

PDL BIOPHARMA, INC.
Form DEF 14A
April 23, 2012
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(A)
of the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

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(Name of Registrant as Specified In Its Charter)
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(3) Filing Party:

(4) Date Filed:

932 Southwood Boulevard

Incline Village, Nevada 89451
775-832-8500

April 23, 2012

Dear Stockholder:

You are cordially invited to attend our 2012 annual meeting of stockholders on Tuesday, June 5, 2012, at 10:00 a.m., Pacific Time, at the Hyatt Regency Hotel, 111 Country Club Drive, Incline Village, Nevada. The meeting will commence with a discussion and voting on matters set forth in the accompanying Notice of Annual Meeting of Stockholders.

This year we are again taking advantage of the Securities and Exchange Commission rules that allow us to furnish proxy materials to stockholders via the Internet. The rules allow us to provide stockholders with the information they need, while lowering the costs of delivery. The printed proxy materials will be sent to stockholders only upon specific request. On or about April 23, 2012, we mailed our stockholders a notice of Internet availability containing instructions on how to access our 2012 Proxy Statement and 2011 Annual Report and vote online. This information is also available on our website at www.pdl.com.

The notice of meeting and proxy statement that follow describe the matters we will consider at the meeting. Your vote is very important. I urge you to vote by mail, telephone or electronic means via the Internet in order to be certain your shares are represented at the meeting, even if you plan to attend in person.

I look forward to seeing you at the meeting.

John P. McLaughlin

President, Chief Executive Officer and Acting Chief Financial Officer

932 Southwood Boulevard
Incline Village, Nevada 89451
775-832-8500

Notice of 2012 Annual Meeting of Stockholders

Dear Stockholder:

On behalf of our Board of Directors, I cordially invite you to attend the 2012 Annual Meeting of Stockholders of PDL BioPharma, Inc., a Delaware corporation (the Company), to be held on Tuesday, June 5, 2012, at 10:00 a.m., Pacific Time, at the Hyatt Regency Hotel, 111 Country Club Drive, Incline Village, Nevada, for the following purposes:

1. To elect two Class II directors to hold office for a three-year term or until his or her respective successor is elected and qualified (see page 5);
2. To ratify the appointment of Ernst & Young LLP as the independent registered public accounting firm of the Company for the fiscal year ending December 31, 2012 (see page 14);
3. To approve, on an advisory basis, the compensation of the Company's named executive officers as disclosed in this proxy statement (see page 15); and
4. To transact such other business as may properly come before the meeting and any postponement(s) or adjournment(s) thereof.

If you were a stockholder at the close of business on April 13, 2012, you are entitled to vote at the annual meeting.

We urge you to vote your shares by proxy by mail, telephone or via the Internet as soon as possible, even if you plan to attend the meeting in person, so that your shares may be represented and voted at the annual meeting. For specific instructions on how to vote your shares, please refer to this proxy statement and the notice of Internet availability you received in the mail.

By Order of our Board of Directors,
Christopher Stone
Vice President, General Counsel and Secretary

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE MEETING OF STOCKHOLDERS TO BE HELD ON JUNE 5, 2012: A complete set of proxy materials relating to our annual meeting is available on the Internet. These materials, consisting of the Notice of Annual Meeting, Proxy Statement, Proxy Card and Annual Report, may be viewed at www.proxyvote.com with the control number provided in the notice of Internet availability you received in the mail.

