectively. Upon expiration or termination of this Agreement in accordance with its terms, all right, title, and interest in and to the Assigned Interest shall automatically revert to Company, and Purchaser will have no further rights in the Assigned Interest, the Back-up Product True-Up Funds, or the Assigned Interest Collateral.

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, Section 5.04, Section 5.05 (provided the Security Agreement and the Deposit Agreement shall each terminate as provided in those respective agreements), 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**.**

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 expiration or termination of this Agreement in accordance with Article VI.

Section 7.02 Specific Performance; Limitations on Damages**.**

(c) 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.

(d) 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 (with a copy by email):

If to Purchaser to:

PDL BioPharma, Inc.
932 Southwood Blvd.
Incline Village, NV 89451
Attention: General Counsel
Facsimile No.: (775) 832-8501
Email: * * *

with a copy to:

Gibson, Dunn & Crutcher LLP
333 South Grand Avenue
Los Angeles, CA 90071-3197
Attention: Karen Bertero
Facsimile No.: (213) 229-7888
Email: kbertero@gibsondunn.com

If to the Company to:

ARIAD Pharmaceuticals, Inc.
26 Landsdowne Street
Cambridge, MA 02139
Attention: General Counsel
Facsimile No.: (617) 494-8144

with a copy to:

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, PC
666 Third Avenue
New York, New York 10017
Attention: Richard Gervase, Esq.
Fax: (212) 983-3115
Email: RGervase@Mintz.com

with a copy to:

Houlihan Lokey Capital, Inc.
245 Park Avenue, 17th Floor
New York, New York 10167
Attention: Lionel Leventhal
Fax: * * *
Email: * * *

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 other than to another pharmaceutical company; provided, however, that, notwithstanding the foregoing, Purchaser may assign any of its obligations or rights under the Transaction Documents to a pharmaceutical company in connection with a change of control of Purchaser by virtue of a merger, sale or issuance of stock or the sale of all or substantially all of Purchaser's assets; provided, further, that Purchaser, notwithstanding such assignment, will remain liable under Section 5.08(f) (solely to the extent of any amount subject thereto during the Fiscal Year 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 the True-Up Statement or any breach of or default under any covenant or agreement by the Company pursuant to any Transaction Document or the True-Up Statement, 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 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) Purchaser's sole remedy shall be to recover any monetary damages associated with a 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, 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 Purchaser is solely that of seller and purchaser, and neither Purchaser nor the Company 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 Purchaser as a partnership, an association, a joint venture or other kind of entity or legal form for any purposes, including any Tax purposes.

(b) No officer or employee or agent 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 Tax Treatment**.**

The Purchaser and the Company acknowledge (a) that, for U.S. federal income tax purposes, they agree to treat the rights and interests in and to the Assigned Interests that are transferred pursuant to this Agreement as indebtedness subject to the U.S. Treasury Regulations Section 1.1275-4 governing contingent payment debt instruments, (b) that the rights in respect of the Closing Purchase Price, the Additional Purchase Price, and each Second Tranche Purchase Price (if any) represent separate debt instruments for U.S. federal income tax purposes; and (c) that the Purchaser will report original issue discount and interest on each such debt instrument in accordance with the Company's determination of both the "comparable yield" and the "projected payment schedule" for such debt instrument, which determination shall be subject to the prior good faith consultation by the Company with the Purchaser. For this purpose, the "comparable yield" and the "projected payment schedule" relating to the Assigned Interests may be obtained by contacting the Company at the address set forth in Section 7.03. The parties hereto agree not to take any position that is inconsistent with the provisions of this Section 7.08 on any tax return or in any audit or other administrative or judicial proceeding unless (i) the other parties to this Agreement have consented in writing to such actions, which consent shall not be unreasonably withheld or delayed, or (ii) the party that contemplates taking such an inconsistent position has been advised by nationally recognized counsel or tax advisors in writing that it is more likely than not 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.

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), 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.

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 New York, County of New York. 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.

