PDL BIOPHARMA, INC.
Form 10-K
February 23, 2016

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

---

FORM 10-K

---

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2015

OR

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

For the transition period from to

Commission File Number: 000-19756

---

PDL BioPharma, Inc.
(Exact name of registrant as specified in its charter)

---

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

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

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

---

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

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

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

---

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý

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 ý No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the

preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large accelerated filer ý Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨
(Do not check if a smaller reporting company)

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

The aggregate market value of shares of common stock held by non-affiliates of the registrant, based on the closing sale price of a share of common stock on June 30, 2015 (the last business day of the registrant's most recently completed second fiscal quarter), as reported on the NASDAQ Global Select Market, was $1,049,376,058.

As of February 12, 2016, the registrant had outstanding 164,286,615 shares of common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement to be delivered to stockholders with respect to the registrant's 2016 Annual Meeting of Stockholders to be filed by the registrant with the U.S. Securities and Exchange Commission are incorporated by reference into Part III of this Annual Report on Form 10-K. The registrant intends to file its proxy statement within 120 days after its fiscal year end.

PDL BIOPHARMA, INC.

2015 Form 10-K Annual Report

Table of Contents

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 |
| AcelRx | AcelRx Pharmaceuticals, Inc. |
| AcelRx Royalty Agreement | Royalty Interest Assignment Agreement, dated September 18, 2015, between PDL and AcelRx |
| Alphaeon | ALPHAEON Corporation |
| 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 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 | Collectively, 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 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 |
| Lion Buyer | Lion Buyer LLC (a wholly-owned subsidiary of Alphaeon, now known as LENSAR, LLC) |
| 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, fully retired on May 1, 2015 |
| Merck | Merck & Co., Inc. |
| Merus Labs | Merus Labs International, 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 |
| New LENSAR | LENSAR, LLC, a wholly-owned subsidiary of Alphaeon (formerly known as Lion Buyer LLC) |
| 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), fully retired on October 28, 2014 |
| 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. |
| PMA | Premarket Approval, as such term is used by the FDA |
| Queen et al. patents | PDL's patents in the United States and elsewhere covering the humanization of antibodies |
| Roche | F. Hoffman LaRoche, Ltd. |
| SAB | Staff Accounting Bulletin |
| Salix | Salix Pharmaceuticals, Inc. |
| Santarus | Santarus, Inc. |
| SDK | Showa Denka K.K. |
| SEC | Securities and Exchange Commission |
| Series 2012 Notes | 2.875% Series 2012 Convertible Senior Notes, 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 |
| U.S.-based Sales | Products sold in the United States or manufactured in the United States and used or sold anywhere in the world |
| 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 VB 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; NHW, LLC; Wellstat AVT Investment, LLC; Wellstat Biocatalysis, LLC; Wellstat Biologics Corporation; Wellstat Diagnostics; 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 Diagnostics Petition | An Ex Parte Petition for Appointment of Receiver with the Circuit Court of Montgomery County, Maryland |

PART I

Forward-looking Statements

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

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

ITEM 1. BUSINESS

Overview

PDL 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 $937 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.

Financial information about our operations, including our revenues and net income for the years ended December 31, 2015, 2014 and 2013, and our total assets as of December 31, 2015 and 2014, is included in our consolidated financial statements and accompanying notes in Item 8, “Financial Statements and Supplementary Data.”

2016 Dividends

We currently utilize dividends to increase return for our stockholders. On January 26, 2016, our board of directors declared a quarterly dividend to be paid to our stockholders in the first quarter of 2016 of $0.05 per share of common stock, payable on March 11, 2016 to stockholders of record on March 4, 2016, the record date for the dividend payment. At the same time our board of directors elected to announce its future dividend plans on a quarter by quarter basis, rather than for the full year as was the previous practice, to allow greater flexibility and focus on long term growth. Our board of directors evaluates the financial condition of the Company and considers the economic outlook, profitability, corporate cash flow, the Company’s liquidity needs and the health and stability of credit markets when determining the dividend.

Intellectual Property

Patents

We have been issued patents in the United States and elsewhere, covering the humanization of antibodies, which we refer to as our Queen et al. patents. Our Queen et al. patents, for which final patent expiry was in December 2014, cover, 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, covers methods and materials used in the manufacture of humanized antibodies. In addition to covering methods and materials used in the manufacture of humanized antibodies, coverage under our ‘761 Patent will typically extend to the use or sale of compositions made with those methods and/or materials.

Our '216B Patent expired in Europe in December 2009. We have been granted SPCs for the Avastin®, Herceptin®, Lucentis®, Xolair® and Tysabri® products in many of the jurisdictions in the European Union in connection with the ‘216B Patent. The SPCs effectively 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, we are entitled to royalties based on knowhow 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 royalty based upon our licensees’ net sales of covered antibodies.

Our total revenues from licensees under our Queen et al. patents were $485.2 million, $486.9 million and $430.2 million net of rebates and foreign exchange hedge adjustments for the years ended December 31, 2015, 2014 and 2013, respectively.

Licensing Agreements for Marketed Products

In the year ended December 31, 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<br>Herceptin<br>Xolair<br>Lucentis<br>Perjeta®<br>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 existing legal disputes between the parties.

Under the terms of the Settlement Agreement, Genentech paid 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 owed 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 do 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 4 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 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 net 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 a Lilly-licensed monoclonal antibody for the treatment of Alzheimer's disease. If this 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.

Income Generating Asset Acquisitions

The last of PDL’s Queen et al. patents expired in December 2014, and most of the current license payments related to the Queen et al. patents will end after the first quarter of 2016. Consequently, we have been acquiring income generating assets when such assets can be acquired on terms that allow us to increase the return to our stockholders. These income generating assets are typically in the form of notes receivables, royalty rights, hybrid notes/royalty receivables and in some cases equity. We primarily focus our income generating asset acquisition strategy on commercial stage therapies and medical devices having strong economic fundamentals. However, we do not expect that our acquired income generating assets will, in the near term, replace completely 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 accounted for 82% of our 2015 revenues. 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.

Notes and Other Long-Term Receivables

We enter into credit agreements with borrowers across the healthcare industry, under which PDL makes available cash advances to be used by the borrower. The obligations under the credit agreements are generally secured by a pledge of substantially all of the assets of the borrower and any of its subsidiaries.

At December 31, 2015, PDL had a total of six notes or notes/royalty (hybrid) receivable transactions outstanding, which are summarized below.

CareView

Deal Summary

In July 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 each tranche has a five year maturity and outstanding borrowings under the credit agreement will bear interest at the rate of 13.5% per annum and are payable quarterly in arrears. Principal repayment will commence on the ninth quarterly interest payment date of each tranche of loans. The principal amount outstanding at commencement of repayment will be repaid in equal installments until final maturity of the loans. In addition, PDL has a security interest in substantially all of CareView's assets.

In October 2015, PDL funded the first tranche of $20.0 million. 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.

Technology

CareView is a provider of products and on-demand application services for the healthcare industry by specializing in bedside video monitoring, archiving and patient care documentation systems and patient entertainment services.

kaléo

Deal Summary

In April 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 Interest and a pledge of kaléo's equity ownership in Accel 300.

The notes are backed by royalties in the form of 100 percent of the payments kaléo receives from its licensee based on net sales of kaléo’s first approved product, Auvi-Q (epinephrine auto-injection, USP) (known as Allerject™ in Canada) and 10 percent of net sales of kaléo’s second proprietary auto-injector based product, EVZIO (naloxone hydrochloride injection). The notes carry interest at 13% per annum, paid quarterly in arrears on principal outstanding. kaléo may redeem the notes at any time, subject to a redemption premium.

On February 18, 2016, PDL was advised that Sanofi and kaléo will terminate their license and development agreement later this year. At that time, all U.S. and Canadian commercial and manufacturing rights to Auvi-Q® will be returned to kaléo, and they intend to evaluate the timing and options for bringing Auvi-Q back to the market. PDL entered into a secured note purchase agreement with Accel 300, a wholly-owned subsidiary of kaléo, which as of December 31, 2015, had a principal balance of $144.8 million due to PDL. An interest reserve account previously set up as part of the note agreement will substantially cover interest payments due to PDL through the end of the second quarter of 2016, and kaléo has indicated that it intends to make payments due to PDL under the note agreement until Auvi-Q is returned to the market.

Technology

Auvi-Q is used to treat life-threatening allergic reactions (anaphylaxis) in people who are at risk for or have a history of these reactions.

EVZIO is approved for the emergency treatment of known or suspected opioid overdose, as manifested by respiratory and/or central nervous system depression.

Paradigm Spine

Deal Summary

In February 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.

Subsequently PDL and Paradigm Spine agreed to amend the 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.

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.

Technology

Paradigm Spine’s coflex® interlaminar stabilization device for patients with spinal stenosis was approved by the FDA in late 2012.

Direct Flow Medical

Deal Summary

In November 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, to be used to refinance its existing credit facility and fund the commercialization of its transcatheter aortic valve system used to treat aortic stenosis. An initial $35 million was provided at the close of the transaction, with the remaining $15 million to be funded upon the achievement of a specified milestone. PDL funded the $15.0 million second tranche to Direct Flow Medical, net of fees in November 2014. Outstanding borrowings under the first tranche bore interest at the rate of 15.5% per annum, payable quarterly in arrears. Upon occurrence of the borrowing of this second tranche, the interest rate applicable to all loans under the credit agreement was decreased to 13.5% per annum, payable quarterly in arrears. 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.

In January 2016, PDL funded an additional $5.0 million to Direct Flow Medical in the form of a short-term secured promissory note that we expect will be converted into a loan under the credit agreement with substantially the same interest and payment terms as the existing loans.

Technology

The Direct Flow Medical develops transcatheter heart technologies, including its Transcatheter Aortic Valve System that is designed to treat aoritic stenosis.

LENSAR

Deal Summary

In October 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 was funded by the Company at the close of the transaction. The remaining $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 bore interest at the rate of 15.5% per annum, payable quarterly in arrears. The obligations under the credit agreement are secured by a pledge of substantially all of the assets of LENSAR.

In May 2015, PDL and LENSAR entered into a forbearance agreement as result of LENSAR's failure to comply with a liquidity covenant and make interest payments due under the credit agreement. Between May and December 2015, PDL provided additional funding to LENSAR.

In December 2015, Lion Buyer, a wholly owned subsidiary of Alphaeon assumed $42.0 million in loans as part of the borrowings under PDL’s prior credit agreement with LENSAR and changed its name to LENSAR, LLC in connection with Alphaeon's acquisition of substantially all of the assets of LENSAR. In addition, Alphaeon issued 1.7 million shares of its Class A common stock to PDL. Under the terms of the amended and restated credit agreement, PDL has a first lien security interest in substantially all of the assets of New LENSAR. The loans bear interest of 15.5% per annum, payable quarterly in arrears. New LENSAR may elect to pay in kind interest the first three interest payments in the form of additional principal amount added to the loans. The principal repayment will commence on the ninth quarterly interest payment date. The principal amount of outstanding at commencement of repayment will be repaid in equal installments until final maturity of the loans which is December 15, 2020.

Technology

The LENSAR Laser System is approved by the FDA to perform both corneal and arcuate incisions, as well as lens fragmentation and anterior capsulotomy (with or without phacofragmentation), during cataract surgery.

Wellstat

Deal Summary

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 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.

In November 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. In January 2013, Wellstat defaulted on the credit agreement, as a result both parties agreed to enter into a forbearance agreement whereby PDL agreed to provide additional funding. In August 2013, the Company entered into an amended and restated credit agreement with terms substantially the same as those of the original credit agreement. 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.

In August 2014, the Company delivered the Wellstat Diagnostics Borrower Notice which 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. As of December 31, 2015, PDL is legally owed $94.1 million, which includes principal, un-accrued interest, and funded with respect to operations of Wellstat Diagnostics.

Technology

Wellstat Diagnostics, LLC is a private company dedicated to the development, manufacture, sale and distribution of small point of care diagnostic systems that can perform a wide variety of tests targeting the clinical diagnostics market.

Royalty Rights - At Fair Value

We enter into various royalty agreements with different counterparties, whereby the counterparty conveys to PDL the right
to receive royalties that are typically payable on sales generated by the sale, distribution or other use of the counterparties' products. Certain of our royalty agreements provide the counterparty with the right to repurchase the royalty rights at any time for a specified amount.

PDL records the royalty rights at fair value using discounted cash flows related to the expected future cash flows to be received. We use significant judgment in determining our valuation inputs, including estimates as to the probability

and timing of future sales of the licensed product. A third-party expert is generally engaged to assist management with the development of its estimate of the expected future cash flows. The estimated 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.

At December 31, 2015, PDL had a total of five royalty rights transactions outstanding, the most significant royalty transactions are summarized below.

AcelRx

Deal Summary

In September 2015, PDL entered into the AcelRx Royalty Agreement with ARPI LLC, a wholly owned subsidiary of AcelRx, whereby PDL acquired a portion of the royalties on expected sales of Zalviso™ (sufentanil sublingual tablet system) in the

European Union, Switzerland and Australia by its commercial partner, Grünenthal. Under the terms of the agreement, PDL paid AcelRx $65 million, and in exchange, PDL will receive 75 percent of the royalties AcelRx receives from Grünenthal as well as 80 percent of the first four commercial milestones subject to a capped amount until the earlier of occur of (i) receipt by PDL of payments equal to three times the cash payments made to AcelRx and (ii) the expiration of the licensed patents.

Technology

Zalviso is a combination drug and device product which, using a patient controlled dispenser, delivers a sub-lingual formulation of sufentanil, an opioid with a high therapeutic index. Zalviso is approved in the European Union.

ARIAD

Deal Summary

In July 2015, PDL entered into the ARIAD Royalty Agreement, whereby PDL agreed to provide ARIAD with up to $200 million in revenue interest financing in exchange for royalties based on the net revenues of Iclusig® (ponatinib). Funding of the first $50 million occurred on the closing date of the agreement and an additional $50 million is to be funded on the 12-month anniversary of the closing date. In addition, ARIAD has an option to draw up to an additional $100 million at any time between the sixth and twelfth month anniversaries of the closing date.

Under the terms of the ARIAD Royalty Agreement, PDL will initially receive 2.5% of the worldwide net revenues of Iclusig until the one year anniversary of the closing date, at which time the royalty increases to 5.0% of the worldwide net revenues of Iclusig and remains until December 31, 2018. Beginning January 1, 2019 and thereafter, the royalty rate will increase to 6.5%, subject to an additional increase to 7.5% if PDL's funding exceeds $150 million. If PDL does not receive payments equal to or greater than the total amount funded on or before the fifth anniversary of each of the respective fundings, ARIAD will pay PDL the difference between the amounts funded by PDL and the amounts paid to such date. In addition, PDL may receive royalties on a product currently in development at ARIAD in the event of certain shortfalls. PDL has a put option based upon certain events and ARIAD has a call option to repurchase the revenue interest at any time. Both the put and call prices have been pre-determined.

Technology

Iclusig is approved in the U.S., EU, Australia, Israel, Canada and Switzerland. In the U.S., Iclusig is a kinase inhibitor indicated for the:

- treatment of adult patients with T315I-positive chronic myeloid leukemia (chronic phase, accelerated phase, or blast phase) or T315I-positive Philadelphia chromosome positive acutelymphoblastic leukemia (Ph+ ALL).
- treatment of adult patients with chronic phase, accelerated phase, or blast phase chronic myeloid leukemia or Ph+ ALL for whom no other tyrosine kinase inhibitor (TKI) therapy is indicated.

U-M

Deal Summary

In November 2014, PDL acquired a portion of the U-M worldwide royalty interest in Cerdelga™ (eliglustat) for $65.6 million. Cerdelga was approved in the US in August 2014, in the European Union in January 2015 and in Japan in March 2015. Under the terms of the Michigan Royalty Agreement, PDL will receive 75 percent of all royalty payments due under U-M's license agreement with Genzyme until expiration of the licensed patents, excluding any

patent term extension. The royalty rate used to calculate the royalties to be paid by Genzyme to U-M was not disclosed by the parties.

Technology

Cerdelga, an oral therapy for adult patients with Gaucher disease type 1, was developed by Genzyme, a Sanofi company. Cerdelga was approved by the FDA on August 19, 2014.

VB

Deal Summary

In June 2014, PDL entered into the VB Royalty Agreement, whereby PDL acquired the right to receive royalties on net sales of a PMA-approved spinal implant held by VB in exchange for $15.5 million cash payment. The royalty rights acquired includes royalties accruing from and after April 1, 2014. PDL receives all royalty payments due to VB pursuant to certain technology transfer agreements between VB and Paradigm Spine until PDL has received payments equal to two and three tenths times the cash payment it made to VB, after which all payment rights 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 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.

Technology

The coflex® Interlaminar Technology is an Interlaminar Stabilization® device indicated for use in one or two level lumbar stenosis from L1-L5 in skeletally mature patients with at least moderate impairment in function.

Depomed

Deal Summary

In October 2013, PDL entered into the Depomed Royalty Agreement, whereby PDL acquired the rights to receive royalties and milestones payable on sales of five Type 2 diabetes products licensed by Depomed in exchange for a $240.5 million cash payment.

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.

Technology

The rights acquired include Depomed’s royalty and milestone payments accruing from and after October 1, 2013: (a) from Valeant 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); (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; (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 in Korea and Canada, respectively.

Major Customers

Our revenues consist almost entirely of royalties and the changes in fair value of our royalty right assets. In addition, we may receive royalty payments if the licensed product, solanezumab, receives marketing approval because we are entitled to a know-how royalty of 2% for 12.5 years after first commercialization of the product. In 2015, 2014 and 2013, Genentech accounted for 70%, 71%, and 81% of our revenues, respectively, and Biogen accounted for 9%, 10% and 11% of our revenues, respectively. Although the last of our Queen et al. patents expired in December 2014, the royalty payments extended beyond the patent 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 or the related licenses or legal settlements beyond the first quarter of 2016.

Employees

As of December 31, 2015, we had 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. None of our employees are covered by a collective bargaining agreement.

Available Information

We file electronically with the SEC our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended. The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of that website is www.sec.gov.

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

ITEM 1A. RISK FACTORS

You should carefully consider and evaluate all of the information included and incorporated by reference in this Annual Report, including the risk factors listed below. Any of these risks, as well as other risks and uncertainties, could materially and adversely affect our business, results of operations and financial condition, which in turn could materially and adversely affect the trading price of shares of our common stock. Additional risks not currently known or currently material to us may also harm our business. Keep these risk factors in mind when you read forward-looking statements contained in this Annual Report and the documents incorporated by reference in this Annual Report. These statements relate to our expectations about future events and time periods. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “intends,” “plans,” “believes,” “anticipates,” “expects,” “estimates,” “predicts,” “potential,” “continue” or “opportunity,” the negative of these words or words of similar import. Similarly, statements that describe our reserves and our future plans, strategies, intentions, expectations, objectives, goals or prospects are also forward-looking statements. Forward-looking statements involve risks and uncertainties, and future events and circumstances could differ significantly from those anticipated in the forward-looking statements.

We have historically derived a significant portion of our royalty revenues from Genentech and other Queen et al. patent licensees which, in the case of our largest licensee, Genentech, are scheduled to expire in early 2016. Failure to acquire additional sources of revenue, including royalty revenue, after expiration of our Queen et al. patents and the related licenses may cause us to have insufficient revenues and positive cash flows to continue operations.

Our revenues to date have consisted almost entirely of royalties from licensees of our Queen et al. patents, which expired in December 2014. Of this revenue from licensees, for example, the Genentech Products accounted for 70%, 71% and 81% of our revenues for the years ended December 31, 2015, 2014 and 2013, respectively. Our license agreement with Genentech expires in the first quarter of 2016, and our other licensees, and efforts to identify and replace those sources of revenues in the future might not be successful. Failure to replace Queen et al. patent licensee revenues in an amount sufficient to continue our operations would have a material adverse effect on our business.

Our business plan is to continue to acquire additional income generating assets. However, we do not expect that these acquisitions will, in the near term, replace the revenues we generate from our license agreements related to the Queen et al. patents. Specifically, in 2016, our revenues are likely to materially decrease after we stop receiving payments from these Queen et al. patents license agreements, and 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 generate revenues going forward and support the business model for the Company. We may be unable to acquire sufficient income-generating assets for a number of reasons, including the fact that the acquisition of royalty or other income-generating assets in the healthcare industry is a highly competitive area in which other companies, financial institutions and private funds compete for assets of interest to us. Those entities may have access to lower costs of capital, strategic opportunities or competitive advantages that may not be available to us. Other factors that may prevent us from acquiring favorable income generating assets include the following:

- we may be unable to acquire income generating assets on terms that would allow us to make an appropriate level of return from the asset;
- our asset investments may be less successful in the marketplace than may be necessary to generate an appropriate level of return from the asset; or
- we may be forced to undertake more risk in obtaining the assets we pursue.

If we are unable to acquire suitable income generating assets in the near term, our business may suffer and we may determine that a wind-down, sale, or liquidation of the Company is in the best interests of our stockholders.