TABLE OF CONTENTS

| | Page |
|--|------|
| GENERAL INFORMATION ABOUT THE ANNUAL MEETING | 1 |
| MATTERS FOR APPROVAL AT THE MEETING | 5 |
| PROPOSAL 1: ELECTION OF DIRECTORS | 5 |
| Members of Board of Directors | 5 |
| Audit Committee | 7 |
| Compensation Committee | 8 |
| Litigation Committee | 9 |
| Nominating and Governance Committee | 9 |
| Code of Ethics | 12 |
| Board Leadership Structure | 13 |
| Risk Oversight by the Board | 13 |
| Risk Assessment of Compensation Policies | 13 |
| PROPOSAL 2: RATIFICATION OF SELECTION OF ERNST & YOUNG LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM | 14 |
| PROPOSAL 3: ADVISORY VOTE TO APPROVE EXECUTIVE COMPENSATION | 15 |
| COMPENSATION OF OUR DIRECTORS AND OFFICERS | 16 |
| EXECUTIVE OFFICERS | 18 |
| COMPENSATION DISCUSSION AND ANALYSIS | 19 |
| EXECUTIVE OFFICER COMPENSATION | 31 |
| SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT | 37 |
| RELATED PARTY TRANSACTIONS | 40 |
| OTHER MATTERS | 41 |

Proxy Statement
2012 Annual Meeting of Stockholders

GENERAL INFORMATION ABOUT THE ANNUAL MEETING

What is the purpose of this proxy statement?

The Board of Directors (the Board) of PDL BioPharma, Inc. (PDL, we or the Company) is soliciting proxies to be voted at the Company's 2012 Annual Meeting of Stockholders (the Annual Meeting) to be held at 10:00 a.m., Pacific Time, on Tuesday, June 5, 2012, at the Hyatt Regency Hotel, 111 Country Club Drive, Incline Village, Nevada, and at any adjournment of the Annual Meeting. This proxy statement contains important information about the Company, the Annual Meeting and the proposals to be considered at the Annual Meeting.

Why did I receive a notice of Internet availability instead of a full set of proxy materials?

Pursuant to the rules adopted by the Securities and Exchange Commission (SEC), the Company has elected to provide its proxy statement and annual report to stockholders over the Internet through a "notice only" option. Accordingly, the Company mailed a notice of Internet availability (the Notice) on or about April 23, 2012, to its stockholders of record and beneficial owners. The Notice provides instructions on how you may access this proxy statement and the Company's 2011 Annual Report on the Internet at www.proxyvote.com or request a printed copy at no charge. In addition, the Notice provides instructions on how you may request to receive, at no charge, all future proxy materials in printed form by mail or electronically by email. Your election to receive proxy materials by mail or email will remain in effect until you revoke it. Choosing to receive future proxy materials by email will save the Company the cost of printing and mailing documents to stockholders and will reduce the impact of its annual meetings on the environment.

What is the "Notice Only" Option?

Under the "notice only" option, a company must post all of its proxy materials on a publicly accessible website. Instead of delivering its proxy materials to stockholders, the company delivers a Notice. The Notice includes, among other matters:

• information regarding the date and time of the meeting of stockholders as well as the items to be considered at the meeting;

- information regarding the website where the proxy materials are posted; and
- various means by which a stockholder can request paper or email copies of the proxy materials.

If a stockholder requests paper copies of the proxy materials, these materials must be sent to the stockholder within three business days. Additionally, paper copies must be sent via first class mail.

What will the stockholders vote on at the Annual Meeting?

We are submitting three matters for approval by our stockholders:

1. The election of two Class II directors to serve until the 2015 annual meeting or until his or her respective successor is elected;

2. The ratification of the appointment of Ernst & Young LLP as the independent registered public accounting firm of the Company for the fiscal year ending December 31, 2012; and
3. To approve, on an advisory basis, the compensation of the Company's named executive officers as disclosed in this proxy statement.

How does our Board of Directors recommend that I vote?

Our Board of Directors recommends that you vote your shares "FOR" each nominee named herein for director, "FOR" the ratification of the appointment of Ernst & Young LLP and "FOR" the compensation of the Company's named executive officers.

Who is entitled to vote at the annual meeting?

Only stockholders of record at the close of business on April 13, 2012, will be entitled to vote at the Annual Meeting. On this record date, there were 139,884,999 shares of common stock outstanding and entitled to vote.