Section 7.18 Release of Liens upon Certain Allowable Additional Product Financings.

Upon any sale by the Company or any of its Subsidiaries of Revenue Interests that constitutes an Allowable Additional Product Financing, the security interest granted to Purchaser with respect to the portion of the Revenue Interests sold pursuant thereto shall automatically terminate concurrently with the consummation of such Allowable Additional Product Financing; provided,

however, that such security interest shall be automatically reinstated for the benefit of Purchaser upon the termination of such Allowable Additional Product Financing. In connection therewith, Purchaser agrees, at the request of the Company, and at the sole expense of the Company, to execute and deliver such documents as the Company may reasonably request to evidence such release.

[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.

COMPANY: **ARIAD PHARMACEUTICALS, INC.**

By: /s/ Harvey J. Berger, M.D.
Name: Harvey J. Berger, M.D.
Title: Chairman and Chief Executive Officer

PURCHASER: **PDL BIOPHARMA, INC.**

By: /s/ John P. McLaughlin
Name: John P. McLaughlin
Title: Chief Executive Officer

[Signature Page to Revenue Interest Assignment Agreement]

DISCLOSURE SCHEDULES

The following schedules constitute the disclosure schedules of ARIAD Pharmaceuticals, Inc. (the "**Company**") with respect to the Revenue Interest Assignment Agreement (the "**Revenue Interest Assignment Agreement**"), dated as of July 28, 2015, by and between the Company and PDL BioPharma, Inc. ("**Purchaser**"). Unless otherwise defined in these disclosure schedules, all capitalized terms used herein have the meanings ascribed to them in the Revenue Interest Assignment Agreement. Nothing in these disclosure schedules, including any attachments hereto, is intended to change the scope of the representations or warranties of the Company contained in the Revenue Interest Assignment Agreement or to create any covenant on the part of the Company. Other than expressly set forth herein, all descriptions of documents herein do not purport to be complete and are qualified by reference to the documents themselves. In no event shall any disclosure schedule hereunder be deemed to constitute an acknowledgement that such disclosure schedule is material to the business or financial condition of the Company unless the representation, warranty or covenant to which such disclosure schedule relates expressly calls for the Company to disclose information that is material to the business or financial condition of the Company, pursuant to Article III of the Revenue Interest Assignment Agreement.

* * *

Schedule 3.04(a)
Licenses to Intellectual Property

* * *

Schedule 3.12(a)

Intellectual Property

The following intellectual property is all owned by the Company:

(i) PATENTS AND PENDING APPLICATIONS

* * *

(ii) TRADEMARKS

* * *

(iii) COPYRIGHTS

None

(iv) DOMAIN NAMES AND WEBSITES

Domain Names

* * *

Website

* * *

Schedule 3.14

Material Contracts

* * *

Schedule 3.15

Principal Place of Business

26 Landsdowne Street, Cambridge, Massachusetts 02139

Schedule 3.18

Matters Involving Taxes

None.

Exhibit A

Form of Security Agreement

[See attached.]

Exhibit B

Form of Assignment of Interests

[See attached.]

FORM OF ASSIGNMENT OF INTERESTS

ASSIGNMENT OF INTERESTS

This **ASSIGNMENT OF INTERESTS** (this "Assignment"), dated as of July 28, 2015, is made and entered into by and between ARIAD Pharmaceuticals, Inc., a Delaware corporation (the "**Assignor**"), and PDL BioPharma, Inc., a Delaware corporation (the "**Assignee**").

WHEREAS, the Assignor and the Assignee are parties to that certain Revenue Interest Assignment Agreement, dated even date herewith (the "**Revenue Interest Assignment Agreement**"), pursuant to which, among other things, the Assignor agrees to sell, assign, transfer and convey to the Assignee, and the Assignee agrees to purchase, acquire and accept from the Assignor, all of the Assignor's right, title and interest in and to the Assigned Interests, as that term is defined in the Revenue Interest Assignment Agreement, for consideration in the amount and on the terms and conditions provided therein;

WHEREAS, the parties now desire to carry out the purposes of the Revenue Interest Assignment Agreement by the execution and delivery of this instrument evidencing the Assignor's sale, assignment, transfer and conveyance, and Assignee's purchase, acquisition and acceptance, of the Assigned Interests; and

WHEREAS, capitalized terms used and not defined herein have the meanings given to them in the Revenue Interest Assignment Agreement.