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

We are engaged in a continual review of opportunities to acquire income generating assets, whether royalty-based or otherwise, or to acquire companies that hold royalty or other income generating assets. We currently, and generally at any time, have acquisition opportunities in various stages of active review, including, for example, our engagement of consultants and advisors to analyze particular opportunities, technical, financial and other confidential information, submission of indications of interest and involvement as a bidder in competitive auctions or other processes for the acquisition of income generating assets. Many potential acquisition targets do not meet our criteria, and for those that do, we may face significant competition for these acquisitions from other financial investors and enterprises whose cost of capital may be lower than ours. Competition for future asset acquisition opportunities in our markets is competitive and we may be forced to increase the price we pay for such assets or face reduced potential acquisition opportunities. In addition, seven out of fifteen of our acquisitions to date have been or are dependent on, or

secured by, a single product revenue stream, which increases the risk of payments based on the competitive factors in the market as well as the pricing of the product. The success of our income generating asset acquisitions is based on our ability to make accurate assumptions regarding the valuation, timing and amount of payments, which is highly complex and uncertain. The failure of any of these acquisitions to produce anticipated revenues may materially and adversely affect our financial condition and results of operations.

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

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

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

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

Many of our potential income generating investments are in companies or assets that have limited commercialized revenue-generating products or are dependent on the actions of unrelated third parties, which may negatively impact our investment returns.

In anticipation of the expiration of some or all of our Queen et al. patents and related license payments in 2016, we have made and will likely continue to make investments in income generating assets, such as loans in exchange for a profit share or royalty streams, in the healthcare industries, many of which investments are in companies that, at the time of investment, have limited or no commercialized revenue-generating products. If the assets are not successfully commercialized, the value of our investments would be negatively affected and our investment returns would be negatively impacted. The ultimate success of our investments in many of our potential income generating assets in these industries will depend on the ability of our counterparty or their licensees to innovate, develop and commercialize their products, in increasingly competitive and highly regulated markets. Their inability to do so would negatively affect our investment. In addition, in connection with many of our potential income generating

investments, we are dependent, to a large extent, on third parties to enforce certain rights for our benefit. For example, we acquired certain royalty rights from Depomed, which, as the licensor of certain patents, retains various rights, including the contractual right to audit its licensees and to ensure those licensees are complying with the terms of the underlying license agreements. Depomed also retains full responsibility to protect and maintain the intellectual property rights underlying the licenses. While we have contractual rights to require Depomed to take action regarding many of these rights, because Depomed's economic interest in the license agreements is limited, it may not enforce or protect those rights as it otherwise would have had it retained the full economic interest in the payments under the license agreements. Moreover, in respect of the royalty stream relating to the Glumetza diabetes medication that we acquired from Depomed, which is the royalty right producing the highest revenues from our Depomed acquired royalties, a single generic manufacturer entered the market in February 2016 and two additional generic manufacturers will be permitted to enter the market starting in August 2016 as provided for in settlement agreements between Depomed and these generic manufacturers. We were aware of these settlement agreements, considered them in the cost of the acquiring this asset and expect the entry of these generic products to reduce our Glumetza revenues.

Our licensees, borrowers and royalty-agreement counterparties face significant market pressures with respect to their products, and the amount of royalties we receive are subject to various competitive and market factors that may be outside of our control.

Our licensees, borrowers and royalty-agreement counterparties face competition from other pharmaceutical, biotechnology, device and diagnostic companies. The introduction of new competitive products may result in lost market share for our licensees, borrowers and royalty-agreement counterparties, reduced use of their products, lower prices and/or reduced product sales, any of which could reduce our royalty revenues, or the revenues on which we rely to produce the returns on our acquisitions, and have a material adverse effect on our results of operations.

The amount of any royalties and returns on our investments that we receive will depend on many factors, including the following:

- the timing and availability of generic product competition for our licensees, borrowers and royalty-agreement counterparties' products;
- the size of the market for our licensees, borrowers and royalty-agreement counterparties' products;
- the extent and effectiveness of the sales and marketing and distribution support our licensees, borrowers and royalty-agreement counterparties' products;
- the existence of novel or superior products to our licensees, borrowers and royalty-agreement counterparties' products;
- the availability of reduced pricing and discounts applicable to our licensees, borrowers and royalty-agreement counterparties' products;
- stocking and inventory management practices related to our licensees, borrowers and royalty-agreement counterparties' products;
- limitations on indications for which our licensees, borrowers and royalty-agreement counterparties' products can be marketed; the competitive landscape for approved products and developing therapies that compete with our licensees, borrowers and royalty-agreement counterparties' products;
- the ability of patients to be able to afford our licensees, borrowers and royalty-agreement counterparties' products or obtain health care coverage that covers those products;
- acceptance of, and ongoing satisfaction with, our licensees, borrowers and royalty-agreement counterparties' products by the care providers, patients receiving therapy and third party payors; or
- the unfavorable outcome of any potential litigation relating to our licensees, borrowers and royalty-agreement counterparties' products.

For example, in 2015, Valeant Pharmaceuticals announced two price increases on Glumetza, a royalty-bearing product under our Depomed Royalty Agreement. The impact of Valeant's price adjustments on our Depomed royalty entitlement is difficult to predict. While the price increases would be expected to increase revenues and thus our

royalties, the entry of one generic manufacturer into this market in February of 2016 and two additional generic manufacturers in August 2016 will likely result in a significant reduction in market share for Glumetza. Due to the uncertainties caused by the price increases and generic competition, we may not be able to accurately estimate the impact on royalties on such sales paid to PDL.

Our licensees must protect their intellectual property rights for us to succeed.

Our success is dependent in significant part on the ability of third parties in control of the assets in which we've invested to protect the scope, validity and enforceability of their intellectual property, including the patents, SPCs and license agreements, all of which support our revenues. The scope, validity, enforceability and effective term of patents and SPCs can be highly uncertain

and often involve complex legal and factual questions and proceedings. In addition, the legal principles applicable to patents in any given jurisdiction may be altered through changing court precedent and legislative action, and such changes may affect the scope, strength and enforceability of our patent rights or the nature of proceedings which may be brought related to the relevant patent rights. A finding in a proceeding related to patent rights which support our revenues which narrows the scope or which affects the validity or enforceability of some or all of our patent rights could have a material impact on our ability to continue to collect royalty payments from our investments or collect revenue from our income generating investments.

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

Our revenues to date have consisted mostly of royalties from licensees of our Queen et al. patents, which expired in December of 2014, although we have agreements in place that extended certain license payments related to the Queen et al. patents, particularly those from Genentech, until the first quarter of 2016. The approaching expiration of our license payments related to the Queen et al. patents and its effect on our dividend policy will likely reduce the price of our common stock. If the price of our common stock were to fall and remain below NASDAQ listing standards, our common stock may be delisted. If our common stock were delisted, market liquidity for our common stock could be severely affected and our stockholders' ability to sell securities in the secondary market could be limited. Delisting from NASDAQ would negatively affect the value of our common stock. Delisting could also have other negative results, including, but not limited to, the potential loss of confidence by employees, the loss of institutional investor interest and fewer business development opportunities.

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

Our '216B Patent in Europe was granted in 1996 by the EPO. The '216B Patent expired on December 28, 2009. To extend the period of enforceability of the '216B Patent against specific products which received marketing approval in Europe as of the expiration date of the '216B Patent, we applied for SPCs in various European national patent offices to cover the SPC Products to the extent these products are made and/or sold in Europe. While these SPCs generally expired in 2014, they continue to confer rights upon which we receive royalties until the first quarter of 2016.

Our SPCs extended the period of enforceability of our '216B Patent against the SPC Products, but their enforcement will be subject to varying, complex and evolving national requirements and standards relevant to enforcement of patent claims pursuant to SPCs. In the event that our SPCs are challenged in the national patent offices or national courts of the various countries in Europe in which we own granted SPCs, such a challenge could be directed against the validity of the SPC, the validity of the underlying patent claims, whether the product named in the SPC is protected by the underlying patent in accordance with controlling European law and/or whether the SPC was properly granted pursuant to controlling European law. Such a proceeding would involve complex legal and factual questions. In addition, the European Court of Justice has the authority to interpret the SPC regulation and could do so in a manner that materially impacts the enforceability of our SPCs against the SPC Products. As a result of these factors, we are unable to predict the extent of protection afforded by our SPCs.

We depend on our licensees and royalty-agreement counterparties for the determination of royalty payments. While we have rights to audit our licensees and royalty-agreement counterparties, the independent auditors may have difficulty determining the correct royalty calculation, we may not be able to detect errors and payment calculations may call for retroactive adjustments. We may have to exercise legal remedies to resolve any disputes resulting from the audit.

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

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

The lack of liquidity for the assets in our acquisitions may adversely affect our business and, if we need to sell any of our acquired assets, we may not be able to do so at a favorable price. As a result, we may suffer losses.

We generally acquire patents, royalty rights and debt instruments that have limited secondary resale markets. The illiquidity of most of our assets may make it difficult for us to dispose of them at a favorable price and, as a result, we may suffer losses if we are required to dispose of any or all such assets in a liquidation or otherwise. In addition, if we liquidate all or a portion of our assets quickly or in connection with a liquidation, we may realize significantly less than the value at which we had previously recorded these assets.

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

As of December 31, 2015, $246.4 million in principal remained outstanding under our February 2018 Notes that requires us to repay the full principal amount on February 1, 2018 if not previously converted.

Holders of the February 2018 Notes may convert their notes at their option under the following circumstances at any time prior to the close of business on the business day immediately preceding August 1, 2017: (i) during any fiscal quarter commencing after the fiscal quarter ending 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; (ii) during the five business-day period immediately after any five consecutive trading-day period, which we refer to as the measurement period, in which the trading price per $1,000 principal amount of notes for each trading day of that measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate for the notes for each such day; or (iii) upon the occurrence of specified corporate events. The February 2018 Notes are not currently convertible. These notes are net-share settled. If one or more holders elect to convert their notes when conversion is permitted, we would be required to make cash payments to satisfy up to the face value of our conversion obligation in respect of each note, which could adversely affect our liquidity.

We may use a certain amount of cash from time to time in order to satisfy repurchase or other obligations relating to our convertible notes which could adversely affect the amount or timing of any distribution to our stockholders or any income generating transactions. In addition, we may redeem, repurchase or otherwise acquire the convertible notes in the open market in the future, any of which could adversely affect the amount or timing of any cash distribution to our stockholders.

The conversion or any future exchanges of any of the February 2018 Notes into shares of our common stock would have a dilutive effect that could cause our stock price to go down.

Until August 1, 2017, the February 2018 Notes are convertible into shares of our common stock only if specified conditions are met and thereafter convertible at any time, at the option of the holder. We have reserved shares of our authorized common stock for issuance upon conversion of these convertible notes. Upon conversion, the principal amount is due in cash, and to the extent that the conversion value exceeds the principal amount, the difference is due in shares of common stock. If any or all of these convertible notes are converted into shares of our common stock, our existing stockholders will experience immediate dilution of voting rights and our common stock price may decline. Furthermore, the perception that such dilution could occur may cause the market price of our common stock to decline.

We entered into purchased call option and warrant transactions in connection with the issuance of each of our February 2018 Notes that may affect the value of our common stock.

In connection with the issuance of the February 2018 Notes, we entered into purchased call option transactions. Separately, we also entered into warrant transactions at that time. The purchased call option transactions are expected to reduce the potential dilution with respect to our common stock upon conversion of the February 2018 Notes. The warrants in connection with these purchased call option transactions could separately have a dilutive effect from the issuance of our common stock pursuant to the warrants.

The purchased call option and warrant transactions are accounted for as an adjustment to our stockholders' equity. In connection with hedging these transactions, the counterparties to the hedge transactions or their respective affiliates may enter into, or may unwind, various derivative transactions and/or purchase or sell our common stock in secondary market transactions prior to maturity of the February 2018 Notes (and are likely to do so during any cash settlement averaging period related to any

conversion of the February 2018 Notes). Such activities could have the effect of decreasing the trading price of our common stock during any cash settlement averaging period related to a conversion of the February 2018 Notes.

In addition, we intend to exercise the purchased call options whenever February 2018 Notes are converted, if ever. In order to unwind their hedge positions with respect to those exercised options, the hedge counterparties or their respective affiliates may sell shares of our common stock in secondary market transactions or unwind various derivative transactions with respect to our common stock during the cash settlement averaging period for the converted notes. The effect, if any, of any of these transactions and activities on the trading price of our common stock will depend, in part, on market conditions and cannot be ascertained at this time, but any of these activities could adversely affect the value of our common stock.

Further, a failure by the hedge counterparties or their respective affiliates (due to bankruptcy or otherwise) to pay or deliver, as the case may be, amounts owed to us under the purchased call option transactions will not reduce the consideration we are required to deliver to a holder upon its conversion of the February 2018 Notes and may result in an increase in dilution with respect to our common stock.

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

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

We have implemented a corporate structure taking into consideration our limited operations and potentially applicable tax impact on our royalty and other income, and any changes in applicable tax laws and regulations or enforcement positions of tax authorities may negatively impact our financial condition and operating results.

We have established our corporate structure to be closely aligned with the financial nature of our business. There can be no assurance that the applicable tax laws and regulations will continue in effect or that the taxing authorities in any or all of the applicable jurisdictions will not challenge one or more aspects or characterizations of our corporate structure and the treatment of transactions or agreements within our corporate structure, or determine that the manner in which we operate our business is not consistent with our corporate structure. We may also have disputes with one or more state tax authorities regarding whether the Company is subject to that state's tax and, if the Company is subject to such state's tax, what proportion of the Company's revenues is subject to taxation in such state. For example, we are currently subject to an audit by the California Franchise Tax Board and, while we may disagree with their conclusions regarding such issues, the proceedings extend over long periods of time and we may ultimately be required to pay taxes either in a settlement or a final decision of an agency or court. Any unfavorable changes in laws and regulations

or positions by tax authorities could harm our financial position and results of operations.

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

A material portion of our royalties are calculated based on sales in currencies other than the U.S. dollar. Fluctuations in foreign currency rates, particularly the Euro, relative to the U.S. dollar can significantly affect our revenues and operating results. While foreign currency conversion terms vary by license agreement, generally most agreements require that royalties first be calculated in the currency of sale and then converted into U.S. dollars using the average daily exchange rates for that currency for a specified period at the end of the calendar quarter. For example, when the U.S. dollar weakens in relation to other currencies, the converted amount is greater than it would have been had the U.S. dollar exchange rates remained unchanged. More than 50% of our licensees' product sales are in currencies other than U.S. dollars; as such, our revenues may fluctuate due to changes in foreign currency exchange rates and is subject to foreign currency exchange risk. For example, in a quarter in which we generate $70 million in royalty revenues and when approximately $35 million is based on sales in currencies other than the U.S. dollar, if the

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

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

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

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

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

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

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

Under the terms of the Separation and Distribution agreement with Facet, we and Facet agreed to indemnify the other from and after the Spin-Off with respect to certain indebtedness, liabilities and obligations that were retained by our respective companies. These indemnification obligations could be significant. The ability to satisfy these indemnities, if called upon to do so, will depend upon the future financial strength of each of our companies. We cannot assure you that, if Facet has to indemnify us for any substantial obligations, Facet will have the ability to satisfy those obligations. If Facet does not have the ability to satisfy those obligations, we may be required to satisfy those obligations instead. For example, in connection with the Spin-Off, we entered into amendments to the leases for the facilities in Redwood City, California, which formerly served as our corporate headquarters, under which Facet was added as a co-tenant under the leases and a Co-Tenancy Agreement under which Facet agreed to indemnify us for all matters related to the leases attributable to the period after the Spin-Off date. Should Facet default under its lease obligations, we would be held liable by the landlord as a co-tenant and, thus, we have in substance guaranteed the payments under the lease agreements for the Redwood City facilities, the disposition of which could have a material adverse effect on the amount or timing of any distribution to our stockholders. As of December 31, 2015, the total lease payments for the duration of the guarantee, which runs through December 2021, are approximately $67.7 million. We would also be responsible for lease-related payments including utilities, property taxes and common area maintenance that may be as much as the actual lease payments. In April 2010, Abbott Laboratories acquired Facet and

renamed the company Abbott Biotherapeutics Corp., and in January 2013, Abbott Biotherapeutics Corp. was renamed AbbVie Biotherapeutics, Inc. and spun off from Abbott as a subsidiary of AbbVie Inc. We do not know how Abbott's acquisition of Facet will impact our ability to collect under our indemnification rights or whether Facet's ability to satisfy its obligations will change. In addition, we have limited information rights under the Co-Tenancy Agreement. As a result, we are unable to determine definitively whether Facet continues to occupy the space and whether it has subleased the space to another party or the basis upon which our potential co-tenant obligation may be triggered. See "Item 2—Properties."

As we continue to develop our business, our mix of assets and our sources of income may require that we register with the SEC as an “investment company” in accordance with the Investment Company Act of 1940.

We have not been and have no current intention to register as an "investment company" under the Investment Company Act of 1940, or the 40 Act, because we believe the nature of our assets and the sources of our income currently exclude us from the definition of an investment company pursuant to Sections (3)(a)(1)(A) and (3)(a)(1)(C) under the 40 Act and Rule 270.3a-1 of Title 17 of the Code of Federal Regulations. Accordingly, we are not currently subject to the provisions of the 40 Act, such as compliance with the 40 Act’s registration and reporting requirements, capital structure requirements, affiliate transaction restrictions, conflict of interest rules, requirements for disinterested directors, and other substantive provisions. Generally, to avoid being a company that is an "investment company" under the 40 Act, it must both: (a) not be or hold itself out as being engaged primarily in the business of investing, reinvesting or trading in securities, and (b) either (i) not be engaged or propose to engage in the business of investing in securities or own or propose to acquire investment securities having a value exceeding 40% of the value of its total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis or (ii) not have more than 45% of the value of its total assets (exclusive of government securities and cash items) consist of or more than 45% of its net income after taxes (for the last four fiscal quarters combined) be derived from securities. In addition, we would not be an “investment company” if an exception, exemption, or safe harbor under the 40 Act applies.

We monitor our assets and income for compliance with the tests under the 40 Act and seek to conduct our business activities to ensure that we do not fall within its definitions of “investment company.” If we were to become an “investment company” and be subject to the strictures of the 40 Act, the restrictions imposed by the 40 Act would likely require changes in the way we do business and add significant administrative burdens to our operations. In order to ensure that we do not fall within the 40 Act, we may need to take various actions which we might otherwise not pursue. These actions may include restructuring the Company and/or modifying our mixture of assets and income.

Specifically, our mixture of debt vs. royalty assets is important to our classification as an “investment company” or not. In this regard, while we currently believe that none of the definitions of “investment company” apply to us, we may in the future rely on an exception under the 40 Act provided by Section 3(c)(5)(A). To qualify for Section 3(c)(5)(A), as interpreted by the staff of the SEC, we would be required to have at least 55% of our total assets in "notes, drafts, acceptances, open accounts receivable, and other obligations representing part or all of the sales price of merchandise, insurance, and services" (or Qualifying Assets). In a no-action letter issued to Royalty Pharma on August 13, 2010, the SEC staff stated that royalty interests are Qualifying Assets under this exception. If the SEC or its staff in the future adopts a contrary interpretation or otherwise restricts the conclusions in the staff's no-action letter such that our royalty interests are no longer Qualifying Assets for purposes of Section 3(c)(5)(A), we could be required to register under the 40 Act.

The rules and interpretations of the SEC and the courts, relating to the definition of "Investment Company" are highly complex in numerous respects. While, we currently intend to conduct our operations so that we will not be deemed an investment company, we can give no assurances that we will not determine it to be in the Company’s and our stockholders’ interest to register as an “investment company”, not be deemed an "investment company" and not be required to register under the 40 Act.

We have in the past and are currently involved in, and expect that in the future we will from time to time be involved in, litigation, either as a defendant or a plaintiff, which could have a negative impact on our operations and results.

Monitoring and defending against or prosecuting legal actions is time-consuming for our management and may detract from our ability to fully focus our internal resources on our core business goal of acquiring and managing income generating assets. In addition, legal fees and costs incurred in connection with such activities may be significant.

Depending on the nature of the lawsuit, a decision adverse to our interests could result in the payment of substantial damages and could have a material adverse effect on our cash flow, results of operations and financial position or impact our rights in an adverse way.

Failure in our information technology and storage systems could significantly disrupt the operation of our business.

Our ability to execute our business plan depends, in part, on the continued and uninterrupted performance of our information technology ("IT") systems. IT systems are vulnerable to damage from a variety of sources, including telecommunications or network failures, malicious human acts and natural disasters. Moreover, despite network security and back-up measures, some of our servers may be vulnerable to physical or electronic break-ins, computer viruses and similar disruptive problems. Despite the precautionary measures we have taken to prevent unanticipated problems that could affect our IT systems, sustained or repeated system failures that interrupt our ability to generate and maintain data could adversely affect our ability to operate our business.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We lease approximately 4,800 square feet of office space in Incline Village, Nevada, which serves as our corporate headquarters. The lease expires in May 2017. We may, at our option, extend the term of this lease.