Stockholder of Record: Shares Registered in Your Name

If on April 13, 2012, your shares were registered directly in your name with PDL's transfer agent, Computershare, then you are a stockholder of record. As a stockholder of record, you may vote in person at the meeting or vote by proxy. Whether or not you plan to attend the meeting, we urge you to vote by proxy over the telephone, on the Internet as instructed below or, if you request printed copies of the proxy materials by mail, to fill out and return your proxy card to ensure your vote is counted.

Beneficial Owner: Shares Registered in the Name of a Broker or Bank

If on April 13, 2012, your shares were held, not in your name, but rather in an account at a brokerage firm, bank, dealer or other similar organization, then you are the beneficial owner of shares held in "street name." The organization holding your account is considered to be the stockholder of record for purposes of voting at the Annual Meeting. As a beneficial owner, you have the right to direct your broker or other agent regarding how to vote the shares in your account. You are also invited to attend the Annual Meeting. However, since you are not the stockholder of record, you may not vote your shares in person at the meeting unless you request and obtain a valid proxy from your broker or other agent.

What constitutes a quorum for the Annual Meeting?

The Company's Amended and Restated Bylaws (the Bylaws) provide that a majority of the outstanding shares of our common stock, whether present in person or by proxy, will constitute a quorum for the Annual Meeting. As of April 13, 2012, the record date, 139,884,999 shares of common stock were issued and outstanding and if a majority of these shares are present in person or by proxy at the Annual Meeting, a quorum would be present. Abstentions and broker non-votes are counted as present for determining whether a quorum is present.

How many votes are required for the approval of each item?

There are differing vote requirements for the three proposals:

1. The two nominees for election as Class II directors receiving the highest number of votes "FOR" election will be elected, even if that number does not represent a majority of the quorum. Broker non-votes will have no effect.
2. The ratification of the appointment of Ernst & Young LLP as the independent registered public accounting firm of the Company for the fiscal year ended December 31, 2012, will be approved if a majority of the shares entitled to vote and present at the Annual Meeting in person or by proxy vote "FOR" approval. If you "Abstain" from voting, it will have the same effect as an "Against" vote. Broker non-votes will have no effect.
3. The approval of the advisory vote on the compensation of our named executive officers as disclosed in this proxy statement will require the affirmative vote of a majority of the votes cast in person or by proxy at the Annual Meeting. If you "Abstain" from voting, it will have the same effect as an "Against" vote. Broker non-votes will have no effect.

How are abstentions and broker non-votes treated?

Under the General Corporation Law of the State of Delaware, an abstaining vote and a broker non-vote are counted as present and are, therefore, included for purposes of determining whether a quorum of shares is present at the Annual Meeting. Broker non-votes are not included in the tabulation of the voting results on issues requiring approval of a majority of the shares present or represented by proxy and entitled to vote at the Annual Meeting and, therefore, do

not have an effect on the three matters to be considered at the Annual Meeting. A broker non-vote occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have the discretionary voting instructions with respect to that item and has not received instructions from the beneficial owner. Under the rules that govern brokers who are voting with respect to shares held by them as nominee, brokers have the discretion to vote such shares only on routine matters. Routine matters include, among others, the ratification of auditors. For the purpose of determining whether the stockholders have approved matters other than the election of directors, abstentions are treated as shares present or represented and voting, so abstentions have the same effect as negative votes. Shares held by brokers who do not have discretionary authority to vote on a particular matter and have not received voting instructions from their customers are not counted or deemed to be present or represented for purposes of determining whether stockholders have approved that matter.

How do I vote?

There are differing voting procedures for the three proposals. The procedures for voting are fairly simple:

1. You may either vote “FOR” one or both of the nominees to the Board or you may “Withhold” your vote for one or both of the nominees.

2. You may either vote “FOR” or “Against” or abstain from voting on the ratification of the appointment of Ernst & Young LLP as the independent registered public accounting firm of the Company for the fiscal year ended December 31, 2012.

3. You may either vote “FOR” or “Against” or abstain from voting on the advisory vote for the approval of the compensation of our named executive officers as disclosed in this proxy statement.