NOW, THEREFORE, in consideration of the foregoing premises and of other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. **Assignment of Assigned Rights**. The Assignor hereby sells, assigns, transfers and conveys to the Assignee free and clear of all Liens (other than Permitted Liens), and the Assignee hereby purchases, acquires and accepts, all of the Assignor's rights and interest in and to the Assigned Interests on the Closing Date.

2. **No Assumption of Obligations**. The parties hereto acknowledge that the Assignee is acquiring only the Assigned Interests and is not assuming any debt, liability or other obligation of the Assignor or any of its Affiliates of whatever nature, whether presently existing or hereafter arising or asserted, known or unknown, or fixed or contingent, including, without limitation, the Excluded Liabilities and Obligations.

3. **Further Assurances**. Each party hereto shall execute, acknowledge and deliver to the other party any and all documents or instruments, and shall take any and all actions, reasonably required by such other party from time to time, to confirm or effect the matters set forth herein, or otherwise to carry out the purposes of the Revenue Interest Assignment Agreement and this Assignment and the transactions contemplated thereby and hereby.

4. **Revenue Interest Assignment Agreement**. This Assignment is entered into pursuant to, and is subject in all respects to all of the terms, provisions and conditions of, the Revenue Interest Assignment Agreement, and nothing herein shall be deemed to modify any of the representations, warranties, covenants and obligations of the parties thereunder.

5. **Interpretation**. In the event of any conflict or inconsistency between the terms, provisions and conditions of this Assignment and the Revenue Interest Assignment Agreement, the terms, provisions and conditions of the Revenue Interest Assignment Agreement shall govern.

6. **Counterparts; Effectiveness**. This Assignment may be executed in counterparts, each of which shall be an original, but all of which together shall constitute one and the same instrument. This Assignment shall become effective when each party hereto shall have received a counterpart hereof signed by the other party hereto. Any counterpart may be executed by facsimile or pdf signature and such facsimile or pdf signature shall be deemed an original.

7. **Successors and Assigns**. This Assignment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns.

8. **Governing Law; Jurisdiction; Service of Process; Waiver of Jury Trial**. This Assignment shall be subject to the terms set forth in Section 7.16 and Section 7.17 of the Revenue Interest Assignment Agreement with respect to governing law, jurisdiction, service of process and waiver of trial by jury.

[Signature Page to Follow]

IN WITNESS WHEREOF, the Assignor and the Assignee have caused this Assignment to be duly executed by their respective authorized officers as of the date first above written.

ASSIGNOR:

ARIAD PHARMACEUTICALS, INC.

By: _____
Name:
Title:

ASSIGNEE:

PDL BIOPHARMA, INC.

By: _____
Name:
Title:

Exhibit C

Form of Legal Opinion

- The Company is a corporation validly existing and in corporate good standing under the laws of the State of Delaware.

- The Company has the corporate power and authority to enter into and perform its obligations under the Transaction Documents to which it is a party, has taken all necessary corporate action to authorize the execution, delivery and performance of such Transaction Documents and has duly executed and delivered such Transaction Documents.

- Each Transaction Document to which the Company is a party is the valid and binding obligation of the Company, enforceable against the Company in accordance with its terms.

- The execution and delivery by the Company of the Transaction Documents to which it is a party do not, and the compliance by the Company with its obligations thereunder will not, (i) result in a violation of the Certificate of Incorporation and the Bylaws of the Company, (ii) result in a breach or default under any material agreement of the Company, (iii) result in a violation of any order binding upon the Company or (iv) to our knowledge, result in or require the creation or imposition of any lien or encumbrance upon any assets of the Company under any material agreement of the Company (for the avoidance of doubt, any liens and security interests created pursuant to the Transaction Documents are excluded from this clause), and any material contracts or binding orders may be identified in a backup officer's certificate from the Company.