In July 2006, we entered into two leases and a sublease for facilities in Redwood City, California, which formerly served as our corporate headquarters and cover approximately 450,000 square feet of office space. Under the amendments to the leases entered into in connection with the Spin-Off, Facet was added as a co-tenant under the leases. As a co-tenant, Facet is bound by all of the terms and conditions of the leases. PDL and Facet are jointly and severally liable for all obligations under the leases, including the payment of rental obligations. However, we also entered into a Co-Tenancy Agreement with Facet in connection with the Spin-Off and the lease amendments under which we assigned to Facet all rights under the leases, including, but not limited to, the right to amend the leases, extend the lease terms or terminate the leases, and Facet assumed all of our obligations under the leases. Under the Co-Tenancy Agreement, we also relinquished any right or option to regain possession, use or occupancy of these facilities. Facet agreed to indemnify us for all matters associated with the leases attributable to the period after the Spin-Off date and we agreed to indemnify Facet for all matters associated with the leases attributable to the period before the Spin-Off date. In addition, in connection with the Spin-Off, the sublease was assigned by PDL to Facet. In April 2010, Abbott Laboratories acquired Facet and later renamed the entity AbbVie Biotheraputics, Inc. To date, AbbVie has satisfied all obligations under the Redwood City leases.

ITEM 3. LEGAL PROCEEDINGS

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 United States District Court for the District of Nevada. In the Complaint, the Company alleged 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 attorneys’ 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. On December 21, 2015, Merck filed a Motion to Dismiss for Lack of Personal Jurisdiction. In response to Merck’s motion, on January 22, 2016, rather than dispute Merck’s contentions regarding jurisdiction, the Company elected to dismiss the action in Nevada and refile the Complaint in its entirety in the District of New Jersey.

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, 2015, 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. The court in New York has yet to rule on the Company's motions for attachment and summary judgment.

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.

Other 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.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

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

| | High | Low |
|---|---|---|
| 2015 | | |
| First Quarter | $7.88 | $6.52 |
| Second Quarter | $7.42 | $6.18 |
| Third Quarter | $6.63 | $4.58 |
| Fourth Quarter | $5.35 | $3.29 |
| 2014 | | |
| First Quarter | $9.22 | $7.38 |
| Second Quarter | $9.87 | $7.90 |
| Third Quarter | $10.26 | $7.42 |
| Fourth Quarter | $8.60 | $7.22 |

Dividends

As of February 12, 2016, we had approximately 132 common stockholders of record. Most of our outstanding shares of common stock are held of record by one stockholder, Cede & Co., as nominee for the Depository Trust Company. Many brokers, banks and other institutions hold shares of common stock as nominees for beneficial owners that deposit these shares of common stock in participant accounts at the Depository Trust Company. The actual number of beneficial owners of our stock is likely significantly greater than the number of stockholders of record; however, we are unable to reasonably estimate the total number of beneficial owners.

In January 2016, our board of directors decided that the determination of whether to increase, maintain or decrease dividend payments would be made on a quarterly basis during 2016, as opposed to an annual basis as had been done in recent years. Our board of directors evaluates the financial condition of the Company and considers the economic outlook, profitability, corporate cash flow, the Company's liquidity needs and the health and stability of credit markets when determining whether to maintain or change the dividend.

On January 26, 2016, our board of directors declared a quarterly dividend of $0.05 per share of common stock, payable on March 11, 2016 to stockholders of record on March 4, 2016, the record date for the dividend payment.

On January 27, 2015, our board of directors declared a regular quarterly dividend of $0.15 per share of common stock. On March 12, June 12, September 11 and December 11 of 2015, we paid quarterly cash dividends of approximately $24.5 million or $0.15 per share 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 January 29, 2014, our board of directors declared a regular quarterly dividend of $0.15 per share of common stock. On March 12, June 12, September 12 and December 12 of 2014, we paid quarterly cash dividends of approximately $24.1 million or $0.15 per share to stockholders of record on March 5, June 5, September 5 and December 5 of 2014, the record dates for each of the dividend payments, respectively.

Equity Compensation Plan Information

See Part III, Item 12, "Security Ownership of Certain Beneficial Owners and Management and Related Unitholder Matters" for information regarding securities authorized for issuance under equity compensation plans.

Unregistered Sales of Equity Securities and Use of Proceeds

There were no sales of unregistered equity securities during the period covered by this Annual Report.

Comparison of Stockholder Returns

The line graph below compares the cumulative total stockholder return on our common stock between December 31, 2010, and December 31, 2015, with the cumulative total return of (i) the NASDAQ Biotechnology Index and (ii) the NASDAQ Composite Index over the same period. This graph assumes that $100.00 was invested on December 31, 2010, in our common stock at the closing sales price for our common stock on that date and at the closing sales price for each index on that date and that all dividends were reinvested. Stockholder returns over the indicated period should not be considered indicative of future stockholder returns and are not intended to be a forecast.

| | 12/31/2010 | 12/31/2011 | 12/31/2012 | 12/31/2013 | 12/31/2014 | 12/31/2015 |
|---|---|---|---|---|---|---|
| PDL BioPharma, Inc. | $100.00 | $110.05 | $136.24 | $176.21 | $172.12 | $88.46 |
| NASDAQ Biotechnology Index | $100.00 | $113.92 | $153.97 | $263.29 | $348.49 | $369.06 |
| NASDAQ Composite Index | $100.00 | $100.53 | $116.92 | $166.19 | $188.78 | $199.95 |

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

There were no repurchases made in a month within the fourth quarter of the fiscal year covered by this Annual Report.

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial information has been derived from our consolidated financial statements. The information below is not necessarily indicative of the results of future operations and should be read in conjunction with Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” Item 1A, “Risk Factors” and the

consolidated financial statements and related notes thereto included in Item 8, "Financial Statement and Supplementary Data" in order to fully understand factors that may affect the comparability of the information presented below.

Consolidated Statements of Income Data

| | For the Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| (In thousands, except per share data) | 2015 | 2014 | 2013 | 2012 | 2011 |
| Revenues: | | | | | |
| Royalties from Queen et al. patents | $485,156 | $486,888 | $430,219 | $374,525 | $351,641 |
| Royalty rights - change in fair value | 68,367 | 45,742 | 5,565 | — | — |
| Interest revenue | 36,202 | 48,020 | 18,976 | 6,355 | — |
| License and other | 723 | 575 | 1,500 | — | 10,400 |
| Total revenues | 590,448 | 581,225 | 456,260 | 380,880 | 362,041 |
| General and administrative expenses | 36,090 | 34,914 | 29,755 | 25,469 | 18,338 |
| Loss on extinguishment of notes receivable | 3,979 | — | — | — | — |
| Total operating expenses | 40,069 | 34,914 | 29,755 | 25,469 | 18,338 |
| Operating income | 550,379 | 546,311 | 426,505 | 355,411 | 343,703 |
| Non-operating expense, net | (20,241) | (45,039) | (24,629) | (28,278) | (36,275) |
| Income before income taxes | 530,138 | 501,272 | 401,876 | 327,133 | 307,428 |
| Income tax expense | 197,343 | 179,028 | 137,346 | 115,464 | 108,039 |
| Net income | $332,795 | $322,244 | $264,530 | $211,669 | $199,389 |
| Net income per basic share: | | | | | |
| Net income | $2.04 | $2.04 | $1.89 | $1.52 | $1.43 |
| Net income per diluted share: | | | | | |
| Net income | $2.03 | $1.86 | $1.66 | $1.45 | $1.15 |
| Dividends per share: | | | | | |
| Cash dividends declared and paid | $0.60 | $0.60 | $0.60 | $0.60 | $0.60 |

Consolidated Balance Sheet Data

| | December 31, | | | | |
|---|---|---|---|---|---|
| (In thousands) | 2015 | 2014 | 2013 | 2012 | 2011 |
| Cash, cash equivalents, investments and restricted investments | $220,352 | $293,687 | $99,540 | $168,689 | $227,946 |
| Working capital | $245,969 | $167,914 | $(299,727) | $172,511 | $100,506 |
| Total assets | $1,016,178 | $962,350 | $543,955 | $279,966 | $269,471 |
| Long-term obligations, less current portion | $283,485 | $313,930 | $23,042 | $337,614 | $340,737 |
| Retained earnings (accumulated deficit) | $810,036 | $575,740 | $350,151 | $169,634 | $(42,035) |
| Total stockholders' equity (deficit) | $695,952 | $460,437 | $113,489 | $(68,122) | $(204,273) |

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

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 $937 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.

Recent Developments

On December 21, 2015, Direct Flow Medical and PDL entered into a waiver to the credit agreement in anticipation of Direct Flow Medical being unable to comply with the liquidity covenant and make interest payments due under the credit agreement.

On January 14, 2016, both parties agreed to provide Direct Flow Medical with an extension to waive the liquidity covenant and to delay the timing of the interest payments through the period ending January 31, 2016.

On January 28, 2016, PDL funded an additional $5.0 million to Direct Flow Medical in the form of a short-term secured promissory note that we expect will be converted into a loan under the credit agreement with substantially the same interest and payment terms as the existing loans.

The Company completed an impairment analysis as of December 31, 2015. Effective with this date and as a result of the event of default, we ceased to accrue interest revenue. As of December 31, 2015, the estimated fair value of the collateral was determined to be in excess of that 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.

On February 18, 2016, PDL was advised that Sanofi and kaléo will terminate their license and development agreement later this year. At that time, all U.S. and Canadian commercial and manufacturing rights to Auvi-Q® will be returned to kaléo, and they intend to evaluate the timing and options for bringing Auvi-Q back to the market. PDL entered into a secured note purchase agreement with Accel 300, a wholly-owned subsidiary of kaléo, which as of December 31, 2015, had a principal balance of $144.8 million due to PDL. An interest reserve account previously set up as part of the note agreement will substantially cover interest payments due to PDL through the end of the second quarter of 2016, and kaléo has indicated that it intends to make payments due to PDL under the note agreement until Auvi-Q is returned to the market.

2016 Dividends

On January 26, 2016, our board of directors declared a dividend of $0.05 per share of common stock for the first quarter of 2016, payable on March 11, 2016 to stockholders of record on March 4, 2016, the record date for the dividend payment. At the same time our board of directors elected to announce its future dividend plans on a quarter by quarter basis, rather than for the full year as was the previous practice, to allow greater flexibility and focus on long term growth. Our board of directors evaluates the financial condition of the Company and considers the economic outlook, profitability, corporate cash flow, the Company’s liquidity needs and the health and stability of credit markets when determining the dividend, and accordingly there can be no assurances that future dividends will be declared, or if declared, at what rate.

Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with GAAP and the Company's discussion and analysis of its financial condition and operating results require the Company's management to make judgments, assumptions and

estimates that affect the amounts reported in its consolidated financial statements and accompanying notes. Note 2, “Summary of Significant Accounting Policies” of the Notes to Consolidated Financial Statements in Item 8, "Financial Statements and Supplementary Data" describes the significant accounting policies and methods used in the preparation of the Company's consolidated financial statements. Management bases its estimates on historical experience and on various other assumptions it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates and such differences may be material.

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

Queen et al. Royalty Revenues

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

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

Royalty Rights - At Fair Value

We account for our royalty rights - at fair value at their estimated fair value. The estimated fair value of the royalty rights - at fair value is determined by using a discounted cash flow analysis related to the expected future cash flows to be received. Generally these assets are classified as Level 3 assets, as our valuation estimates utilize significant unobservable inputs, including estimates as to the probability and timing of future sales of the related products and discount rates applied to each cash flow in the asset. Related transaction 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 the Consolidated Statement of Income as a single component of revenue under the caption, “Royalty rights - change in fair value.”

We receive royalty payments based upon net sales of the covered products. Generally, under these agreements we receive royalty reports and payments approximately one month in arrears. We recognize royalty revenues when we can reliably estimate such amounts and collectability is reasonably assured.

Foreign Currency Hedging

We hedge certain Euro-denominated currency exposures related to our licensees' product sales with Euro forward contracts. In general, these contracts are intended to offset the underlying Euro market risks in our royalty revenues. We do not enter into speculative foreign currency transactions. We designate foreign currency exchange contracts used to hedge royalty revenues based on underlying Euro-denominated sales as cash flow hedges.

At the inception of the hedging relationship and on a quarterly basis, we assess hedge effectiveness. The fair value of the Euro forward contracts is estimated using pricing models with readily observable inputs from actively quoted markets and is disclosed on a gross basis. The aggregate unrealized gain or loss, net of tax, on the effective portion of the hedge is recorded in stockholders' equity as "Accumulated other comprehensive income (loss)." Gains or losses on cash flow hedges are recognized as an adjustment to royalty revenue in the same period that the hedged transaction impacts earnings. The hedge effectiveness is dependent upon the amounts of future royalties and, if future royalties based on Euro are lower than forecasted, the amount of ineffectiveness would be reported in our Consolidated Statements of Income.

Income Taxes

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

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

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

Notes and Other Long-Term Receivables

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

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 all amounts due according to the existing contractual terms.

When a note receivable or loan is considered to be impaired we cease to accrue or recognize interest revenue. The amount of loss is calculated by comparing the carrying value of the financial asset to the value determined by discounting the expected future cash flows at the loan's effective interest rate. If the loan is collateralized and we expect repayment to be provided solely by the collateral, then the amount of loss is calculated by comparing the carrying value of the financial asset to the estimated fair value of the underlying collateral, less expense to sell.

Convertible Notes

In 2014, we issued the 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 on conversion, we will separate the principal balance between the fair value of the liability component and the common stock conversion feature using a market interest rate for a similar nonconvertible instrument at the date of issuance. Using an assumed borrowing rate of 7.0%, 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.

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

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

Lease Guarantee

In connection with the Spin-Off, we entered into amendments to the leases for our former facilities in Redwood City, California, under which Facet was added as a co-tenant under the leases, and a Co-Tenancy Agreement, under which Facet agreed to indemnify us for all matters related to the leases attributable to the period after the Spin-Off date. Should Facet default under its lease obligations, we could be held liable by the landlord as a co-tenant and, thus, we have in substance guaranteed the payments under the lease agreements for the Redwood City facilities. As of December 31, 2015, the total lease payments for the duration of the guarantee, which runs through December 2021, were approximately $67.7 million. In April 2010, Abbott Laboratories acquired Facet and later renamed the entity AbbVie Biotherapeutics, Inc. If AbbVie 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 recorded a liability of $10.7 million on our Consolidated Balance Sheets as of December 31, 2015 and 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.

Summary of 2015, 2014 and 2013 Financial Results

•

Our net income for the years ended December 31, 2015, 2014 and 2013 was $332.8 million, $322.2 million and $264.5 million, respectively;

- At December 31, 2015, we had cash, cash equivalents and investments of $220.4 million as compared with $293.7 million at December 31, 2014; and

- At December 31, 2015, we had $320.2 million in total liabilities as compared with $501.9 million at December 31, 2014.

Revenues

A summary of our revenues for the years ended December 31, 2015, 2014 and 2013, is presented below:

| (Dollars in thousands) | 2015 | 2014 | Change from Prior Year % | 2013 | Change from Prior Year % |
|---|---|---|---|---|---|
| Revenues: | | | | | |
| Royalties from Queen et al. patents | $485,156 | $486,888 | N/M | $430,219 | 13 % |
| Royalty rights - change in fair value | 68,367 | 45,742 | 49 % | 5,565 | 722 % |
| Interest revenue | 36,202 | 48,020 | (25 )% | 18,976 | 153 % |
| License and other | 723 | 575 | 26 % | 1,500 | (62 )% |
| Total revenues | $590,448 | $581,225 | 2 % | $456,260 | 27 % |

_____

N/M = Not meaningful

Total revenues were $590.4 million, $581.2 million and $456.3 million for the years ended December 31, 2015, 2014 and 2013, respectively. During the years ended December 31, 2015, 2014 and 2013, 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 years ended December 31, 2015, 2014 and 2013, royalty rights - change in fair value consisted of revenues associated with the change in fair value of our royalty right assets, primarily Glumetza, U-M, VB, ARIAD, AcelRx, Avinger, and Janumet XR. During the years ended December 31, 2015, 2014 and 2013, interest revenues consisted of revenues associated with interest income from notes receivable assets, primarily kaléo, Paradigm Spine, and Direct Flow Medical. Over this same time period, our other license-related revenues primarily consisted of realized gains from the sale of AxoGen equity securities on the open market and milestone payments from licensees under our patent license agreements. Revenues for the years ended December 31, 2015, 2014 and 2013, 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.

In the year ended December 31, 2015, we received Queen et al. patent 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. The licensees with commercial products as of December 31, 2015, are listed below:

| Licensee | Product Names |
|---|---|
| Genentech | Avastin<br>Herceptin<br>Xolair<br>Lucentis<br>Perjeta<br>Kadcyla |
| Biogen | Tysabri |
| Chugai | Actemra |
| Roche | Gazyva |
| Takeda | Entyvio |

Under our agreements for the license of rights under our Queen et al. patents, we received a flat-rate or tiered royalty based upon our licensees' net sales of covered products. Royalty payments are generally due one quarter in arrears, that is, generally in the second month of the quarter after the licensee has sold the royalty-bearing product. Until the August 15, 2013, effective date of the Settlement Agreement, our agreement with Genentech provided for a tiered royalty structure under which the royalty rates

Genentech must pay on the U.S.-based Sales in a given calendar year decreased on incremental U.S.-based Sales above certain sales thresholds based on 95% of the underlying gross U.S.-based Sales. As a result of the tiered royalty structure, Genentech's average annual royalty rate for a given year declined as Genentech's U.S.-based Sales increased during that year. Because we received royalties in arrears, the average royalty rate for the payments we received from Genentech in our second calendar quarter were from Genentech's sales from the first calendar quarter. The average royalty rate for payments we received from Genentech are generally lowest in our fourth and first calendar quarters for Genentech's sales from the third and fourth calendar quarters when more of Genentech's U.S.-based Sales bore royalties at the 1% royalty rate. For the years ended December 31, 2015, 2014 and 2013, the blended rate for the full year of royalties from Genentech products was approximately 2.1%, 2.1% and 1.9%, respectively.

The net sales thresholds and the applicable royalty rates for Genentech's U.S.-based Sales recognized by us prior to the Settlement Agreement are outlined below:

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

With respect to the ex-U.S.-based Manufacturing and Sales, prior to August 15, 2013, the royalty rate that we received from Genentech was a fixed rate of 3% based on 95% of the underlying gross ex-U.S.-based Manufacturing and Sales.

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.

For the year ended December 31, 2015, compared to December 31, 2014

Total revenues increased $9.2 million for the year ended December 31, 2015, when compared to the same period in 2014. For the year ended December 31, 2015 compared to the same period in 2014, revenue growth is driven by increased sales of Perjeta, Xolair and Kadcyla by our licensees, an increase in the estimated fair value of the acquired royalty rights from the Company's purchase of Depomed's diabetes-related royalties, as well as a foreign exchange gain and lower rebate paid to Novartis AG for Lucentis. With respect to revenue from our licensees:

- Reported net sales of Avastin were flat compared to the same period for the prior year.

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

- Reported Lucentis net sales decreased $2.4 billion or 77% compared to the same period for the prior year.

- Reported Xolair net sales increased $0.4 billion or 19% compared to the same period for the prior year.

- Reported Kadcyla net sales increased $0.3 billion or 54% compared to the same period for the prior year.

- Reported Perjeta net sales increased $0.6 billion or 63% compared to the same period for the prior year.

For the year ended December 31, 2014, compared to December 31, 2013

Total revenues increased 27% for the year ended December 31, 2014, when compared to the same period in 2013. For the year ended December 31, 2014, compared to the same period in 2013, revenue growth was driven by increased sales of Avastin, Herceptin, Xolair, Perjeta, Kadcyla, Tysabri and Actemra by our licensees, along with a higher fixed royalty rate in 2014 over the blended fixed and tiered rate in 2013, an increase in the fair value of the acquired royalty rights from the Company's purchase of Depomed's diabetes-related royalties, a $29.0 million increase in interest revenue related to acquisitions of new income generating assets, and a $5.0 million retroactive payment in the first quarter of 2014 related to PDL's settlement agreement with Genentech, partially offset by a higher foreign exchange loss and higher rebate paid to Novartis for Lucentis. With respect to revenue from our licensees:

- Reported net sales of Avastin increased $0.5 billion or 7% compared to the same period for the prior year.

- Reported net sales of Herceptin increased $0.4 billion or 6% compared to the same period for the prior year.

- Reported Lucentis net sales increased $1.6 billion or 33% compared to the same period for the prior year.

- Reported net sales of Xolair increased $0.4 billion or 24% compared to the same period for the prior year.

- Reported Kadcyla net sales increased $0.3 billion or 184% compared to the same period for the prior year.

- Reported Perjeta net sales increased $0.6 billion or 263% compared to the same period for the prior year.