Stockholder of Record: Shares Registered in Your Name

If you are a stockholder of record, you may vote in person at the Annual Meeting, vote by proxy over the telephone, vote by proxy on the Internet or, if you request printed copies of the proxy materials by mail, by returning your marked, dated and executed proxy card in the postage-paid envelope provided. Whether or not you plan to attend the meeting, we urge you to vote by proxy to ensure your vote is counted. You may still attend the meeting and vote in person even if you have already voted by proxy.

- To vote in person, come to the Annual Meeting and we will give you a ballot when you arrive.

☛ To vote using the proxy card, simply complete, sign and date your proxy card and return it promptly in the envelope provided. If you return your signed proxy card to us before the Annual Meeting, we will vote your shares as you direct.

☛ To vote over the telephone, dial toll-free 1-800-690-6903 using a touch-tone telephone and follow the recorded instructions. You will be asked to provide the control number that has been provided with the Notice. Your vote must be received by 11:59 p.m., Eastern Time, on Monday, June 4, 2012, to be counted.

☛ To vote on the Internet, go to www.proxyvote.com to complete an electronic proxy card. You will be asked to provide the control number that has been provided in the Notice. Your vote must be received by 11:59 p.m., Eastern Time, on Monday, June 4, 2012, to be counted.

Beneficial Owner: Shares Registered in the Name of Broker or Bank

If you are a beneficial owner of shares registered in the name of your broker, bank or other agent, you should have received voting instructions with these proxy materials from that organization rather than from PDL. You may vote by telephone or over the Internet or use the proxy card as instructed by your broker or bank. To vote in person at the Annual Meeting, you must obtain a valid proxy from your broker, bank or other agent. Follow the instructions from your broker or bank included with these proxy materials, or contact your broker or bank to request a proxy form.

We provide Internet proxy voting to allow you to vote your shares online, with procedures designed to ensure the authenticity and correctness of your proxy vote instructions. Please be aware that you must bear any costs associated with your Internet access, such as usage charges from Internet access providers and telephone companies.

How many votes do I have?

On each matter to be voted, you have one vote for each share of common stock you own as of April 13, 2012.

What does it mean if I receive more than one Notice?

If you received more than one Notice, it means that you hold shares in more than one account. To ensure that all your shares are voted, you will need to vote all of your shares by following the instructions included on each Notice.

What if I return a proxy card but do not make specific choices?

If you return a signed and dated proxy card without marking any vote selections, your shares will be voted “FOR” the election of each nominee for director, “FOR” the ratification of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ended December 31, 2012, and “FOR” the approval of the compensation of our named executive officers as disclosed in this proxy statement. If any other matter is properly presented at the meeting, your proxyholder (one of the individuals named on your proxy card) will vote your shares using his or her best judgment.

Can I change my vote after submitting my proxy?

Yes. You can revoke your proxy at any time before the final vote at the Annual Meeting. If you are the record holder of your shares, you may revoke your proxy in any one of three ways:

- You may submit another completed proxy card with a later date.
- You may submit new voting instructions via telephone or Internet pursuant to the instructions on the Notice.

•You may send a timely written notice that you are revoking your proxy to our Secretary, care of PDL BioPharma, Inc., 932 Southwood Boulevard, Incline Village, Nevada 89451.

•You may attend the Annual Meeting and vote in person. Simply attending the meeting will not, by itself, revoke your proxy.

If your shares are held by your broker or bank as a nominee or agent, you should follow the instructions provided by your broker or bank.

How are votes counted?

Votes will be counted by the inspector of election appointed for the Annual Meeting. The inspector of election will separately count “FOR” and “Withhold” votes with respect to the election of directors and “FOR,” “Withhold” and abstentions with respect to the ratification of auditors and the approval of the compensation of our named executive officers as disclosed in this proxy statement. Abstentions will be counted towards the vote total for the proposals other than the election of directors and will have the same effect as “Against” votes. Broker non-votes have no effect and will not be counted towards the vote total for any proposal.