- The execution and delivery by the Company of the Transaction Documents to which it is a party do not, and the compliance by each of the Company with its obligations thereunder will not, require any approval from or filing with any governmental authority of the United States, the State of New York, or the State of Delaware, other than the filings and records contemplated by the Transaction Documents to perfect security interests.

- The execution and delivery by each of the Company of the Transaction Documents to which it is a party do not, and the compliance by the Company with its obligations thereunder will not, result in any violation of any federal law of the United States, the law of the State of New York or any regulation thereunder, or the law of the State of Delaware or any regulation thereunder, which, in our experience are applicable to, or relevant in connection with, transactions of the type provided for in the Transaction Documents.

- Neither the Company nor any Subsidiary of the Company is an "investment company" within the meaning of, and subject to regulation under, the Investment Company Act of 1940, as amended.

- The Security Agreement is effective to create in favor of the Purchaser, as security for the Secured Obligations, as defined in the Security Agreement, a security interest (the "Article 9 Security Interest") in the Collateral as described in the Security Agreement to the extent that a security interest may be created therein under Article 9 of the New York UCC (the "Article 9 Collateral").

- Upon the proper filing of the UCC Financing Statement with the Delaware Secretary of State, the Article 9 Security Interest will be perfected to the extent that a security interest can be perfected by the filing of financing statements pursuant to Article 9 of the Delaware UCC.

- The Article 9 Security Interest in the Joint Concentration Account (to the extent constituting Collateral as defined in the Security Agreement) and the Article 9 Security Interest in the Purchaser Concentration Account will be perfected by control upon the execution and delivery of the Security Agreement and the Deposit Agreement and will rank prior to any other security interest in the Joint Concentration Account (to the extent constituting Collateral as defined in the Security Agreement) and the Purchaser Concentration Account that is not perfected by control under Article 9 of the New York UCC.

Schedule A

Projected Net Product Revenues

2015	$	—
2016	$	—
2017	$	—
2018	$	—
2019	$	* * *
2020	$	* * *
2021	$	* * *
2022	$	* * *
2023	$	* * *
2024	$	* * *
2025	$	* * *
2026	$	* * *
2027	$	* * *
2028	$	* * *
2029	$	* * *
2030	$	* * *

Exhibit 12.1

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

	2010	2011	2012	2013	2014	For the Nine Months Ended September 30, 2015
Earnings:						
Income before income taxes	$ 150,370	$ 307,428	$ 327,133	$ 401,876	$ 501,272	$ 367,429
Add: fixed charges	43,578	36,153	29,097	24,931	39,274	21,758
Earnings	$ 193,948	$ 343,581	$ 356,230	$ 426,807	$ 540,546	$ 389,187
Fixed Charges:						
Interest expense[1]	$ 43,529	$ 36,102	$ 29,036	$ 24,871	$ 39,211	$ 21,710
Estimated interest portion of rent expense[2]	49	51	61	60	63	48
Fixed charges	43,578	$ 36,153	$ 29,097	$ 24,931	$ 39,274	$ 21,758
Ratio of earnings to fixed charges	4.45	9.50	12.24	17.12	13.76	17.89

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

Exhibit 31.1

CERTIFICATIONS

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

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

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

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

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

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

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

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

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

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

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

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

Date: November 4, 2015

/s/ John P. McLaughlin

John P. McLaughlin

President and Chief Executive Officer

(Principal Executive Officer)

Exhibit 31.2

CERTIFICATIONS

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

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

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

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

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

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

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

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

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

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

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

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

Date: November 4, 2015

/s/ Peter S. Garcia

Peter S. Garcia

Vice President and Chief Financial Officer

(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION

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

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

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

Dated: November 4, 2015

By:

/s/ JOHN P. MCLAUGHLIN

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

By:

/s/ PETER S. GARCIA

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

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