The following table summarizes the percentage of our total revenues earned from our licensees' net product sales, which individually accounted for 10% or more of our total revenues for the years ended December 31, 2015, 2014 and 2013:

| | | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|---|
| Licensee | Product Name | 2015 | | 2014 | | 2013 | |
| Genentech | Avastin | 27 | % | 27 | % | 32 | % |
| | Herceptin | 26 | % | 27 | % | 31 | % |
| | Lucentis | 1 | % | 5 | % | 10 | % |
| Biogen | Tysabri | 9 | % | 10 | % | 11 | % |

Foreign currency exchange rates also impact our reported revenues. 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 the U.S. dollar, if the U.S. dollar strengthens across all currencies by 10% during the conversion period for that quarter, when compared to the same amount of local currency royalties for the prior year, U.S. dollar-converted royalties will be approximately $3.5 million less in the current quarter than in the prior year quarter.

For the year ended December 31, 2015, 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 (loss)." Gains or losses on cash flow hedges are recognized as an adjustment to royalty revenue in the same period that the hedged transaction impacts earnings. For the years ended December 31, 2015, 2014 and 2013, we recognized income of $8.3 million, cost of ($5.8) million and cost of ($2.3) million in royalty revenues from our Euro forward contracts, respectively.

Operating Expenses

A summary of our operating expenses for the years ended December 31, 2015, 2014 and 2013, is presented below:

| (Dollars in thousands, except for percentages) | 2015 | 2014 | Change from Prior Year % | 2013 | Change from Prior Year % |
|---|---|---|---|---|---|
| General and administrative | $36,090 | $34,914 | 3 % | $29,755 | 17 % |
| Loss on extinguishment of notes receivable | 3,979 | — | 100 % | $— | N/M |
| Total operating expenses | $40,069 | $34,914 | 15 % | $29,755 | 17 % |
| Percentage of total revenues | 7 % | 7 % | | 7 % | |

N/M = Not meaningful

For the year ended December 31, 2015, compared to December 31, 2014

The increase in operating expenses was a result of total restructuring costs of $7.9 million in connection with the LENSAR notes receivable extinguishment, which is comprised of a loss on extinguishment of notes receivable of $4.0 million primarily related to a lower estimated fair value of the Alphaeon Class A common stock, and additional general and administrative expenses of $3.9 million for closing and legal fees related to the LENSAR notes receivable restructuring, and other legal expenses mostly related to $1.2 million in funding the ongoing operations of Wellstat Diagnostics, partially offset by a decrease in professional services from asset acquisition expenses.

For the year ended December 31, 2014, compared to December 31, 2013

The increase in operating expenses was a result of an increase in general and administrative expenses of $10.2 million for professional services mostly related to the acquisition of other revenue related assets of which $6.2 million was for the ongoing operations of Wellstat Diagnostics, and $4.1 million for compensation, partially offset by a decrease in general and administrative expenses of $9.1 million related to legal expenses mostly related to litigation.

Non-Operating Expense, Net

A summary of our non-operating expense, net, for the years ended December 31, 2015, 2014 and 2013, is presented below:

| (Dollars in thousands) | 2015 | 2014 | Change from Prior Year % | 2013 | Change from Prior Year % |
|---|---|---|---|---|---|
| Interest and other income, net | $368 | $315 | 17 % | $242 | 30 % |
| Interest expense | (27,059) | (39,211) | (31)% | (24,871) | 58 % |
| Gain (loss) on extinguishment of debt | 6,450 | (6,143) | (205)% | — | N/M |
| Total non-operating expense, net | $(20,241) | $(45,039) | (55)% | $(24,629) | 83 % |

N/M = Not meaningful

For the year ended December 31, 2015, compared to December 31, 2014

Non-operating expense, net, decreased, in part, due to the Series 2012 Notes and May 2015 Notes extinguishment and partial extinguishment of the February 2018 Notes during 2015.

For the year ended December 31, 2014, compared to December 31, 2013

Non-operating expense, net, increased, in part, due to the first quarter 2014 loss on extinguishment of debt related to the Series 2012 Notes partial extinguishment and the interest expense on the new February 2018 Notes. The increase in interest expense 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 years ended December 31, 2015, 2014, and 2013, was $197.3 million, $179.0 million and $137.3 million, respectively, which resulted primarily from applying the federal statutory income tax rate to income before income taxes.

During 2015, as a result of the evaluation of our uncertain tax positions, we increased the unrecognized tax benefits by $10.0 million primarily related to state items. The future impact of the unrecognized tax benefits of $57.1 million, if recognized, comprises $33.4 million, which would affect the effective tax rate, and $23.7 million, which would result in adjustments to deferred tax assets.

Estimated interest and penalties associated with unrecognized tax benefits increased our income tax expense in the Consolidated Statements of Income by $2.3 million during the year ended December 31, 2015, increased income tax expense by $1.3 million during the year ended December 31, 2014, and increased income tax expense by $0.7 million during the year ended December 31, 2013. In general, our income tax returns are subject to examination by U.S. federal, state and local tax authorities for tax years 1996 forward. Interest and penalties associated with unrecognized tax benefits accrued on the balance sheet were $5.1 million and $2.8 million as of December 31, 2015 and 2014, respectively. 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, 2010, 2011 and 2012. 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 years ended December 31, 2015, 2014 and 2013, is presented below:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Net income per basic share | $2.04 | $2.04 | $1.89 |
| Net income per diluted share | $2.03 | $1.86 | $1.66 |

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 investments in the aggregate of $220.4 million and $293.7 million at December 31, 2015 and 2014, respectively. The decrease was primarily attributable to the extinguishment of convertible notes of $220.4 million, purchase of royalty rights at fair value of $115.0 million, payment of dividends of $98.3 million, repayment of a portion of the March 2015 Term Loan of $75.0 million, purchase of notes receivable of $35.2 million, and payment of debt issuance costs related to the February 2018 Note issuance of $0.6 million, partially offset by proceeds from the March 2015 Term Loan of $100.0 million, proceeds from royalty rights of $43.4 million, repayment of notes receivables of $25.2 million, sale of investments of $1.9 million, and cash generated by operating activities of $301.5 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 income 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 income generating assets will result in cash flows to us, in the near term, that will replace the cashflows we received from our license agreements related to the Queen et al. patents. In the second quarter of 2016, our cashflows are likely to materially decrease after we stop receiving payments from these Queen et al. patents license agreements, which accounted for 82% of our 2015 revenues. The continued success of the Company will become significantly more dependent on the timing and

our ability to acquire new income generating assets in order to provide recurring cashflows 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 26, 2016, our board of directors declared a quarterly dividend of $0.05 per share of common stock, payable on March 11, 2016 to stockholders of record on March 4, 2016, the record date for the dividend payments.

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.

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 was made in the third quarter of 2015. PDL has submitted a credit bid for the Wellstat Diagnostic's assets at a value corresponding to some portion of the outstanding amount due under the amended and restated credit

agreement which is subject to court approval. We anticipate that the sale process will be completed during the second quarter of 2016.

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. The court in New York has yet to rule on the Company's motions for attachment and summary judgment.

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 December 31, 2015, PDL has advanced to Wellstat Diagnostics $12.9 million to fund the ongoing operations of the business and other associated costs. This funding has been expensed as incurred. As of December 31, 2015, PDL is legally owed $94.1 million, which includes principal, un-accrued interest, and funding of operations.

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 December 31, 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's credit bid for the assets is successful.

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 each of March 5, 2013 and 2014. The first payment of $1.2 million was paid on March 5, 2013, but Hyperion has not made the second payment that was due on March 5, 2014.

AxoGen Note Receivable and AxoGen Royalty Agreement

In October 2012, PDL entered into the AxoGen Royalty Agreement with AxoGen pursuant to which PDL 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.

At the same time, 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 Consolidated Balance Sheets. In the third and fourth quarters of 2015, PDL sold 200,000 and 149,650 shares, respectively, at a price range between $5.46 to $5.69 per share, totaling approximately $1.9 million.

As of December 31, 2015, PDL holds 293,732 shares of AxoGen common stock, which were valued at $1.5 million, which resulted in an unrealized gain of $0.7 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 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 note 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 receives a low, single-digit royalty on Avinger's net revenues until April 2018. Commencing in October 2015, after Avinger repaid the note receivable prior to its maturity date, the royalty on Avinger's net revenues reduced by 50%, 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.

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 remaining $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.

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 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. 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 agreed to fund LENSAR's operations while LENSAR continued to negotiate a potential sale of its assets.

On November 15, 2015, Lion Buyer, a wholly owned subsidiary of Alphaeon, and LENSAR entered into the Asset Purchase Agreement whereby Lion Buyer agreed to acquire substantially all the assets and assumed certain liabilities of LENSAR subject to the satisfaction of certain closing conditions. The acquisition later closed on December 15, 2015.

In connection with the closing of the acquisition, Lion Buyer entered into an amended and restated credit agreement with PDL, assuming $42.0 million in loans as part of the borrowings under PDL’s prior credit agreement with LENSAR and changed its name to LENSAR, LLC. In addition, Alphaeon issued 1.7 million shares of its Class A common stock to PDL.

Under the terms of the amended and restated credit agreement, PDL has a first lien security interest in substantially all of the assets of New LENSAR. The loans bear interest of 15.5% per annum, payable quarterly in arrears. New LENSAR may elect to pay in kind interest the first three interest payments in the form of additional principal amount added to the loans. The principal repayment will commence on the ninth interest payment date. The principal amount outstanding at commencement of repayment will be repaid in equal installments until final maturity of the loans which is December 15, 2020.

PDL concluded that the amendment and restatement of the original LENSAR credit agreement shall be accounted for as a troubled debt restructuring due to the concession granted by PDL and LENSAR's financial difficulties. PDL has recognized a loss on the debt restructuring of $4.0 million and expensed $3.0 million of closing fees as incurred at closing on December 15, 2015.

We have estimated a fair value of $3.84 per share for the 1.7 million shares of Alphaeon Class A common stock received in connection with the restructuring and recognized this investment at a cost-method investment within other long-term asset. The Class A common stock in ALPHAEON is subject to other-than-temporary impairment assessments in future periods.

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 with 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 this 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 12th 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.

On December 21, 2015, Direct Flow Medical and PDL entered into a waiver to the credit agreement in anticipation of Direct Flow Medical being unable to comply with the liquidity covenant and make interest payments due under the credit agreement.

On January 14, 2016, both parties agreed to provide Direct Flow Medical with an extension to waive the liquidity covenant and delay the timing of the interest payments through the period ending January 31, 2016.

On January 28, 2016, PDL funded an additional $5.0 million to Direct Flow Medical in the form of a short-term secured promissory note that we expect will be converted into a loan under the credit agreement with substantially the same interest and payment terms as the existing loans.

The Company completed an impairment analysis as of December 31, 2015. Effective with this date and as a result of the event of default, we determined the loan to be impaired and we ceased to accrue interest revenue. As of December 31, 2015, the estimated fair value of the collateral was determined to be in excess of that 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.

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.

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.

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 12th interest payment date, December 31, 2016. The principal amount outstanding at commencement of repayment will be repaid in equal installments until final maturity of the loans. The loans will mature on February 14, 2019. Paradigm Spine may elect to prepay the loans at any time, subject to a prepayment penalty that decreases over the life of the loans. The obligations under the Paradigm Spine Credit Agreement are secured by a pledge of substantially all of the assets of Paradigm Spine and its domestic subsidiaries and, initially, certain assets of Paradigm Spine’s German subsidiaries.

kaléo Note Purchase Agreement

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

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

As of December 31, 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. Subsequent to the recall, kaléo made a full and timely payment of $9.5 million, which included all principal and interest due in the fourth quarter of 2015.

On February 18, 2016, PDL was advised that Sanofi and kaléo will terminate their license and development agreement later this year. At that time, all U.S. and Canadian commercial and manufacturing rights to Auvi-Q® will be returned

to kaléo, and they intend to evaluate the timing and options for bringing Auvi-Q back to the market.

As part of our financing transaction, kaléo was required to establish an interest reserve account of $20.0 million from the $150.0 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 substantially through the second quarter of 2016. kaléo has indicated that it intends to make payments due to PDL under the note agreement until Auvi-Q is returned to the market.

PDL will monitor the timing and options for bringing Auvi-Q back to the market and how it may impact the ability of kaléo to meet its obligations under the note purchase agreement, 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 December 31, 2015, we determined an estimated fair value of the warrant of $1.0 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 N.V. 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 receives 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 December 31, 2015 and 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 seven-year period. The discount rates utilized range from approximately 21% to 25%. Significant judgment is required in selecting appropriate discount rates. At December 31, 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 2.5%, the fair value of the asset could decrease by $7.7 million or increase by $8.7 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. In February 2016, certain manufacturers of generic equivalents to Glumetza started to enter the market. Our current expected future cash flows anticipate a reduction in future cash flows of Glumetza as a result of the generic competition in 2016. Should the expected royalties increase or decrease by 2.5%, the fair value of the asset could increase by $4.1 million or decrease by $3.9 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. 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 December 31, 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 not be able to fully assess the impact of the acquisition or price increase on sales of Glumetza and thus royalties on such sales paid to PDL. PDL exercised its audit right under the Depomed Royalty Agreement with respect to the Glumetza royalties in January 2016 and expects to conclude the audit in the second half of 2016.

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 PMA in exchange for a $15.5 million cash payment, less fees.

The royalty acquired includes royalties accruing from and after April 1, 2014. Under the terms of the VB Royalty Agreement, the Company receives 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 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 royalty right at December 31, 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 an eight-year period. The discount rate utilized was approximately 17.5%. Significant judgment is required in selecting the appropriate discount rate. Should this discount rate increase or decrease by 2.5%, the fair value of this asset could decrease by $1.3 million or increase by $1.4 million, respectively. Should the expected royalties increase or decrease by 2.5%, the fair value of the asset could increase by $0.4 million or decrease by $0.4 million, respectively. A third-party expert was 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.

U-M Royalty Agreement

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

The fair value of the royalty right at December 31, 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 12.8%. Significant judgment is required in selecting the appropriate discount rate. Should this discount rate increase or decrease by 2.5%, the fair value of this asset could decrease by $5.8 million or increase by $6.6 million, respectively. Should the expected royalties increase or decrease by 2.5%, the fair value of the asset could increase by $1.8 million or decrease by $1.8 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. 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 of those estimates, discount rates utilized and general market conditions affecting fair market value.

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 receives 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 in 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 December 31, 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 2.5%, the fair value of this asset could decrease by $8.0 million or increase by $9.2 million, respectively. Should the expected royalties increase or decrease by 2.5%, the fair value of the asset could increase by $1.3 million or decrease by $1.3 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.

At each reporting period, an evaluation of those estimates, discount rates utilized and general market conditions affecting fair market value.

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 December 31, 2015, 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 December 31, 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 2.5%, the fair value of this asset could decrease by $10.2 million or increase by $12.8 million, respectively. Should the expected royalties increase or decrease by 2.5%, the fair value of the asset could increase by $1.7 million or decrease by $1.7 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 of those estimates, discount rates utilized and general market conditions affecting fair market value.

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.

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 was entitled to receive royalties at a rate of 1.8% on Avinger's net revenues until the note was repaid by Avinger. Upon repayment of the note receivable,

which occurred on September 22, 2015, the royalty rate was reduced to 0.9%, subject to certain minimum payments from the prepayment date until April 2018. The Company has accounted for the royalty rights in accordance with the fair value option. The fair value of the royalty right at December 31, 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 $135,000 or increase by $151,000, respectively. Should the expected royalties increase or decrease by 5%, the fair value of the asset could increase by $127,000 or decrease by $127,000, 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 and Term Loans

Series 2012 Notes

We have actively worked to restructure the Company's capital and reduce the potential dilution associated with our convertible notes. As part of those efforts, in January 2012, we exchanged $169.0 million aggregate principal of new Series 2012 Notes for an identical principal amount of the February 2015 Notes, plus a cash payment of $5.00 for each $1,000 principal amount tendered, totaling approximately $845,000. The cash 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 were recognized over the life of the Series 2012 Notes as interest expense. In February 2012, we entered into separate privately negotiated exchange agreements under which we exchanged an additional $10.0 million aggregate principal amount of the new Series 2012 Notes for an identical principal amount of the 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 outstanding February 2015 Notes. Pursuant to the exchange agreement, the February 2015 Notes were exchanged for $1.0 million aggregate principal amount of the 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 agreements and purchase agreements with certain holders of approximately $131.7 million aggregate principal amount of outstanding Series 2012 Notes. The exchange agreements 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 agreements 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 Series 2012 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 de-recognition 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 that was 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 paid 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 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.

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. Under the terms of the warrant agreement, the warrant counterparties had the option to 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 PDL's common stock exceeded the strike price of the warrants on the date of conversion. Because the VWAP our common stock never exceeded the strike price of the warrants, PDL did not deliver any common stock to the warrant counterparties.

The purchased call option transactions and warrant sales effectively served to reduce the potential dilution associated with conversion of our May 2015 Notes. The strike price was approximately $6.15, subject to further adjustment upon certain events including dividend payments, for the warrants.

Because the share price was above $5.23, but below $6.15, 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.

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 December 31, 2015 and 2014, there were no related warrants exercised.

February 2018 Notes

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

On November 20, 2015, PDL's agent initiated the repurchase of $53.6 million in aggregate principal amount of its February 2018 Notes for $43.7 million in cash in four open market transactions. The closing of these transactions occurred on November 30, 2015.

It was determined that the repurchase of the principal amount shall be accounted for as an extinguishment. As a result, a gain on extinguishment of $6.5 million was recorded at closing of the transaction. The $6.5 million gain on extinguishment included the de-recognition of the original issuance discount of $3.1 million, outstanding deferred issuance costs of $0.9 million and agent fees of $0.1 million. Immediately following the repurchase, $246.4 million principal amount of the February 2018 Notes was outstanding with $14.1 million of remaining original issuance discount and $4.1 million of debt issuance costs to be amortized over the remaining life of the February 2018 Notes. As of December 31, 2015, our February 2018 Notes are not convertible. At December 31, 2015, the if-converted value of our February 2018 Notes did not exceed the principal amount.

In connection with the repurchase of the February 2018 Notes, the Company and the counterparties agreed to unwind a portion of the purchased call options. As result of the unwind transaction of the purchased call option, PDL received $270,000 in cash. The payments received have been recorded as an increase to APIC. In addition, the Company and the counterparties agreed to unwind a portion of the warrants for $170,000 in cash, payable by PDL. The payments have been recorded as a decrease to APIC. At

December 31, 2015, PDL concluded that the remaining 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 were, 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 December 31, 2015, the interest rate, based upon the adjusted Eurodollar rate, was 2.17%. Interest payments under the credit agreement were due on the interest payment dates specified in the credit agreement.

The credit agreement required amortization of the term loan 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. This principal balance and outstanding interest was paid in full on February 12, 2016.

The Company's obligations under the credit agreement were secured by a lien on a substantial portion of its assets.

The credit agreement contained affirmative and negative covenants that the Company believed were usual and customary for a senior secured credit agreement. The credit agreement also required 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 contained events of default that the Company believed were 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 December 31, 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 Loan

As of December 31, 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 $271.4 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. 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 tranche funded on the closing date of the ARIAD Royalty Agreement and the remaining $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.

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

| | | Payments Due by Period | | | |
|---|---|---|---|---|---|
| (In thousands) | | Less Than 1 Year | 1-3 Years | More than 3 Years | Total |
| Operating leases | (1) | $221 | $85 | $— | $306 |
| Convertible notes | (2) | 9,858 | 257,126 | — | 266,984 |
| Term Loan | (3) | 25,068 | — | — | 25,068 |
| Notes receivable | (4) | 3 | 20,000 | — | 20,003 |
| Royalty rights | (4) | 150,000 | — | — | 150,000 |
| Total contractual obligations | | $185,150 | $277,211 | $— | $462,361 |

(1) Amounts represent the lease for our headquarters in Incline Village, Nevada and operating leases for office equipment.
(2) Amounts represent principal and cash interest payments due on the convertible notes.
(3) Amounts represent principal and cash interest payments due on the term loan. This principal balance and outstanding interest was paid in full on February 12, 2016.
(4) Amounts represent tranche to be paid upon future actions as described above.

51

Lease Guarantee

In connection with the Spin-Off of Facet, we entered into amendments to the leases for our former facilities in Redwood City, California, under which Facet was added as a co-tenant, and a Co-Tenancy Agreement, under which Facet agreed to indemnify us for all matters related to the leases attributable to the period after the Spin-Off date. For further information, see "Critical Accounting Policies and Estimates-Lease Guarantee" above.

Recent Accounting Pronouncements

See “Note 2. Summary of Significant Accounting Policies” of the Notes to Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data” for a full description of recent accounting pronouncements including the respective expected dates of adoption and estimated effects, if any on our consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Risk

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

We hedge Euro-denominated risk exposures related to our licensees’ product sales with Euro forward contracts. 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 fourth quarter of 2014, we entered into Euro forward contracts to hedge our forecasted exposure to the Euro for 2015 royalties.