Who will bear the cost of soliciting proxies for the Annual Meeting?

We will pay for the costs of the Annual Meeting, including any cost for mailing the Notices, mailing printed proxy materials upon request and the solicitation of proxies. We will also reimburse brokers, custodians, nominees and other fiduciaries for the reasonable out-of-pocket fees and expenses they incur to forward solicitation materials to our stockholders.

What is “householding”?

We have adopted “householding,” a practice under which stockholders of record who have the same address and last name will receive only one copy of our annual report, proxy statement or Notice unless one or more of these stockholders notifies us that they wish to continue receiving separate individual copies. Householding saves printing and postage costs by reducing duplicate mailings to the same address and reduces our impact on the environment. If your household participates in the householding program, you will receive one Notice. If you previously notified us that you wished to continue receiving separate individual copies but now would like to participate in householding, please call or write us at the below phone number or address.

Beneficial stockholders, that is, stockholders whose shares are held by a broker or other nominee, may request information about householding from their banks, brokers or other holders of record.

What if I want to receive a separate copy of the Notice?

If you participate in householding and wish to receive a separate copy of our Notice, or if you wish to receive separate copies of future annual reports, proxy statements and notices of Internet availability, please call us at 775-832-8500 or write to the address below and we will deliver the requested documents to you promptly upon your request.

PDL BioPharma, Inc.
Attention: Corporate Secretary (Householding)
932 Southwood Boulevard
Incline Village, Nevada 89451

You can also access our annual report and proxy statement on our website at www.pdl.com.

How do I contact our Board of Directors or a committee of our Board of Directors?

You may contact our Board of Directors or one or more members, by sending a communication in writing addressed to:

Board of Directors
[or individual director(s)]
Attention: Corporate Secretary
PDL BioPharma, Inc.
932 Southwood Boulevard
Incline Village, Nevada 89451

Our Secretary will maintain a log of such correspondence to our Board and promptly transmit such correspondence to the identified director(s), except where security concerns militate against further transmission or the communication relates to commercial matters not related to the sender's interest as a stockholder, as determined by our Secretary in consultation with our outside legal counsel.

How can I find out the results of the voting at the Annual Meeting?

Preliminary voting results will be announced at the Annual Meeting. Final voting results will be published in a Current Report on Form 8-K once available.

MATTERS FOR APPROVAL AT THE MEETING

PROPOSAL 1:
ELECTION OF DIRECTORS

Members of the Board of Directors

PDL's Board of Directors is divided into three classes with each class having a three-year term. The Bylaws provide that the number of directors to constitute the Board shall be fixed by a resolution adopted by the affirmative vote of a majority of the authorized directors. That number is currently fixed at five directors. The Bylaws also provide that any vacancy on the Board may be filled by a majority of the surviving or remaining directors then in office. A director elected by the Board to fill a vacancy in a class, including vacancies created by an increase in the number of directors, shall serve for the remainder of the full term of that class and until the director's successor is elected and qualified.

The Board presently has five members: Frederick Frank, Jody S. Lindell, John P. McLaughlin, Paul W. Sandman and Harold E. Selick, Ph.D., with Ms. Lindell and Mr. McLaughlin as Class II members with a term expiring at this Annual Meeting, Dr. Selick as a Class III member with a term expiring at the 2013 annual meeting of stockholders and Mr. Frank and Mr. Sandman as Class I members with a term expiring at the 2014 annual meeting. The two director nominees, Ms. Lindell and Mr. McLaughlin, who were appointed to the Board in March 2009 and October 2008, respectively, are the two directors in Class II whose term of office expires in 2012. If reelected at the Annual Meeting, they would serve until the sooner of the 2015 annual meeting of stockholders or until the director's death, resignation or removal. It is the Company's policy to invite directors and nominees for director to attend the Annual Meeting. The 2011 annual meeting of stockholders was attended by all of the directors serving at the time of the meeting.