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 hedge or lower than forecasted Euro-based royalties will be reclassified from "Other comprehensive income (loss), net" 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 forward contracts designated as hedges at December 31, 2015 and 2014:

| Euro Forward Contracts | | | December 31, 2015 (in thousands) | | December 31, 2014 (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 | 16,500 | 2,802 | 33,000 | 1,468 |
| Euro | 1.270 | Sell Euro | — | — | 7,000 | 377 |
| Euro | 1.281 | Sell Euro | — | — | 8,000 | 503 |
| Total | | | $16,500 | $2,802 | $85,875 | $4,069 |

Interest Rate Risk

Our investment portfolio was approximately $96.3 million at December 31, 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 $197.9 million at December 31, 2015, and $490.0 million at December 31, 2014, based on available pricing information. At December 31, 2015, our convertible notes consisted of the February 2018 Notes, with a fixed interest rate of 4.0%. At December 31, 2014, our convertible notes also consisted of the Series 2012 Notes, with a fixed interest rate of 2.875% and the 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 interest rates.

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

| (In thousands) | 2016 | 2017 | 2018 | Total | Fair Value | |
|---|---|---|---|---|---|---|
| Convertible notes | | | | | | |
| Fixed Rate | $— | $— | $246,447 | $246,447 | $197,946 | (1) |
| Average Interest Rate | — % | — % | 4.00 % | | | |

(1) The fair value of the remaining payments under our February 2018 Notes was estimated based on the trading value of these notes at December 31, 2015.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, stockholders' equity (deficit) and cash flows present fairly, in all material respects, the financial position of PDL BioPharma, Inc. and its subsidiaries at December 31, 2015 and December 31, 2014, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

/s/ PRICEWATERHOUSECOOPERS LLP

San Jose, California

February 22, 2016

55

Report of ERNST & YOUNG LLP, Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated statements of income, comprehensive income, stockholders' equity (deficit) and cash flows of PDL BioPharma, Inc. for the year ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated results of PDL BioPharma, Inc.'s operations and its cash flows for the year ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

/s/ ERNST & YOUNG LLP

Redwood City, California
March 3, 2014

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

| | December 31, 2015 | 2014 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $218,883 | $291,377 |
| Short-term investments | 1,469 | 2,310 |
| Receivables from licensees and other | — | 300 |
| Deferred tax assets | 981 | 375 |
| Notes receivable | 58,398 | 57,597 |
| Prepaid and other current assets | 2,979 | 3,938 |
| Total current assets | 282,710 | 355,897 |
| Property and equipment, net | 31 | 62 |
| Royalty rights - at fair value | 399,204 | 259,244 |
| Notes and other receivables, long-term | 306,507 | 305,615 |
| Long-term deferred tax assets | 16,172 | 33,799 |
| Other assets | 11,554 | 7,733 |
| Total assets | $1,016,178 | $962,350 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | $394 | $318 |
| Accrued liabilities | 8,009 | 8,876 |
| Accrued income taxes | 3,372 | 3,293 |
| Term loan payable | 24,966 | — |
| Convertible notes payable-current | — | 175,496 |
| Total current liabilities | 36,741 | 187,983 |
| Convertible notes payable | 232,835 | 276,228 |
| Other long-term liabilities | 50,650 | 37,702 |
| Total liabilities | 320,226 | 501,913 |
| Commitments and contingencies (Note 10) | | |
| 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; 164,287 and 162,186 shares issued and outstanding at December 31, 2015 and 2014, respectively | 1,643 | 1,622 |
| Additional paid-in capital | (117,983) | (119,874) |
| Accumulated other comprehensive income | 2,256 | 2,949 |
| Retained earnings | 810,036 | 575,740 |
| Total stockholders' equity | 695,952 | 460,437 |
| Total liabilities and stockholders' equity | $1,016,178 | $962,350 |

See accompanying notes.

57

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Revenues: | | | |
| Royalties from Queen et al. patents | $485,156 | $486,888 | $430,219 |
| Royalty rights - change in fair value | 68,367 | 45,742 | 5,565 |
| Interest revenue | 36,202 | 48,020 | 18,976 |
| License and other | 723 | 575 | 1,500 |
| Total revenues | 590,448 | 581,225 | 456,260 |
| Operating expenses | | | |
| General and administrative | 36,090 | 34,914 | 29,755 |
| Loss on extinguishment of notes receivable | 3,979 | — | — |
| Total operating expenses | 40,069 | 34,914 | 29,755 |
| Operating income | 550,379 | 546,311 | 426,505 |
| Non-operating expense, net | | | |
| Interest and other income, net | 368 | 315 | 242 |
| Interest expense | (27,059) | (39,211) | (24,871) |
| Gain (loss) on extinguishment of debt | 6,450 | (6,143) | — |
| Total non-operating expense, net | (20,241) | (45,039) | (24,629) |
| Income before income taxes | 530,138 | 501,272 | 401,876 |
| Income tax expense | 197,343 | 179,028 | 137,346 |
| Net income | $332,795 | $322,244 | $264,530 |
| Net income per share | | | |
| Basic | $2.04 | $2.04 | $1.89 |
| Diluted | $2.03 | $1.86 | $1.66 |
| Weighted average shares outstanding | | | |
| Basic | 163,386 | 158,224 | 139,842 |
| Diluted | 163,554 | 173,110 | 159,343 |
| Cash dividends declared per common share | $0.60 | $0.60 | $0.60 |

See accompanying notes.

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Net income | $332,795 | $322,244 | $264,530 |
| 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 | 783 | (745) | 1,122 |
| Adjustment for net (gains) losses realized and included in net income, net of tax | (712) | (20) | — |
| Total change in unrealized gains on investments in available-for-sale securities, net of tax[a] | 71 | (765) | 1,122 |
| Change in unrealized losses on cash flow hedges: | | | |
| Change in fair value of cash flow hedges, net of tax | 4,626 | 4,834 | (2,432) |
| Adjustment to royalties from Queen et al. patents for net (gains) losses realized and included in net income, net of tax | (5,390) | 3,768 | 1,510 |
| Total change in unrealized losses on cash flow hedges, net of tax[b] | (764) | 8,602 | (922) |
| Total other comprehensive income (loss), net of tax | (693) | 7,837 | 200 |
| Comprehensive income | $332,102 | $330,081 | $264,730 |

[a] Net of tax of $38, ($412) and $604 for the years ended December 31, 2015, 2014 and 2013, respectively.
[b] Net of tax of ($411), $4,632 and ($496) for the years ended December 31, 2015, 2014 and 2013, respectively.

See accompanying notes.

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

| | Common Stock | | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total Stockholders' Equity (Deficit) |
|---|---|---|---|---|---|---|
| | Shares | Amount | | | | |
| Balance at December 31, 2012 | 139,816,259 | $1,398 | $(234,066) | $169,634 | $ (5,088) | $ (68,122) |
| Issuance of common stock under employee benefit plans | 118,310 | 1 | (1) | — | — | — |
| Stock-based compensation expense | — | — | 872 | — | — | 872 |
| Tax benefit from stock options | — | — | 22 | — | — | 22 |
| Dividends declared | — | — | — | (84,013) | — | (84,013) |
| Comprehensive income: | | | | | | |
| Net income | — | — | — | 264,530 | — | 264,530 |
| Change in unrealized gains and losses on investments in available-for-sale securities, net of tax | — | — | — | — | 1,122 | 1,122 |
| Changes in unrealized gains and losses on cash flow hedges, net of tax | — | — | — | — | (922) | (922) |
| Total comprehensive income | | | | | | 264,730 |
| Balance at December 31, 2013 | 139,934,569 | 1,399 | (233,173) | 350,151 | (4,888) | 113,489 |
| Issuance of common stock under employee benefit plans | 148,882 | 2 | (2) | — | — | — |
| Issuance of common stock for convertible debt | 22,103,031 | 221 | (221) | — | — | — |
| Extinguishment of convertible debt | — | — | 102,134 | — | — | 102,134 |
| Issuance of convertible debt | — | — | 18,689 | — | — | 18,689 |
| Purchase of purchased call options, net of tax | — | — | (20,118) | — | — | (20,118) |
| Proceeds from the sale of warrants | — | — | 11,427 | — | — | 11,427 |
| Stock-based compensation expense | — | — | 1,501 | — | — | 1,501 |
| Tax benefit from stock options | — | — | (111) | — | — | (111) |
| Dividends declared | — | — | — | (96,655) | — | (96,655) |
| Comprehensive income: | | | | | | |
| Net income | — | — | — | 322,244 | — | 322,244 |
| Change in unrealized gains and losses on investments in available-for-sale securities, net of tax | — | — | — | — | (765) | (765) |
| Changes in unrealized gains and losses on cash flow hedges, net of tax | — | — | — | — | 8,602 | 8,602 |
| Total comprehensive income | | | | | | 330,081 |
| Balance at December 31, 2014 | 162,186,482 | 1,622 | (119,874) | 575,740 | 2,949 | 460,437 |
| Issuance of common stock under employee benefit plans | 758,533 | 8 | (8) | — | — | — |
| Extinguishment of convertible debt | 1,341,600 | 13 | 87 | — | — | 100 |
| Stock-based compensation expense | — | — | 2,045 | — | — | 2,045 |
| Tax benefit from stock options | — | — | (233) | — | — | (233) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Dividends declared | — | — | — | (98,499) | — | (98,499) |
| Comprehensive income: | | | | | | |
| Net income | — | — | — | 332,795 | — | 332,795 |
| Change in unrealized gains and losses on investments in available-for-sale securities, net of tax | — | — | — | — | 71 | 71 |
| Changes in unrealized gains and losses on cash flow hedges, net of tax | — | — | — | — | (764) | (764) |
| Total comprehensive income | | | | | | 332,102 |
| Balance at December 31, 2015 | 164,286,615 | $1,643 | $(117,983) | $810,036 | $ 2,256 | $ 695,952 |

See accompanying notes.

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Cash flows from operating activities | | | |
| Net income | $332,795 | $322,244 | $264,530 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Amortization of convertible notes and term loan offering costs | 12,963 | 18,696 | 13,320 |
| Change in fair value of royalty rights - at fair value | (68,367) | (44,927) | 5,637 |
| Change in fair value of derivative asset | (985) | — | — |
| Other amortization, depreciation and accretion of embedded derivative | 40 | (134) | (404) |
| Loss on extinguishment of notes receivable | 3,979 | — | — |
| (Gain) loss on extinguishment of convertible notes | (6,450) | 6,143 | — |
| Hedge ineffectiveness on foreign exchange contracts | — | (5) | (11) |
| Gain on sale of investments | (997) | (30) | — |
| Stock-based compensation expense | 2,045 | 1,501 | 872 |
| Net excess tax benefit from stock-based compensation | — | — | (22) |
| Deferred income taxes | 17,251 | (19,842) | (999) |
| Changes in assets and liabilities: | | | |
| Receivables from licensees and other | 300 | — | 66 |
| Prepaid and other current assets | (42) | 2,126 | 387 |
| Accrued interest on notes receivable | (2,246) | (6,800) | (9,530) |
| Other assets | (865) | (63) | 264 |
| Accounts payable | 76 | 31 | (787) |
| Accrued liabilities | (1,048) | 4,343 | (1,447) |
| Accrued income taxes | 79 | 3,293 | — |
| Other long-term liabilities | 12,937 | 5,705 | (2,131) |
| Net cash provided by operating activities | 301,465 | 292,281 | 269,745 |
| Cash flows from investing activities | | | |
| Purchases of investments | — | (1,750) | (9,875) |
| Maturities of investments | 1,947 | 3,530 | 43,780 |
| Purchase of royalty rights - at fair value | (115,000) | (81,100) | (241,314) |
| Proceeds from royalty rights - at fair value | 43,407 | 102,460 | — |
| Purchase of notes receivable | (35,235) | (230,000) | (148,708) |
| Repayment of notes receivable | 25,242 | 68,800 | 59,279 |
| Purchase of property and equipment | (9) | (49) | (2) |
| Net cash used in investing activities | (79,648) | (138,109) | (296,840) |
| Cash flows from financing activities | | | |
| Proceeds from term loan | 100,000 | — | 74,169 |
| Repayment of term loan | (75,000) | (75,000) | — |
| Repurchase of convertible notes | (220,397) | (56,191) | — |
| Payment of debt issuance costs | (607) | (9,825) | — |
| Proceeds from the issuance of convertible notes | — | 300,000 | — |
| Purchase of call options | — | (30,951) | — |
| Proceeds from issuance of warrants | — | 11,427 | — |

| | | | |
|---|---|---|---|
| Cash dividends paid | (98,307) | (96,557) | (84,006) |
| Excess tax benefit from stock-based compensation | — | — | 22 |
| Net cash provided by (used in) financing activities | (294,311) | 42,903 | (9,815) |
| Net increase (decrease) in cash and cash equivalents | (72,494) | 197,075 | (36,910) |
| Cash and cash equivalents at beginning of the year | 291,377 | 94,302 | 131,212 |
| Cash and cash equivalents at end the year | $218,883 | $291,377 | $94,302 |

See accompanying notes

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Supplemental cash flow information | | | |
| Cash paid for income taxes | $168,000 | $189,000 | $139,000 |
| Cash paid for interest | $16,987 | $18,439 | $10,997 |
| Stock issued to settle debt | $9,794 | $171,879 | $— |
| Conversion of notes receivable to common stock investment | $6,567 | $— | $— |

See accompanying notes

PDL BIOPHARMA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015

1. Organization and Business

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 $937 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.

In the year ended December 31, 2015, the Company received Queen et al. patent 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 |

Prior to December 2008, the Company's business included biotechnology operations, which were focused on the discovery and development of novel antibodies that the Company spun off to Facet. In April 2010, Abbott Laboratories acquired Facet and later renamed the company Abbott Biotherapeutics Corp. In January 2013, Abbott Biotherapeutics, Corp. was renamed AbbVie Biotherapeutics, Inc. and spun off from Abbott as a subsidiary of AbbVie Inc.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Consolidated Financial Statements have been prepared in accordance with GAAP and under the rules and regulations of the SEC. 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.

Principles of Consolidation

The Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiary, QHP Royalty Sub LLC. All material intercompany balances and transactions are eliminated in consolidation.

Management Estimates

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

Segment Disclosures

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

Cash Equivalents

We consider all highly liquid investments with initial maturities of three months or less at the date of purchase to be cash equivalents. We place our cash and cash equivalents with high credit quality financial institutions and, by policy, limit the amount of credit exposure in any one financial instrument.

Investments

The Company's investments include cost method investments and available-for-sale investments in certain publicly traded companies and privately-held companies.

Cost method is used for investments over which the Company does not have the ability to exercise significant influence. Gains or losses are realized when such investments are sold or when dividends are declared or payments are received. See Note 7.

Available-for-sale securities are reported at fair value, with unrealized gains and losses recorded in "Accumulated other comprehensive income." See Note 5.

Fair Value Measurements

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

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

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

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

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 effective 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 effected 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 all 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 fair value of the collateral.

Convertible Notes

The Company issued our Series 2012 Notes, May 2015 Notes and our 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 on conversion, we separated the principal balance between the fair value of the liability component and the common stock conversion feature using a market interest rate for a similar nonconvertible instrument at the date of issuance.

Queen et al. Royalty Revenues

Under the Company's Queen at al. Patent license agreements, the Company receives 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.

The Company also received annual maintenance fees from licensees of our Queen et al. patents prior to patent expiry as well as periodic milestone payments. We had 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. In the second quarter of 2016, the Company's revenues are likely to materially decrease after the conclusion of receiving payments from these Queen et al. patents license agreements, which accounted for 82% of our 2015 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 the Company's 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 Consolidated Statements of Income as a component of revenue under the caption, “Royalty rights - change in fair value.”

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. See Note 16, “Income Taxes” of this Form 10-K for additional information.

Comprehensive Income (Loss)

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

Property and Equipment

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

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

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. The updated standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either the retrospective or cumulative effect transition method. In August 2015, the FASB issued an update to defer the effective date of this update by one year. The updated standard becomes effective for the Company in the first quarter of fiscal year 2018, but allows the Company to

adopt the standard one year earlier if it so chooses. The Company has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its Consolidated Financial Statements and related disclosures, and is therefore unable to determine the impact on the Company's Consolidated Financial Statements.

In April 2015, the FASB issued ASU No. 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 Statements.

In November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes, which amends existing guidance on income taxes to require the classification of all deferred tax assets and liabilities as non-current on the balance sheet. The Company is required to adopt this ASU no later than January 1, 2018, with early adoption permitted, and the guidance may be applied either prospectively or retrospectively. The Company does not expect this ASU to have a material impact on its Consolidated Financial Statements.

On January 5, 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. The updated guidance enhances the reporting model for financial instruments, which includes amendments to address aspects of recognition, measurement, presentation and disclosure. The amendment to the standard is effective for the Company beginning on June 1, 2018. While the Company is currently assessing the impact of the new standard, it does not expect this new guidance to have a material impact on its Consolidated Financial Statements.

3. Net Income per Share

| | Year Ended December 31, | | |
|---|---|---|---|
| (In thousands, except per share amounts) | 2015 | 2014 | 2013 |
| Numerator | | | |
| Net income | $332,795 | $322,244 | $264,530 |
| Add back interest expense for convertible notes, net of estimated tax of zero, zero and $13, for the years ended December 31, 2015, 2014 and 2013, respectively | — | — | 25 |
| Income used to compute net income per diluted share | $332,795 | $322,244 | $264,555 |
| Denominator | | | |
| Total weighted-average shares used to compute net income per basic share | 163,386 | 158,224 | 139,842 |
| Effect of dilutive stock options | 16 | 21 | 20 |
| Restricted stock awards | 152 | 126 | 83 |
| Assumed conversion of Series 2012 Notes | — | 3,532 | 12,373 |
| Assumed conversion of February 2015 Notes | — | — | 106 |
| Assumed conversion of warrants | — | 5,510 | — |
| Assumed conversion of May 2015 Notes | — | 5,697 | 6,919 |
| Shares used to compute net income per diluted share | 163,554 | 173,110 | 159,343 |
| Net income per basic share | $2.04 | $2.04 | $1.89 |
| Net income per diluted share | $2.03 | $1.86 | $1.66 |

We compute net income per diluted share using the sum of the weighted-average number of common and common equivalent shares outstanding. Common equivalent shares used in the computation of net income per diluted share include shares that may be issued under our stock options and restricted stock awards, the Series 2012 Notes and the

May 2015 Notes on a weighted-average basis for the period that the notes were outstanding, including the effect of adding back interest expense and the underlying shares using the if converted method. In the first quarter of 2012, $179.0 million aggregate principal of the February 2015 Notes was exchanged for the Series 2012 Notes, and in the third quarter of 2013, $1.0 million aggregate principal of the February 2015 Notes was exchanged for the Series 2012 Notes, and the February 2015 Notes were retired, in the first quarter of 2014, $131.7 million aggregate principal of the Series 2012 Notes was retired in a privately negotiated exchange and purchase agreements, and in the fourth quarter of 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, 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 (Note 9).

In May 2011, we issued the May 2015 Notes, and in January and February 2012 we issued the Series 2012 Notes. The Series 2012 Notes and May 2015 Notes are net share settled, with the principal amount settled in cash and the excess settled in our common stock. The weighted-average share adjustments related to the 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 Purchase Call Option and Warrant Potential Dilution

We excluded from our calculation of net income per diluted share 3.0 million, zero and 21.1 million shares for the years ended December 31, 2015, 2014, and 2013, for warrants issued in 2011, because the exercise price of the warrants exceeded the VWAP of our common stock and conversion of the underlying May 2015 Notes is not assumed, no stock would be issuable upon conversion. Our purchased call options, issued in 2011, will always be anti-dilutive and therefore zero, 26.6 million and 24.8 million shares were excluded from our calculations of net income per diluted share for the years ended December 31, 2015, 2014 and 2013, 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 11.

February 2018 Notes Purchase Call Option and Warrant Potential Dilution

We excluded from our calculation of net income per diluted share 23.8 million and 29.0 million shares for the years ended December 31, 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, 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 26.9 million and 32.7 million shares were excluded from our calculation of net income per diluted share for the years ended December 31, 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 11.

Anti-Dilutive Effect of Stock Options and Restricted Stock Awards

For the years ended December 31, 2015, 2014 and 2013, we excluded approximately 41,000, 35,000 and 115,000 shares underlying outstanding stock options, respectively, calculated on a weighted-average basis, from our net income per diluted share calculations because their effect was anti-dilutive. For the years ended December 31, 2015, 2014 and 2013, we excluded approximately 450,000, zero, and zero shares, respectively, underlying restricted stock awards, calculated on a weighted-average basis, from our net income per diluted share calculations because their effect was anti-dilutive.

4. Fair Value Measurements

The fair value of our financial instruments are estimates of the amounts that would be received if we were to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date or exit price. The following table presents the fair value of our financial instruments measured at fair value on a recurring basis by level of input within the fair value hierarchy defined in Note 2:

| | December 31, 2015 | | | | December 31, 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| (In thousands) | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Financial assets: | | | | | | | | |
| Money market funds | $94,801 | $— | $— | $94,801 | $221,792 | $— | $— | $221,792 |
| Corporate securities | — | 1,469 | — | 1,469 | — | 2,310 | — | 2,310 |
| Foreign currency hedge contracts | — | 2,802 | — | 2,802 | — | 4,069 | — | 4,069 |
| Warrants | — | 984 | — | 984 | — | — | — | — |
| Royalty rights - at fair value | — | — | 399,204 | 399,204 | — | — | 259,244 | 259,244 |
| Total | $94,801 | $5,255 | $399,204 | $499,260 | $221,792 | $6,379 | $259,244 | $487,415 |

There have been no transfers between levels during the years ended December 31, 2015 and 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 N.V. 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 receives 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 December 31, 2015 and 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 seven-year period. The discount rates utilized range from approximately 21% to 25%. Significant judgment is required in selecting appropriate discount rates. At December 31, 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 2.5%, the fair value of the asset could decrease by $7.7 million or increase by $8.7 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. In February 2016, certain manufacturers of generic equivalents to Glumetza started to enter the market. Our current expected future cash flows anticipate a reduction in future cash flows of Glumetza as a result of the generic competition in 2016. Should the expected royalties increase or decrease by 2.5%, the fair value of the asset could increase by $4.1 million or decrease by $3.9 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. 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 December 31, 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 not be able to fully assess the impact of the acquisition or price increase on sales of Glumetza and thus royalties on such sales paid to PDL. PDL exercised its audit right under the Depomed Royalty Agreement with respect to the Glumetza royalties in January 2016 and expects to conclude the audit in the second half of 2016.

As of December 31, 2015, the fair value of the asset acquired as reported in our Consolidated Balance Sheets was $191.9 million and the maximum loss exposure was $191.9 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 PMA, in exchange for a $15.5 million cash payment, less fees.

The royalty rights acquired includes royalties accruing from and after April 1, 2014. Under the terms of the VB Royalty Agreement, the Company receives 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 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 royalty right at December 31, 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 an eight-year period. The discount rate utilized was approximately 17.5%. Significant judgment is required in selecting the appropriate discount rate. Should this discount rate increase or decrease by 2.5%, the fair value of this asset could decrease by $1.3 million or increase by $1.4 million, respectively. Should the expected royalties increase or decrease by 2.5%, the fair value of the asset could increase by $0.4 million or decrease by $0.4 million, respectively. A third-party expert was 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 December 31, 2015, the fair value of the asset acquired as reported in our Consolidated Balance Sheets was $17.1 million and the maximum loss exposure was $17.1 million.

U-M Royalty Agreement

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

The fair value of the royalty right at December 31, 2015, was determined by using a discounted cash flow analysis related to the expected future cash flows to be received. This asset is classified as a Level 3 asset, as our valuation utilized significant unobservable inputs, including estimates as to the probability and timing of future sales of the licensed product. The discounted cash flow was based upon expected royalties from sales of licensed product over a seven-year period. The discount rate utilized was approximately 12.8%. Significant judgment is required in selecting the appropriate discount rate. Should this discount rate increase or decrease by 2.5%, the fair value of this asset could decrease by $5.8 million or increase by $6.6 million, respectively. Should the expected royalties increase or decrease by 2.5%, the fair value of the asset could increase by $1.8 million or decrease by $1.8 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. 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 of those estimates, discount rates utilized and general market conditions affecting fair market value.

As of December 31, 2015, the fair value of the asset acquired as reported in our Consolidated Balance Sheets was $70.2 million and the maximum loss exposure was $70.2 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 receives 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 in 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 December 31, 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 2.5%, the fair value of this asset could decrease by $8.0 million or increase by $9.2 million, respectively. Should the expected royalties increase or decrease by 2.5%, the fair value of the asset could increase by $1.3 million or decrease by $1.3 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. At each reporting period, an evaluation of those estimates, discount rates utilized and general market conditions affecting fair market value.

As of December 31, 2015, the fair value of the asset acquired as reported in our Consolidated Balance Sheets was $50.0 million and the maximum loss exposure was $50.0 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.

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 December 31, 2015, 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 December 31, 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 fifteen-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 2.5%, the fair value of this asset could

decrease by $10.2 million or increase by $12.8 million, respectively. Should the expected royalties increase or decrease by 2.5%, the fair value of the asset could increase by $1.7 million or decrease by $1.7 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 of those estimates, discount rates utilized and general market conditions affecting fair market value.

As of December 31, 2015, the fair value of the asset acquired as reported in our Consolidated Balance Sheets was $67.4 million and the maximum loss exposure was $67.4 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.

Under the terms of the Avinger Credit and Royalty Agreement, the Company was entitled to receive royalties at a rate of 1.8% on Avinger's net revenues until the note was repaid by Avinger. Upon the repayment of the note receivable, which occurred on September 22, 2015, the royalty rate was reduced to 0.9%, subject to certain minimum payments from the prepayment date until April 2018. The Company has accounted for the royalty rights in accordance with the fair value option. The fair value of the royalty right at December 31, 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 two-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 $135,000 or increase by $151,000, respectively. Should the expected royalties increase or decrease by 5%, the fair value of the asset could increase by $127,000 or decrease by $127,000, 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 December 31, 2015, the fair value of the asset acquired as reported in our Consolidated Balance Sheets was $2.5 million and the maximum loss exposure was $2.5 million.

The following tables summarize the changes in Level 3 assets and the gains and losses included in earnings for the year ended December 31, 2015:

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

| (in thousands) | | Royalty Rights - At Fair Value |
|---|---|---|
| December 31, 2014 | | $259,244 |
| Transfer into Level 3 | | — |
| Total net change in fair value for the period | | |
| Change in fair value of royalty rights - at fair value | $68,367 | |
| Proceeds from royalty rights - at fair value | $(43,407) | |
| Total net change in fair value for the period | | 24,960 |
| Purchases, issues, sales, and settlements | | |
| Purchases | | 115,000 |
| Ending Balance at December 31, 2015 | | $399,204 |

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

| (in thousands) | Year Ended December 31, 2015 | 2014 |
|---|---|---|
| Total change in fair value for the period included in earnings for assets held at the end of the reporting period | $68,367 | $44,927 |

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 option pricing model.

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

| | December 31, 2015 | | | December 31, 2014 | | |
|---|---|---|---|---|---|---|
| | Carrying Value | Level 2 | Level 3 | Carrying Value | Level 2 | Level 3 |
| (In thousands) | | | | | | |
| Assets: | | | | | | |
| Wellstat Diagnostics note receivable | $50,191 | $— | $55,970 | $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 | 42,271 | — | 42,618 | 39,668 | — | 40,451 |
| Direct Flow Medical note receivable | 51,852 | — | 51,992 | 50,397 | — | 49,940 |
| Paradigm Spine note receivable | 53,973 | — | 54,250 | 49,571 | — | 50,125 |
| kaléo note receivable | 146,778 | — | 146,789 | 151,574 | — | 151,073 |
| CareView note receivable | 18,640 | — | 19,495 | — | — | — |
| Total | $364,905 | $— | $372,314 | $363,212 | $— | $363,740 |
| Liabilities: | | | | | | |
| Series 2012 Notes | $— | $— | $— | $22,261 | $33,506 | $— |
| May 2015 Notes | — | — | — | 153,235 | 205,534 | — |
| February 2018 Notes | 232,835 | — | 197,946 | 276,228 | 289,665 | — |
| Term loan | 24,966 | — | 25,000 | — | — | — |
| Total | $257,801 | $— | $222,946 | $451,724 | $528,705 | $— |

As of December 31, 2015 and 2014, the estimated fair values of our Paradigm Spine note receivable, kaléo note receivable, Hyperion note receivable, Avinger note receivable, LENSAR note receivable, CareView 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. In addition, the note is subject to a guaranty from the Wellstat Diagnostics Guarantors. The

estimated fair value of the collateral assets was determined by using an asset approach and discounted cash flow model related to the underlying collateral and was adjusted to consider estimated costs to sell the assets.

On December 31, 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.

5. Cash, Cash Equivalents and Investments

As of December 31, 2015 and 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 (loss)" in stockholders' equity, net of estimated taxes. See Note 4 for fair value measurement information. The cost of securities sold is based on the specific identification method. To date, we have not experienced credit losses on investments in these instruments and we do not require collateral for our investment activities.

| Summary of Cash and Available-For-Sale Securities | Adjusted Cost | Unrealized Gains | Unrealized Losses | Fair Value | Cash and Cash Equivalents | Short-Term Investments |
|---|---|---|---|---|---|---|
| (In thousands) | | | | | | |
| December 31, 2015 | | | | | | |
| Cash | $124,082 | $— | $— | $124,082 | $ 124,082 | $ — |
| Money market funds | 94,801 | — | — | 94,801 | 94,801 | — |
| Corporate securities | 799 | 670 | — | 1,469 | — | 1,469 |
| Total | $219,682 | $670 | $— | $220,352 | $ 218,883 | $ 1,469 |
| | | | | | | |
| 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 |

We recognized approximately $997,000, $30,000 and zero, respectively, of gains on sales of available-for-sale securities in the years ended December 31, 2015, 2014 and 2013.

The unrealized gain on investments included in "Other comprehensive income (loss), net of tax," was approximately $435,000 and $364,000 as of December 31, 2015 and 2014, respectively.

6. Foreign Currency Hedging

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

2014, all outstanding Euro forward contracts and option contracts were classified as cash flow hedges.

In January 2012, we modified our existing Euro forward and option contracts related to our licensees' sales through December 2012 into Euro forward contracts with more favorable rates. Additionally, we entered into a series of Euro forward contracts covering the quarters in which our licensees' sales occur through December 2014. In October 2014, we entered an additional series of Euro forward contracts covering the quarters in which our licensees' sales occurred through December 2015.

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

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

| Euro Forward Contracts | | | December 31, 2015 (In thousands) | | December 31, 2014 (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 | 16,500 | 2,802 | 33,000 | 1,468 |
| Euro | 1.270 | Sell Euro | — | — | 7,000 | 377 |
| Euro | 1.281 | Sell Euro | — | — | 8,000 | 503 |
| Total | | | $16,500 | $2,802 | $85,875 | $4,069 |

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

| Cash Flow Hedge (In thousands) | Location | December 31, 2015 | 2014 |
|---|---|---|---|
| Euro forward contracts | Prepaid and other current assets | $2,802 | $3,352 |
| Euro forward contracts | Other assets | $— | $717 |
| Euro forward contracts | Accrued liabilities | $— | $— |
| Euro forward contracts | Other long-term liabilities | $— | $— |

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

| | Year Ended December 31, 2015 | 2014 | 2013 |
|---|---|---|---|
| (In thousands) | | | |
| Net gain (loss) recognized in OCI, net of tax [1] | $4,626 | $4,834 | $(2,432 ) |
| Gain (loss) reclassified from accumulated OCI into "Queen et al. royalty revenue," net of tax [2] | $5,390 | $(3,768 ) | $(1,510 ) |
| Net gain (loss) recognized in "Interest and other income, net" -- cash flow hedges [3] | $— | $5 | $11 |

(1) Net change in the fair value of the effective portion of cash flow hedges classified in OCI
(2) Effective portion classified as royalty revenue
(3) Ineffectiveness from excess hedge was approximately $0, ($5) and ($11) for the years ended December 31, 2015, 2014 and 2013, respectively.

A gain of approximately $1.8 million, net of tax, is expected to be reclassified from other comprehensive income (loss) against earnings in the next 12 months.

7. Notes and Other Long-Term Receivables

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

Wellstat Diagnostics Note Receivable and Credit Agreement

In March 2012, the Company executed a $7.5 million two-year senior secured note receivable with the holders of the equity interests in Wellstat Diagnostics. In addition to bearing interest at 10% 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.

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 was made in the third quarter of 2015. PDL has submitted a credit bid for the Wellstat Diagnostic assets at a value corresponding to some portion of the outstanding amount due under the amended and restated credit agreement which is subject to court approval. We anticipate that the sale process will be completed during the second quarter of 2016.

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. The court in New York has yet to rule on the Company's motions for attachment and summary judgment.

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 December 31, 2015, PDL has advanced to Wellstat Diagnostics $12.9 million to fund the ongoing operations of the business and other associated costs. This funding has been expensed as incurred. As of December 31, 2015, PDL is legally owed $94.1 million, which includes principal, un-accrued interest, and funding of operations.

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 December 31, 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's credit bid for the assets is successful.

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 each of March 5, 2013 and 2014. The first payment of $1.2 million was paid on March 5, 2013, but Hyperion has not made the second payment that was due on March 5, 2014. The Company completed an impairment analysis as of December 31, 2015. Effective with this date and as a result of the event of default, we ceased to accrue interest revenue. As of December 31, 2015, the estimated fair value of the collateral was determined to be in excess of that 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 PDL 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.

At the same time, 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 Consolidated Balance Sheets. In the third and fourth quarters of 2015, PDL sold 200,000 and 149,650 shares, respectively, at a price range between $5.46 and $5.69 per share, totaling approximately $1.9 million.

As of December 31, 2015, PDL holds 293,732 shares of AxoGen common stock, which were valued at $1.5 million, which resulted in an unrealized gain of $0.7 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 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 note 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 receives a low, single-digit royalty on Avinger's net revenues until April 2018. Commencing in October 2015, after Avinger repaid the note receivable prior to its maturity date, the royalty on Avinger's net revenues reduced by 50%, 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.

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 remaining $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.

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 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. 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 agreed to fund LENSAR's operations while LENSAR continued to negotiate a potential sale of its assets.

On November 15, 2015, Lion Buyer LLC, a wholly owned subsidiary of Alphaeon, and LENSAR entered into the Asset Purchase Agreement whereby Lion Buyer agreed to acquire substantially all the assets and assumed certain liabilities of LENSAR subject to the satisfaction of certain closing conditions. The acquisition was consummated on December 15, 2015.

In connection with the closing of the acquisition, Lion Buyer entered into an amended and restated credit agreement with PDL, assuming $42.0 million in loans as part of the borrowings under PDL’s prior credit agreement with LENSAR and changed its name to LENSAR, LLC. In addition, Alphaeon issued 1.7 million shares of its Class A common stock to PDL.

Under the terms of the amended and restated credit agreement, PDL has a first lien security interest in substantially all of the assets of LENSAR, LLC. The loans bear interest of 15.5% per annum, payable quarterly in arrears. LENSAR,

LLC may elect to pay in kind interest the first three interest payments in the form of additional principal amount added to the loans. The principal repayment will commence on the ninth interest payment date. The principal amount outstanding at commencement of repayment will be repaid in equal installments until final maturity of the loans which is December 15, 2020.

PDL concluded that the amendment and restatement of the original LENSAR credit agreement shall be accounted for as a troubled debt restructuring due to the concession granted by PDL and LENSAR's financial difficulties. PDL has recognized a loss on extinguishment of notes receivable of $4.0 million and expensed $3.0 million of closing fees as general & administrative costs as incurred at closing on December 15, 2015.

We have estimated a fair value of $3.84 per share for the 1.7 million shares of Alphaeon Class A common stock received in connection with the transactions and recognized this investment as a cost-method investment of $6.6 million included in other long-term asset. The Alphaeon Class A common stock is subject to other-than-temporary impairment assessments in future periods.

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 with 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 this 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 12th 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.

On December 21, 2015, Direct Flow Medical and PDL entered into a waiver to the credit agreement in anticipation of Direct Flow Medical being unable to comply with the liquidity covenant and make interest payments due under the credit agreement.

On January 14, 2016, both parties agreed to provide Direct Flow Medical with an extension to waive the liquidity covenant and delay the timing of the interest payments through the period ending September 30, 2016.

On January 28, 2016, PDL funded an additional $5.0 million to Direct Flow Medical in the form of a short-term secured promissory note that we expect will be converted into a loan under the credit agreement with substantially the same interest and payment terms as the existing loans.

The Company completed an impairment analysis as of December 31, 2015. Effective with this date and as a result of the event of default, we determined the loan to be impaired and we ceased to accrue interest revenue. As of December 31, 2015, the estimated fair value of the collateral was determined to be in excess of that 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.

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.

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.

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 12th interest payment date, December 31, 2016. The principal amount outstanding at commencement of repayment will be repaid in equal installments until final maturity of the loans. The loans will mature on February 14, 2019. Paradigm Spine may elect to prepay the loans at any time, subject to a prepayment penalty that decreases over the life of the loans. The obligations under the Paradigm Spine Credit Agreement are secured by a pledge of substantially all of the assets of Paradigm Spine and its domestic subsidiaries and, initially, certain assets of Paradigm Spine’s German subsidiaries.

kaléo Note Purchase Agreement

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

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

As of December 31, 2015 and 2014, 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. Subsequent to the recall, kaléo made a full and timely payment of $9.5 million, which included all principal and interest due in the fourth quarter of 2015.

On February 18, 2016, PDL was advised that Sanofi and kaléo will terminate their license and development agreement later this year. At that time, all U.S. and Canadian commercial and manufacturing rights to Auvi-Q® will be returned

to kaléo, and they intend to evaluate the timing and options for bringing Auvi-Q back to the market. As part of our financing transaction, kaléo was required to establish an interest reserve account of $20.0 million from the $150.0 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 substantially through the second quarter of 2016. kaléo has indicated that it intends to make payments due to PDL under the note agreement until Auvi-Q is returned to the market.

PDL will monitor the timing and options for bringing Auvi-Q back to the market and how it may impact the ability of kaléo to meet its obligations under the note purchase agreement, 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 December 31, 2015, we determined an estimated fair value of the warrant of $1.0 million.

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

8. Property and Equipment

| | December 31, | |
|---|---|---|
| (In thousands) | 2015 | 2014 |
| Leasehold improvements | $153 | $153 |
| Computer and office equipment | 8,984 | 9,043 |
| Furniture and fixtures | 45 | 45 |
| Total | 9,182 | 9,241 |
| Less accumulated depreciation and amortization | (9,151) | (9,179) |
| Property and equipment, net | $31 | $62 |

9. Accrued Liabilities

| | December 31, | |
|---|---|---|
| (In thousands) | 2015 | 2014 |
| Compensation | $1,979 | $1,332 |
| Interest | 4,107 | 6,210 |
| Deferred revenue | 87 | — |
| Dividend payable | 184 | 90 |
| Legal | 730 | 296 |

| | | |
|---|---|---|
| Other | 922 | 948 |
| Total | $8,009 | $8,876 |

10. Commitments and Contingencies

Operating Leases

We currently occupy a leased facility in Incline Village, Nevada, with a lease term through May 2017. We also lease certain office equipment under operating leases. Rental expense under these arrangements totaled $0.2 million for the years ended December 31, 2015, 2014 and 2013, respectively.

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

| (In thousands) | |
|---|---|
| 2016 | $174 |
| 2017 | 72 |
| Total | $246 |

11. Convertible Notes and Term Loans

Convertible Notes and Term Loan activity for the years ended December 31, 2015 and 2014:

| (In thousands) | Series 2012 Notes | May 2015 Notes | February 2018 Notes | Term Loan | Total |
|---|---|---|---|---|---|
| Balance at December 31, 2013 | $172,630 | $148,253 | $— | $74,397 | $395,280 |
| Issuance and exchange | (152,784) | (200) | 300,000 | — | 147,016 |
| Payment | — | — | — | (75,000) | (75,000) |
| Non-cash discount | — | — | (29,726) | — | (29,726) |
| Discount amortization | 2,415 | 5,182 | 5,954 | 603 | 14,154 |
| Balance at December 31, 2014 | 22,261 | 153,235 | 276,228 | — | 451,724 |
| Issuance and exchange | — | — | — | 100,000 | 100,000 |
| Payment | (22,337) | (155,050) | — | (75,000) | (252,387) |
| Repurchase | — | — | (53,553) | — | (53,553) |
| Non-cash Discount | — | — | — | (607) | (607) |
| Discount amortization | 76 | 1,815 | 10,160 | 573 | 12,624 |
| Balance at December 31, 2015 | $— | $— | $232,835 | $24,966 | $257,801 |

Series 2012 Notes

In January 2012, we exchanged $169.0 million aggregate principal of new Series 2012 Notes for an identical principal amount of the February 2015 Notes, plus a cash payment of $5.00 for each $1,000 principal amount tendered, totaling approximately $845,000. The cash 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 were recognized over the life of the Series 2012 Notes as interest expense. In February 2012, we entered into separate privately negotiated exchange agreements under which we exchanged an additional $10.0 million aggregate principal amount of the new Series 2012 Notes for an identical principal amount of the 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 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 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 is 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 Series 2012 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 de-recognition 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 that was 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 paid 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 17, 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 the Series 2012 Notes were as follows:

| (In thousands) | December 31, 2014 |
|---|---|
| Principal amount of the Series 2012 Notes | $22,337 |
| Unamortized discount of liability component | (76) |
| Net carrying value of the Series 2012 Notes | $22,261 |

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

| | Year ended December 31, | | |
|---|---|---|---|
| (In thousands) | 2015 | 2014 | 2013 |
| Contractual coupon interest | $80 | $1,726 | $5,158 |
| Amortization of debt issuance costs | 13 | 1,089 | 1,152 |
| Amortization of debt discount | 76 | 2,415 | 6,102 |
| Total | $169 | $5,230 | $12,412 |

May 2015 Notes

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

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 the May 2015 Notes were as follows:

| (In thousands) | December 31, 2014 |
|---|---|
| Principal amount of the May 2015 Notes | $155,050 |
| Unamortized discount of liability component | (1,815) |
| Net carrying value of the May 2015 Notes | $153,235 |

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

| | Year Ended December 31, | | |
|---|---|---|---|
| (In thousands) | 2015 | 2014 | 2013 |
| Contractual coupon interest | $1,938 | $5,817 | $5,822 |
| Amortization of debt issuance costs | 435 | 1,274 | 1,232 |
| Amortization of debt discount | 1,815 | 5,182 | 4,820 |
| Total | $4,188 | $12,273 | $11,874 |

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. Under the terms of the warrant agreement, the warrant counterparties had the option to 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 PDL's common stock exceeded the strike price of the warrants on the date of conversion. Because the VWAP of our common stock never exceeded the strike price of the warrants PDL did not deliver any common stock to the warrant counterparties.