Directors are elected by a plurality of the votes of the stockholders present in person or represented by proxy and entitled to vote on the election of directors. Shares represented by executed proxies will be voted, if authority to do so is not withheld, for the election of the nominees named below. If a nominee becomes unavailable for election as a result of an unexpected occurrence, your shares will be voted for the election of a substitute nominee selected by our Nominating and Governance Committee and presented by PDL's management. The nominees have agreed to serve if elected and there is no reason to think that they will be unable to serve.

The following is a brief biography of the two nominees and each director whose term will continue after the 2012 Annual Meeting.

Nominees for Election for a Three Year-Term Expiring at the 2015 Annual Meeting

Jody S. Lindell, age 60, was elected a director of the Company in March 2009. Ms. Lindell is President and Chief Executive Officer of S.G. Management, Inc., an asset management company she has headed since 2000. Prior to that, Ms. Lindell was a partner with KPMG LLP. Through September 2007, Ms. Lindell served as a director and on the Audit and Director's Loan Committees for First Republic Bank, a publicly-traded financial institution. First Republic Bank was acquired in 2007, underwent a management-led buyout in mid-2010 and again became publicly traded in December 2010. Ms. Lindell continues to serve as a director, Chair of the Audit Committee and on the Director's Loan Committee and the Director's Trust Committee for First Republic Bank. Ms. Lindell has also served as a director of The Cooper Companies since March 2006 and is a member of its Audit and Organization and Compensation Committees. She is a Certified Public Accountant (inactive) and holds a B.A. from Stanford University and an M.B.A. from the Stanford Graduate School of Business.

Ms. Lindell had 25 years of experience with KMPG LLP, 16 of which were as an Audit Partner. Ms. Lindell's knowledge of accounting principles and financial reporting rules and regulations and oversight of the financial reporting process is valued by the Company in her role as a director, a member of our Audit Committee and an Audit Committee Financial Expert.

John P. McLaughlin, age 60, was elected a director of the Company in October 2008. Mr. McLaughlin has been our President and Chief Executive Officer since December 18, 2008, when the Company spun-off Facet Biotech Corporation. In addition to his role as President and Chief Executive Officer, Mr. McLaughlin currently serves as our Acting Chief Financial Officer. From November 6, 2008, until the spin-off, he served as a Senior Advisor to the Company. He was the Chief Executive Officer and a director of Anesiva, Inc., formerly known as Corgentech, Inc., a publicly-traded biopharmaceutical company, from January 2000 to June 2008. From December 1997 to September 1999, Mr. McLaughlin was President of Tularik Inc., a biopharmaceutical company. From September 1987 to December 1997, Mr. McLaughlin held a number of senior management positions at Genentech, Inc., a biopharmaceutical company, including Executive Vice President and General Counsel. From January 1985 to September 1987, Mr. McLaughlin was a partner at a Washington, D.C. law firm specializing in food and drug law. Prior to that, Mr. McLaughlin served as counsel to various subcommittees in the United States House of Representatives, where he drafted numerous measures that became FDA laws. Mr. McLaughlin co-founded and served as Chairman of the Board of Directors of Eyetech Pharmaceuticals, Inc., a publicly-traded biopharmaceutical company subsequently bought by OSI Pharmaceuticals, Inc., and co-founded and served as a director of Peak Surgical, Inc., a private medical device company, until it was acquired by Medtronic in 2011. Mr. McLaughlin currently serves as a director of Seattle Genetics, Inc., a publicly-traded biopharmaceutical company. He received a B.A. from the University of Notre Dame and a J.D. from Catholic University of America.

Mr. McLaughlin possesses a strong understanding of the biotechnology industry and has experience in development and commercialization of antibodies, corporate licensing and in patent litigation that the Company values. In addition, Mr. McLaughlin provides strategic guidance to our management team and the Board.

THE BOARD RECOMMENDS A VOTE IN FAVOR OF THE NOMINEES, AND
PROXIES SOLICITED BY THE BOARD WILL BE SO VOTED IN THE ABSENCE OF
INSTRUCTIONS TO THE CONTRARY.