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 $6.15, subject to further adjustment upon certain events including dividend payments, for the warrants.

Because the share price was above $5.23, but below $6.15, upon conversion of the Company's 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.

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 December 31, 2015 and 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 December 31, 2015 and 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 the February 2018 Notes in an underwritten public offering, for net proceeds of $290.2 million. The February 2018 Notes are due February 1, 2018, and we pay interest at 4.0% on the 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 the 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 the Series 2012 Notes. Upon the occurrence of a fundamental change, as defined in the indenture, holders have the option to require PDL to repurchase their February 2018 Notes at a purchase price equal to 100% of the principal, plus accrued interest.

On November 20, 2015, PDL's agent initiated the repurchase of $53.6 million in aggregate principal amount of its February 2018 Notes for $43.7 million in cash in four open market transactions. The closing of these transactions occurred on November 30, 2015.

It was determined that the repurchase of the principal amount shall be accounted for as an extinguishment. As a result, a gain on extinguishment of $6.5 million was recorded at closing of the transaction. The $6.5 million gain on extinguishment included the de-recognition of the original issuance discount of $3.1 million, outstanding deferred issuance costs of $0.9 million and agent fees of $0.1 million. Immediately following the repurchase, $246.4 million principal amount of the February 2018 Notes was outstanding with $14.1 million of remaining original issuance discount and $4.1 million of debt issuance costs to be amortized over the remaining life of the February 2018 Notes. As of December 31, 2015, our February 2018 Notes are not convertible. At December 31, 2015, the if-converted value of our February 2018 Notes did not exceed the principal amount.

In connection with the repurchase of the February 2018 Notes, the Company and the counterparties agreed to unwind a portion of the purchased call options. As a result of the unwind transaction of the purchased call option, PDL received $270,000 in cash. The payments received have been recorded as an increase to APIC. In addition, the Company and the counterparties agreed to unwind a portion of the warrants for $170,000 in cash, payable by PDL. The payments have been recorded as a decrease to APIC. At December 31, 2015, PDL concluded that the remaining purchased call options and warrants continue to meet all criteria for equity classification.

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

- During any fiscal quarter ending after the quarter ending 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 the 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 the February 2018 Notes and increases interest expense during the term of the February 2018 Notes from the 4.0% cash coupon interest rate to an effective interest rate of 6.9%. As of December 31, 2015, the remaining discount amortization period is 2.1 years.

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

| (In thousands) | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Principal amount of the February 2018 Notes | $246,447 | $300,000 |
| Unamortized discount of liability component | (13,612) | (23,772) |
| Net carrying value of the February 2018 Notes | $232,835 | $276,228 |

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

| | Year Ended December 31, | |
|---|---|---|
| (In thousands) | 2015 | 2014 |
| Contractual coupon interest | $11,786 | $10,633 |
| Amortization of debt issuance costs[1] | 2,980 | 1,898 |
| Amortization of debt discount[1] | 10,160 | 5,954 |
| Total | $24,926 | $18,485 |

[1] The amortization of debt issuance costs and debt discount for the year end December 31, 2015, includes $3.1 million and $0.9 million, respectively, which are recorded in gain (loss) on extinguishment of debt.

As of December 31, 2015 and 2014, the February 2018 Notes are not convertible. At December 31, 2015 and 2014, the if-converted value of the February 2018 Notes did not exceed the principal amount.

Purchased Call Options and Warrants

In connection with the issuance of the 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 the February 2018 Notes. The purchased call options cover, subject to anti-dilution and certain other customary adjustments substantially similar to those in the February 2018 Notes, approximately 32.7 million shares of our common stock. We may exercise the purchased call options upon conversion of the 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 the 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 the 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 warrants, exceeds the strike price of the warrants, we will deliver to the warrant counterparties shares equal to the spread between the VWAP on the date of exercise or expiration and the strike price. If the VWAP is less than the strike price, neither party is obligated to deliver anything to the other.

The purchased call option transactions and warrant sales effectively serve to reduce the potential dilution associated with conversion of the 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 December 31, 2015 and 2014. 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 the 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 consisted of a term loan of $100.0 million.

The interest rates per annum applicable to amounts outstanding under the term loan were, 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 December 31, 2015, the interest rate, based upon the adjusted Eurodollar rate, was 2.17%. Interest payments under the credit agreement were due on the interest payment dates specified in the credit agreement.

The credit agreement required amortization of the term loan 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. This principal balance and outstanding interest was paid in full on February 12, 2016.

The Company's obligations under the credit agreement were secured by a lien on a substantial portion of its assets.

The credit agreement contained affirmative and negative covenants that the Company believed were usual and customary for a senior secured credit agreement. The credit agreement also required 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 contained events of default that the Company believed were 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 $75.0 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.

As of December 31, 2015 and 2014, PDL was in compliance with all applicable debt covenants.

As of December 31, 2015, the future minimum principal payments under the February 2018 Notes were:

| (In thousands) | February 2018 Notes |
|---|---|
| 2016 | $— |
| 2017 | — |
| 2018 | 246,447 |
| Total | $246,447 |

12. Other Long-Term Liabilities

| | December 31, | |
|---|---|---|
| (In thousands) | 2015 | 2014 |
| Accrued lease liability | $10,700 | $10,700 |
| Long-term incentive | 1,318 | 578 |
| Uncertain tax position | 38,467 | 26,356 |
| Dividend payable | 165 | 68 |
| Total | $50,650 | $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 December 31, 2015, the total lease payments for the duration of the guarantee, which runs through December 2021, are approximately $67.7 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 Consolidated Balance Sheets as of December 31, 2015, and 2014, related to this guarantee.

13. Stock-Based Compensation

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

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

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

Stock-based compensation expense for employees and directors and non-employees for the years ended December 31, 2015, 2014 and 2013, is presented below:

| | Year Ended December 31, | | |
|---|---|---|---|
| Stock-based Compensation | 2015 | 2014 | 2013 |
| (In thousands) | | | |
| Employees and directors | $1,952 | $1,157 | $655 |
| Non-employees | 93 | 344 | 217 |
| Total | $2,045 | $1,501 | $872 |

Stock-Based Incentive Plans

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

The total number of shares of common stock authorized for issuance, shares of common stock issued upon exercise of options or grant of restricted stock, shares of common stock subject to outstanding awards and available for grant under this plan as of December 31, 2015, is as follows:

| Title of Plan | Total Shares of Common Stock Authorized | Total Shares of Common Stock Issued | Total Shares of Common Stock Subject to Outstanding Awards | Total Shares of Common Stock Available for Grant |
|---|---|---|---|---|
| 2005 Equity Incentive Plan[1] | 6,200,000 | 1,515,868 | — | 4,684,132 |
| 2002 Outside Directors Stock Option Plan[2] | 157,000 | 157,000 | — | — |
| 1999 Non-statutory Stock Option Plan[2] | 4,966,183 | 4,966,183 | — | — |
| 1999 Stock Option Plan[2] | 3,694,485 | 3,694,485 | — | — |

(1) As of December 31, 2015, there were 585,882 shares of unvested restricted stock awards outstanding.
(2) Plan terminated in 2009, subject to options outstanding under the plan.

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

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

Stock Option Activity

A summary of our stock option activity is presented below:

| | 2015 | | 2014 | | 2013 | |
|---|---|---|---|---|---|---|
| | Number of shares (in thousands) | Weighted-Average Exercise Price | Number of shares (in thousands) | Weighted-Average Exercise Price | Number of shares (in thousands) | Weighted-Average Exercise Price |
| Outstanding at beginning of year | 58 | $ 5.41 | 172 | $ 16.52 | 196 | $ 16.22 |
| Expired | (58) | $ 5.41 | (114) | $ 22.08 | (24) | $ 14.07 |
| Outstanding at end of year | — | $ — | 58 | $ 5.41 | 172 | $ 16.52 |
| Exercisable at end of year | — | $ — | 58 | $ 5.41 | 172 | $ 16.52 |

As of December 31, 2015, there are no stock options outstanding.

Restricted Stock

Restricted stock has the same rights as other issued and outstanding shares of the Company’s common stock, including, in some cases, the right to accrue dividends, which are held in escrow until the award vests. The compensation expense related to these awards is determined using the fair market value of the Company’s common stock on the date of the grant, and the compensation expense is recognized ratably over the vesting period. Under the company's recent

restricted stock plans, restricted stock awards typically vest over one to five years. In addition to service requirements, vesting of restricted stock awards may be subject to the achievement of specified performance goals set by the Compensation Committee. If the performance goals are not met, no compensation expense is recognized and any previously recognized compensation expense is reversed.

A summary of our restricted stock activity is presented below:

| | 2015 | | 2014 | | 2013 | |
|---|---|---|---|---|---|---|
| | Number of shares (in thousands) | Weighted-average grant-date fair value per share | Number of shares (in thousands) | Weighted-average grant-date fair value per share | Number of shares (in thousands) | Weighted-average grant-date fair value per share |
| Nonvested at beginning of year | 277 | $ 8.39 | 114 | $ 7.45 | 120 | $6.51 |
| Awards granted | 522 | $ 6.40 | 312 | $ 8.39 | 127 | $7.5 |
| Awards vested | (173) | $ 8.38 | (149) | $ 7.67 | (118) | $6.59 |
| Forfeited | (40) | $ 7.79 | — | $ — | (15) | $7.07 |
| Nonvested at end of year | 586 | $ 7.13 | 277 | $ 8.39 | 114 | $7.45 |

Stock-based compensation expense associated with our restricted stock for the years ended December 31, 2015, 2014 and 2013, was $2.0 million, $1.5 million and $0.9 million, respectively. As of December 31, 2015, the aggregate intrinsic value of non-vested restricted stock was $2.1 million. Total unrecognized compensation costs associated with non-vested restricted stock as of December 31, 2015, was $2.6 million, excluding forfeitures, which we expect to recognize over a weighted-average period of 2.0 years.

14. Cash Dividends

On January 26, 2016, our board of directors declared a quarterly dividend to be paid to our stockholders in the first quarter of 2016 of $0.05 per share of common stock, payable on March 11, 2016 to stockholders of record on March 4, 2016, the record date for the dividend payment.

On January 27, 2015, our board of directors declared a regular quarterly dividend of $0.15 per share of common stock, which were paid 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. We paid $98.3 million in dividends in 2015.

On January 29, 2014, our board of directors declared a regular quarterly dividend of $0.15 per share of common stock, which were paid on March 12, June 12, September 12 and December 12 of 2014 to stockholders of record on March 5, June 5, September 5 and December 5 of 2014, the record dates for each of the dividend payments, respectively. We paid $96.6 million in dividends in 2014.

On January 23, 2013, our board of directors declared a regular quarterly dividend of $0.15 per share of common stock, which were paid on March 12, June 12, September 12 and December 12 of 2013 to stockholders of record on March 5, June 5, September 5 and December 5 of 2013, the record dates for each of the dividend payments, respectively. We paid $84.0 million in dividends in 2013.

15. Customer Concentration

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |

| | | | | |
|---|---|---|---|---|
| Licensees | | | | |
| Genentech | 70 | % 71 | % 81 | % |
| Biogen | 9 | % 10 | % 11 | % |

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

| | Year Ended December 31, | | |
|---|---|---|---|
| (In thousands) | 2015 | 2014 | 2013 |
| United States | $339,596 | $334,325 | $177,251 |
| Europe | 250,852 | 246,825 | 278,934 |
| Other | — | 75 | 75 |
| Total revenues | $590,448 | $581,225 | $456,260 |

At December 31, 2015 and 2014, 100% of the net book value of our property and equipment was located in the United States.

16. Income Taxes

The provision for income taxes for the years ended December 31, 2015, 2014 and 2013 consisted of the following:

| | Year Ended December 31, | | |
|---|---|---|---|
| (In thousands) | 2015 | 2014 | 2013 |
| Current income tax expense | | | |
| Federal | $168,164 | $187,056 | $134,619 |
| State | 12,112 | 22,631 | 3,726 |
| Total current | 180,276 | 209,687 | 138,345 |
| Deferred income tax expense (benefit) | | | |
| Federal | 16,910 | (29,095) | (416) |
| State | 157 | (1,564) | (583) |
| Total deferred | 17,067 | (30,659) | (999) |
| Total provision | $197,343 | $179,028 | $137,346 |

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

| | Year Ended December 31, | | |
|---|---|---|---|
| (In thousands) | 2015 | 2014 | 2013 |
| Tax at U.S. statutory rate on income before income taxes | $185,548 | $175,445 | $140,656 |
| Change in valuation allowance | 2,286 | (5,390) | (2,055) |
| State taxes | 1 | 1 | 1 |
| Change in uncertain tax positions | 8,717 | 7,395 | (2,082) |
| Other | 791 | 1,577 | 826 |
| Total | $197,343 | $179,028 | $137,346 |

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

| | December 31, | |
|---|---|---|
| (In thousands) | 2015 | 2014 |
| Deferred tax assets: | | |
| Net operating loss carryforwards | $4,819 | $5,441 |
| Research and other tax credits | 1,990 | 2,147 |
| Intangible assets | — | 14,125 |
| Stock-based compensation | 465 | 241 |
| Accruals | 1,146 | 662 |
| Debt modifications | 5,526 | 5,407 |
| Capital loss carryforward | 2,286 | — |
| Other | 12,023 | 8,500 |
| Total deferred tax assets | 28,255 | 36,523 |
| Valuation allowance | (2,286) | — |
| Total deferred tax assets, net of valuation allowance | 25,969 | 36,523 |
| Deferred tax liabilities: | | |
| Deferred gain on repurchase of convertible notes | (572) | (762) |
| Intangible assets | (7,029) | — |
| Unrealized gain on foreign currency hedge contracts | (1,215) | (1,588) |
| Total deferred tax liabilities | (8,816) | (2,350) |
| Net deferred tax assets | $17,153 | $34,173 |

As of December 31, 2015 and 2014, we had federal net operating loss carryforwards of $35.8 million and $37.5 million, respectively. We also had California net operating loss carryforwards of $215.5 million as of December 31, 2015 and 2014. The federal net operating loss carryforwards will expire in the year 2023 and the California net operating loss carryforwards will expire in 2019, if not utilized. As of December 31, 2015 and 2014, we had $19.3 million and $19.3 million, respectively, of state tax credit carryforwards that will expire in 2028, if not utilized. The net operating loss carryforwards and tax credit carryforwards which resulted from exercises of stock options were not recorded on the Consolidated Balance Sheet.

Utilization of the federal and state net operating loss and tax credit carryforwards may be subject to a substantial annual limitation due to the "change in ownership" provisions of the Internal Revenue Code of 1986. The annual limitation may result in the expiration of net operating losses and credits before utilization. We have an annual limitation on the utilization of our federal operating losses of $1.8 million for each of the years ending December 31, 2015 to 2022, and $1.3 million for the year ending December 31, 2023. As of December 31, 2015, we estimate that at least $22.0 million of federal net operating loss carryforwards and zero of the state net operating losses will expire unutilized.

During 2015, the Company determined that is was more likely than not that certain deferred tax carryforward assets would not be realized in the near future. As a result, $2.3 million valuation allowance against deferred tax assets was established during 2015. The net change in total valuation allowance for each of the years ending December 31, 2015 and 2014, was an increase of $2.3 million and a decrease of $5.4 million, respectively. The valuation allowance at December 31, 2015, is related to capital losses recognized during 2015 that have limited carryback and carryforward utilization. The Company does not have an expectation of future capital gains against which such losses could be utilized and as such determined that it was more likely than not that such deferred tax assets would not be realized.

A reconciliation of our unrecognized tax benefits, excluding accrued interest and penalties, for 2015, 2014 and 2013 is as follows:

| | December 31, | | |
|---|---|---|---|
| (In thousands) | 2015 | 2014 | 2013 |
| Balance at the beginning of the year | $47,146 | $32,419 | $32,647 |
| Increases related to tax positions from prior fiscal years | — | 10,216 | — |
| Increases related to tax positions taken during current fiscal year | 9,979 | 11,006 | 5,490 |
| Expiration of statute of limitations for the assessment of taxes from prior fiscal years | — | (6,495) | (5,718) |
| Balance at the end of the year | $57,125 | $47,146 | $32,419 |

The future impact of the unrecognized tax benefit of $57.1 million, if recognized, is as follows: $33.4 million would affect the effective tax rate and $23.7 million would result in adjustments to deferred tax assets. We periodically evaluate our exposures associated with our tax filing positions. During 2015, as a result of the evaluation of our uncertain tax positions, we increased the unrecognized tax benefits by $10.0 million primarily related to state items. As noted below, the Company is currently under audit by the California Franchise Tax Board. The timing of the audit resolution and the amount to be ultimately paid (if any) is uncertain. At this time, the Company does not anticipate a material change in the unrecognized tax benefits related to the California audit that would affect the effective tax rate or deferred tax assets over the next 12 months.

Estimated interest and penalties associated with unrecognized tax benefits increased income tax expense in the Consolidated Statements of Income by $2.3 million during the year ended December 31, 2015, and increased income tax expense by $1.3 million during the year ended December 31, 2014, and decreased income tax expense by $0.7 million during the year ended December 31, 2013. In general, our income tax returns are subject to examination by U.S. federal, state and local tax authorities for tax years 1996 forward. Interest and penalties associated with unrecognized tax benefits accrued on the balance sheet were $5.1 million and $2.8 million as of December 31, 2015 and 2014, respectively. 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 the tax years 2009, 2010, 2011 and 2012.

17. Accumulated Other Comprehensive Income (Loss)

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

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

| (In thousands) | Unrealized gain (loss) on available-for-sale securities | Unrealized gain (loss) on cash flow hedges | Total Accumulated Other Comprehensive Income (Loss) |
|---|---|---|---|
| Beginning Balance at December 31, 2012 | $7 | $(5,095) | $(5,088) |
| Activity for the year ended December 31, 2013 | 1,122 | (922) | 200 |
| Balance at December 31, 2013 | 1,129 | (6,017) | (4,888) |

| | | | |
|---|---|---|---|
| Activity for the year ended December 31, 2014 | (765) | 8,602 | 7,837 |
| Balance at December 31, 2014 | 364 | 2,585 | 2,949 |
| Activity for the year ended December 31, 2015 | 71 | (764) | (693) |
| Ending Balance at December 31, 2015 | $435 | $1,821 | $2,256 |

18. Legal Proceedings

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 United States District Court for the District of Nevada. 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. On December 21, 2015, Merck filed a Motion to Dismiss for Lack of Personal Jurisdiction. In response to Merck’s motion, on January 22, 2016, rather than dispute Merck’s contentions regarding jurisdiction, the Company elected to dismiss the action in Nevada and refile the Complaint in its entirety in the District of New Jersey.

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. The court in New York has yet to rule on the Company’s motions for attachment and summary judgment.

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.

Other 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.

19. Subsequent Event

On January 28, 2016, PDL funded an additional $5.0 million to Direct Flow Medical in the form of a short-term secured promissory note that we expect will be converted into a loan under the credit agreement with substantially the same interest and payment terms as the existing loans.

The Company completed an impairment analysis as of December 31, 2015. Effective with this date and as a result of the event of default, we determined the loan to be impaired and we ceased to accrue interest revenue. As of December 31, 2015, the estimated fair value of the collateral was determined to be in excess of that 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.

On February 18, 2016, PDL was advised that Sanofi and kaléo will terminate their license and development agreement later this year. At that time, all U.S. and Canadian commercial and manufacturing rights to Auvi-Q® will be returned to kaléo, and they intend to evaluate the timing and options for bringing Auvi-Q back to the market. PDL entered into a secured note purchase

agreement with Accel 300, a wholly-owned subsidiary of kaléo, which as of December 31, 2015, had a principal balance of $144.8 million due to PDL. An interest reserve account previously set up as part of the note agreement will substantially cover interest payments due to PDL through the end of the second quarter of 2016, and kaléo has indicated that it intends to make payments due to PDL under the note agreement until Auvi-Q is returned to the market.

20. Quarterly Financial Data (Unaudited, In Thousands, Except Per Share Data)

| | Three Months Ended | | | |
|---|---|---|---|---|
| | December 31, 2015 | September 30, 2015 | June 30, 2015 | March 31, 2015 |
| Total revenues | $178,058 | $124,618 | $138,066 | $149,706 |
| Net income | $100,574 | $69,459 | $78,264 | $84,498 |
| Net income per basic share | $0.61 | $0.42 | $0.48 | $0.52 |
| Net income per diluted share | $0.61 | $0.42 | $0.47 | $0.50 |

| | Three Months Ended | | | |
|---|---|---|---|---|
| | December 31, 2014 | September 30, 2014 | June 30, 2014 | March 31, 2014 |
| Total revenues | $117,075 | $164,594 | $162,752 | $136,804 |
| Net income | $55,071 | $102,235 | $92,055 | $72,883 |
| Net income per basic share | $0.34 | $0.64 | $0.57 | $0.48 |
| Net income per diluted share | $0.32 | $0.61 | $0.52 | $0.44 |

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended, we have evaluated, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(b) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Annual Report. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in 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 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Based upon the evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures were effective as of December 31, 2015 at the reasonable assurance level.

Inherent Limitations on the Effectiveness of Controls

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

Our independent registered public accountants, PricewaterhouseCoopers LLP, audited the Consolidated Financial Statements included in this Annual Report and have issued an audit report on the effectiveness of our internal control over financial reporting. The report on the audit of internal control over financial reporting, and the report on the audit of the Consolidated Financial Statements appears in Item 8, "Financial Statement and Supplementary Data."

Management’s Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934, as amended. Management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2015 based on criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. As a result of this assessment, management concluded that, as of December 31, 2015, our internal control over financial reporting was effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. PricewaterhouseCoopers LLP has independently assessed the effectiveness of our internal control over financial reporting and its report is included under Item 8, "Financial Statements and Supplementary Data".

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2015, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

Certain information required by Part III is omitted from this report on Form 10-K and is incorporated herein by reference to our definitive Proxy Statement for our next Annual Meeting of Stockholders (the "Proxy Statement"), which we intend to file pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, within 120 days after December 31, 2015.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item 10 will be contained in the Proxy Statement for our 2016 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item 11 will be contained in the Proxy Statement for our 2016 Annual Meeting of Stockholders and is incorporated herein by reference.

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

The information required by this Item 12 will be contained in the Proxy Statement for our 2016 Annual Meeting of Stockholders and is incorporated herein by reference.

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

The information required by this Item 13 will be contained in the Proxy Statement for our 2016 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item 14 will be contained in the Proxy Statement for our 2016 Annual Meeting of Stockholders and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this Annual Report on Form 10-K:
(1) Financial Statements - See Index to Consolidated Financial Statements at Item 8 of this report on Form 10-K.

(2) Financial Statement Schedules

The financial statement schedules are omitted because the information is not applicable, not required under the instructions, or the information requested is set forth in our Consolidated Financial Statements or related notes thereto.

(3) Exhibits required by Item 601 of Regulation S-K

The information required by this Section (a)(3) of Item 15 is set forth on the exhibit index that follows the Signatures page of this Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PDL BIOPHARMA, INC.

By: /S/ JOHN P. MCLAUGHLIN
John P. McLaughlin
President and Chief Executive Officer

Date: February 22, 2016

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

| Signature | Title | Date |
|---|---|---|
| /S/ JOHN P. MCLAUGHLIN<br>(John P. McLaughlin) | President and Chief Executive Officer (Principal Executive Officer) | February 22, 2016 |
| /S/ PETER S. GARCIA<br>(Peter S. Garcia) | Vice President and Chief Financial Officer (Principal Financial Officer) | February 22, 2016 |
| /S/ STEFFEN PIETZKE<br>(Steffen Pietzke) | Controller and Chief Accounting Officer (Principal Accounting Officer) | February 22, 2016 |
| /S/ PAUL EDICK<br>(Paul Edick) | Director | February 22, 2016 |
| /S/ DAVID GRYSKA<br>(David Gryska) | Director | February 22, 2016 |
| /S/ JODY S. LINDELL<br>(Jody S. Lindell) | Director | February 22, 2016 |
| /S/ DR. SAMUEL SAKS<br>(Dr. Samuel Saks) | Director | February 22, 2016 |
| /S/ PAUL W. SANDMAN<br>(Paul W. Sandman) | Director | February 22, 2016 |
| /S/ HAROLD E. SELICK<br>(Harold E. Selick) | Director | February 22, 2016 |

100

EXHIBIT INDEX

| Exhibit Number | Exhibit Title |
|---|---|
| 2.1 | Separation and Distribution Agreement, dated December 17, 2008, between the Company and Facet Biotech Corporation (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed December 23, 2008) |
| 2.2 | Amendment No. 1 to Separation and Distribution Agreement, dated January 20, 2009, between the Company and Facet Biotech Corporation (incorporated by reference to Exhibit 2.2 to Annual Report on Form 10-K filed March 2, 2009) |
| 3.1 | Restated Certificate of Incorporation effective March 23, 1993 (incorporated by reference to Exhibit 3.1 to Annual Report on Form 10-K filed March 31, 1993) |
| 3.2 | Certificate of Amendment of Certificate of Incorporation effective August 21, 2001 (incorporated by reference to Exhibit 3.3 to Annual Report on Form 10-K filed March 14, 2002) |
| 3.3 | Certificate of Amendment of Certificate of Incorporation effective January 9, 2006 (incorporated by reference to Exhibit 99.1 to Current Report on Form 8-K filed January 10, 2006) |
| 3.4 | Certificate of Designation, Preferences and Rights of the Terms effective August 25, 2006 (incorporated by reference to Exhibit 3.4 to Registration Statement on Form 8-A filed September 6, 2006) |
| 3.5 | 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) |
| 4.1 | Indenture between the Company and The Bank of New York Mellon, N.A., dated November 1, 2010 (incorporated by reference to Exhibit 4.1 to Quarterly Report on Form 10-Q filed November 9, 2010) |
| 4.2 | Indenture between the Company and The Bank of New York Mellon, N.A., dated May 16, 2011 (incorporated by reference to Exhibit 4.1 to Quarterly Report on Form 10-Q filed July 29, 2011) |
| 4.3 | Supplemental Indenture between the Company and The Bank of New York Mellon, N.A., dated May 16, 2011 (incorporated by reference to Exhibit 4.1 to Current Report on Form 8-K filed May 16, 2011) |
| 4.4 | Indenture between the Company and The Bank of New York Mellon, N.A., dated January 5, 2012 (incorporated by reference to Exhibit 4.1 to Current Report on Form 8-K filed January 6, 2012) |
| 4.5 | 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) |
| 4.6 | |

| | |
|---|---|
| | 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) |
| 4.7 | 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* | 1999 Stock Option Plan (incorporated by reference to Exhibit 10.1 to Quarterly Report on Form 10-Q filed August 9, 2006) |
| 10.2* | 1999 Nonstatutory Stock Option Plan, as amended through February 20, 2003 (incorporated by reference to Exhibit 10.3 to Quarterly Report on Form 10-Q filed August 9, 2006) |
| 10.3* | Form of Notice of Grant of Stock Option under the 1999 Stock Option Plan (incorporated by reference to Exhibit 10.2 to Quarterly Report on Form 10-Q filed August 14, 2002) |
| 101 | |

| | |
|---|---|
| 10.4* | Form of Stock Option Agreement (incentive stock options) under the 1999 Stock Option Plan (incorporated by reference to Exhibit 10.4 to Quarterly Report on Form 10-Q filed August 9, 2006) |
| 10.5* | Form of Stock Option Agreement (nonstatutory stock options) under the 1999 Stock Option Plan (incorporated by reference to Exhibit 10.5 to Quarterly Report on Form 10-Q filed August 9, 2006) |
| 10.6* | Form of Notice of Grant of Stock Option under the 1999 Nonstatutory Stock Option Plan (incorporated by reference to Exhibit 10.3 to Quarterly Report on Form 10-Q/A filed November 14, 2007) |
| 10.7* | Form of Stock Option Agreement under the 1999 Nonstatutory Stock Option Plan (incorporated by reference to Exhibit 10.6 to Quarterly Report on Form 10-Q filed August 9, 2006) |
| 10.8* | 2002 Outside Directors Stock Option Plan, as amended June 8, 2005 (incorporated by reference to Exhibit 99.2 to Current Report on Form 8-K filed June 14, 2005) |
| 10.9* | Form of Nonqualified Stock Option Agreement under the 2002 Outside Directors Plan (incorporated by reference to Exhibit 10.2 to Quarterly Report on Form 10-Q/A filed November 14, 2007) |
| 10.10* | Amended and Restated 2005 Equity Incentive Plan effective June 4, 2009 (incorporated by reference to Exhibit 10.1 to Quarterly Report on Form 10-Q filed July 31, 2009) |
| 10.11* | Form of Notice of Grant of Stock Option under the 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.7 to Quarterly Report on Form 10-Q filed August 9, 2006) |
| 10.12* | Form of Stock Option Agreement under the 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.8 to Quarterly Report on Form 10-Q filed August 9, 2006) |
| 10.13* | Form of Notice of Grant of Restricted Stock Award under the 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.9 to Quarterly Report on Form 10-Q filed August 9, 2006) |
| 10.14* | Form of Restricted Stock Agreement under the 2005 Equity Incentive Plan (for the officers of the Company) (incorporated by reference to Exhibit 10.10 to Quarterly Report on Form 10-Q filed August 9, 2006) |
| 10.15* | Form of Director and Officer Indemnification Agreement (incorporated by reference to Exhibit 10.1 to Registration Statement on Form S-1 filed December 16, 1991) |
| 10.16* | Offer Letter between the Company and John McLaughlin, dated November 4, 2008 (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed November 10, 2008) |
| 10.17 | Tax Sharing and Indemnification Agreement, dated December 18, 2008, between the Company and Facet Biotech Corporation (incorporated by reference to Exhibit 10.3 to Current Report on Form 8-K filed December 23, 2008) |
| 10.18 | Patent Licensing Master Agreement between the Company and Genentech, Inc., dated September 25, 1998 (incorporated by reference to Exhibit 10.10 to Quarterly Report on Form 10-Q filed November 16, 1998)† |
| 10.19 | |

| | |
|---|---|
| | Amendment No. 1 to Patent Licensing Master Agreement between the Company and Genentech, Inc., dated September 18, 2003 (incorporated by reference to Exhibit 10.45 to Annual Report on Form 10-K filed March 8, 2004)† |
| 10.20 | Amendment No. 2 to Patent Licensing Master Agreement between the Company and Genentech, Inc., dated December 18, 2003 (incorporated by reference to Exhibit 10.45 to Annual Report on Form 10-K filed March 2, 2009) |
| 10.21 | Amendment No. 1 to the Herceptin License Agreement between the Company and Genentech, Inc., dated December 18, 2003 (incorporated by reference to Exhibit 10.47 to Annual Report on Form 10-K filed March 8, 2004) |
| 10.22 | Patent License Agreement, dated July 17, 1997, between the Company and MedImmune Inc. (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed January 24, 2011)† |
| 10.23 | Patent License Agreement, dated April 24, 1998, between the Company and Elan International Services Ltd. (incorporated by reference to Exhibit 10.45 to Annual Report on Form 10-K filed March 2, 2009) † |
| 10.24* | Offer Letter between the Company and Christopher Stone, dated December 30, 2008 (incorporated by reference to Exhibit 10.29 to Annual Report on Form 10-K filed March 1, 2010) |

| | |
|---|---|
| 10.25 | Settlement Agreement between the Company and Genentech, Inc., dated December 18, 2003 (incorporated by reference to Exhibit 10.1 to Quarterly Report on Form 10-Q filed November 9, 2010) † |
| 10.26 | Amended and Restated Patent Licensing master Agreement between the Company and Genentech, Inc., dated July 27, 2009 (incorporated by reference to Exhibit 10.2 to Quarterly Report on Form 10-Q filed November 9, 2010) † |
| 10.27 | Amendments to Product Licenses and Settlement Agreement between the Company and Genentech, Inc. dated July 27, 2009 (incorporated by reference to Exhibit 10.3 to Quarterly Report on Form 10-Q filed November 9, 2010) |
| 10.28* | Offer Letter between the Company and Danny Hart, dated January 11, 2010 (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed April 18, 2011) |
| 10.29* | Form of Executive Officer Severance Agreement (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed May 26, 2011) |
| 10.30* | 2013 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.47 to Annual Report on Form 10-K filed February 23, 2012) |
| 10.31 | Form of Exchange Agreement between the Company and certain holders of the Company's 2.875% Convertible Senior Notes due February 15, 2015 (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed February 2, 2012) |
| 10.32 | Lease Agreement between 932936, LLC and the Company, dated April 17, 2012 (incorporated by reference to Exhibit 10.1 to Quarterly Report on Form 10-Q filed May 3, 2012) |
| 10.33 | Credit Agreement between the Company and Merus Labs International, Inc., dated July 10, 2012 (incorporated by reference to Exhibit 10.1 to Quarterly Report on Form 10Q filed August 2, 2012)† |
| 10.34 | Revenue Interests Purchase Agreement between the Company and AxoGen, Inc., dated October 5, 2012 (incorporated by reference to Exhibit 10.49 to Annual Report on Form 10-K filed March 1, 2013)† |
| 10.35 | Credit Agreement between the Company and Wellstat Diagnostics, LLC, dated November 2, 2012 (incorporated by reference to Exhibit 10.50 to Annual Report on Form 10-K filed March 1, 2013)† |
| 10.36* | Separation Agreement between the Company and Bruce Tomlinson, dated November 30, 2012 (incorporated by reference to Exhibit 10.51 to Annual Report on Form 10-K filed March 1, 2013) |
| 10.37* | Offer Letter between the Company and Peter Garcia, dated March 27, 2013 (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed April 29, 2013) |
| 10.38* | 2013 Annual Bonus Plan (incorporated by reference to Exhibit 10.1 to Quarterly Report on Form 10-Q filed May 9, 2013) |
| 10.39* | 2014 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to Quarterly Report on Form 10-Q filed May 9, 2013) |
| 10.40* | Offer Letter between the Company and David Montez, executed July 4, 2013 (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed July 24, 2013) |

| | |
|---|---|
| 10.41 | Credit Agreement between the Company and Avinger, Inc., dated April 18, 2013 (incorporated by reference to Exhibit 10.1 to Quarterly Report on Form 10-Q filed August 8, 2013)† |
| 10.42 | Amended and Restated Credit Agreement between the Company and Wellstat Diagnostics, LLC, dated August 15, 2013 (incorporated by reference to Exhibit 10.2 to Quarterly Report on Form 10-Q filed November 6, 2013)† |
| 10.43 | Form of Exchange Agreement between the Company and certain holders of the Company's 2.875% Convertible Senior Notes due 2015 (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed February 7, 2014) |
| 10.44 | Form of Purchase Agreement between the Company and a certain holder of the Company's 2.875% Convertible Senior Notes due 2015 (incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed February 7, 2014) |
| 10.45 | Form of Credit Agreement between the Company and certain borrowers (incorporated by reference to Exhibit 10.56 to Annual Report on Form 10-K filed March 3, 2014) |

| | |
|---|---|
| 10.46 | Credit Agreement among the Company, as borrower, the lenders from time to time party thereto and Royal Bank of Canada, as administrative agent, dated as of October 28, 2013 (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed October 30, 2013) |
| 10.47 | Royalty Purchase and Sale Agreement between the Company and Depomed, Inc. and Depo DR Sub, LLC, dated October 18, 2013 (incorporated by reference to Exhibit 10.58 to Annual Report on Form 10-K filed March 3, 2014)† |
| 10.48* | 2014 Annual Bonus Plan (incorporated by reference to Exhibit 10.1 to Quarterly Report on Form 10-Q filed May 12, 2014) |
| 10.49 | Settlement Agreement among Genentech, Inc., F. Hoffman-la Roche Ltd. and the Company, dated January 31, 2014 (incorporated by reference to Exhibit 10.2 to Quarterly Report on Form 10-Q filed May 12, 2014)† |
| 10.50 | Summary of omitted Credit Agreement between PDL BioPharma, Inc. and Paradigm Spine, LLC, dated February 14, 2014 (incorporated by reference to Exhibit 10.5 to Quarterly Report on Form 10-Q filed May 12, 2014) |
| 10.51 | Note Purchase Agreement between the Company and Accel 300, LLC, dated April 1, 2014 (incorporated by reference to Exhibit 10.1 to Quarterly Report on Form 10-Q filed August 18, 2014) |
| 10.52* | 2014/18 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.2 to Quarterly Report on Form 10-Q filed August 18, 2014) |
| 10.53 | First Amendment to Lease Agreement between 932936, LLC and the Company, effective May 27, 2014 (incorporated by reference to Exhibit 10.3 to Quarterly Report on Form 10-Q filed August 18, 2014) |
| 10.54 | First Amendment to Amended and Restated Credit Agreement between the Company and Wellstat Diagnostics, LLC, dated June 19, 2014 (incorporated by reference to Exhibit 10.4 to Quarterly Report on Form 10-Q filed August 18, 2014)† |
| 10.55 | Amendment No. 1 to Credit Agreement among the Company, as borrower, the lenders from time to time party thereto and Royal Bank of Canada, as administrative agent, dated as of October 28, 2013 (incorporated by reference to Exhibit 10.5 to Quarterly Report on Form 10-Q filed August 18, 2014) |
| 10.56 | Amendment No. 2 to Credit Agreement among the Company, as borrower, the lenders from time to time party thereto and Royal Bank of Canada, as administrative agent, dated as of July 2, 2014 (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed July 7, 2014) |
| 10.57 | Second Amendment to Amended and Restated Credit Agreement between the Company and Wellstat Diagnostics, LLC, dated August 21, 2014 (incorporated by reference to Exhibit 10.64 to Annual Report on Form 10-K filed February 23, 2015)† |
| 10.58 | Third Amendment to Amended and Restated Credit Agreement between the Company and Wellstat Diagnostics, LLC, dated November 4, 2014 (incorporated by reference to Exhibit 10.65 to Annual Report on Form 10-K filed February 23, 2015)† |

| | |
|---|---|
| 10.59 | Exchange Agreement between Tang Capital Partners, LP and the Company, dated October 20, 2014 (incorporated by reference to Exhibit 10.66 to Annual Report on Form 10-K filed February 23, 2015) |
| 10.60 | Schedule of Amendment to Omitted Credit Amendment between PDL BioPharma, Inc. and Direct Flow Medical (incorporated by reference to Exhibit 10.67 to Annual Report on Form 10-K filed February 23, 2015) |
| 10.61 | Credit Agreement among the Company, as borrower, the lenders from time to time party thereto and Royal Bank of Canada, as administrative agent, dated as of March 31, 2015 (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed April 1, 2015) |
| 10.62* | 2015 Annual Bonus Plan (incorporated by reference to Exhibit 10.1 to Quarterly Report on Form 10-Q filed May 6, 2015) |
| 10.63* | 2015/19 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.2 to Quarterly Report on Form 10-Q filed May 6, 2015) |
| 10.64* | Employment Separation and Consultant Agreement between the Company and David L. Montez, executed April 21, 2015 (incorporated by reference to Exhibit 10.1 to Quarterly Report on Form 10-Q filed August 5, 2015) |
| 10.65* | Offer Letter between the Company and Steffen Pietzke, executed May 19, 2015 (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed June 24, 2015) |

| | |
|---|---|
| 10.66 | Second Amendment to Lease Agreement between 932936, LLC and the Company, effective May 19, 2015 (incorporated by reference to Exhibit 10.3 to Quarterly Report on Form 10-Q filed August 5, 2015) |
| 10.67* | Amended and Restated 2005 Equity Incentive Plan effective May 28, 2015 (incorporated by reference to Exhibit 10.4 to Quarterly Report on Form 10-Q filed August 5, 2015) |
| 10.68* | Amended and Restated 2015 Annual Bonus Plan (incorporated by reference to Exhibit 10.1 to Quarterly Report on Form 10-Q filed November 4, 2015) |
| 10.69* | Amended and Restated 2015/19 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.2 to Quarterly Report on Form 10-Q filed November 4, 2015) |
| 10.70 | Revenue Interest Assignment Agreement, dated as of July 28, 2015, between ARIAD Pharmaceuticals, Inc. and the Company (incorporated by reference to Exhibit 10.3 to Quarterly Report on Form 10-Q filed November 4, 2015)† |
| 10.71# | Schedule of Amendments to Omitted Credit Amendments between PDL BioPharma, Inc. and LENSAR, Inc. and between PDL BioPharma, Inc. and Paradigm Spine, LLC |
| 12.1# | Ratio of Earnings to Fixed Charges |
| 16.1 | Letter from Ernst & Young LLP, dated September 16, 2014 (incorporate by reference to Exhibit 10.1 to Current Report on Form 8-K filed September 16, 2014) |
| 21.1# | Subsidiaries of the Registrant |
| 23.1# | Consent of Independent Registered Public Accounting Firm |
| 23.2# | Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm |
| 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.

† 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.

+ The certifications attached as Exhibit 32.1 accompany this Annual Report on Form 10-K pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed "filed" by the Registrant for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.