Directors Continuing in Office until the 2013 Annual Meeting

Harold E. Selick, Ph.D., age 57, was elected a director in August 2009. From June 2002, Dr. Selick has served as Chief Executive Officer and a director of Threshold Pharmaceuticals, Inc., a publicly-traded biotechnology company. From June 2002 until July 2007, Dr. Selick was also a Venture Partner of Sofinnova Ventures, Inc., a venture capital firm. From January 1999 to April 2002, he was Chief Executive Officer of Camitro Corporation, a biotechnology company. From 1992 to 1999, he was at Affymax Research Institute, the drug discovery technology development center for Glaxo Wellcome plc, most recently as Vice President of Research. Prior to working at Affymax, Dr. Selick held scientific positions at Protein Design Labs, Inc. and Anergen, Inc. As a staff scientist at Protein Design Labs, Inc. (now PDL BioPharma, Inc.), he co-invented technology underlying the creation of fully humanized antibody therapeutics and applied that to PDL's first product, Zenapax (daclizumab), which was developed and commercialized by Roche for the prevention of kidney transplant rejection. Dr. Selick currently serves as Chairman of the Board of Directors of Catalyst Biosciences, a privately-held drug discovery and development company, a director of InteKrin Therapeutics, a clinical-stage, privately-held biopharmaceutical company, and a director of Protagonist Therapeutics, a privately-held biotechnology company. Dr. Selick received his B.A. and Ph.D. degrees from the University of Pennsylvania and was a Damon Runyon-Walter Winchell Cancer Fund Fellow and an American Cancer Society Senior Fellow at the University of California, San Francisco.

As co-inventor of technology that underlies our Queen et al. patents, Dr. Selick provides the Board with a scientific perspective and a unique appreciation of the Company's assets. Dr. Selick also provides the Board with operational experience derived from his role as a chief executive officer of a publicly-traded biotechnology company.

Directors Continuing in Office until the 2014 Annual Meeting

Frederick Frank, age 79, was elected a director of the Company in March 2009 and serves as our Lead Director. Mr. Frank is Vice Chairman of the Peter J. Solomon Company. Until early 2009, Mr. Frank was Vice Chairman at Barclays Capital, which he joined as part of Barclays Capital's acquisition of Lehman Brothers. Before the acquisition, Mr. Frank most recently held the positions of Vice Chairman and Director; he joined Lehman Brothers as a Partner in October 1969. Before joining Lehman, Mr. Frank was Co-Director of Research and Vice President and Director of Smith, Barney & Co. Mr. Frank is a director of Landec Corporation, a publicly-traded material science company, a former director of the Institute for Systems Biology, a biological systems research institute, and a former director of Pharmaceutical Product Development, Inc., a publicly-traded contract research organization. Mr. Frank also previously served as Chairman of the Board of Epix Pharmaceuticals, Inc., a publicly-traded pharmaceutical company. Mr. Frank is Chairman of the National Genetics Foundation, a past director of the Salk Institute, a member of the advisory boards of the Yale School of Organization and Management, the Harvard School of Public Health and the Massachusetts Institute of Technology Center for Biomedical Innovation. Mr. Frank is also a past member of the advisory board of the Johns Hopkins Bloomberg School of Public Health and is a Trustee Emeritus of The Hotchkiss School. He holds a B.A. from Yale University and an M.B.A. from the Stanford Graduate School of Business. Mr. Frank is also a Chartered Financial Analyst and a member of The New York Society of Security Analysts.

Mr. Frank has over 50 years of experience on Wall Street and has been involved in numerous financings and mergers and acquisitions transactions. Mr. Frank provides the Company with complex transactional and financial experience in the public company context and corporate governance expertise based on his years of experience as a director of various public and non-public companies. Based on Mr. Frank's education, training and experience, Mr. Frank also serves as an Audit Committee Financial Expert. The Company also values Mr. Frank's extensive connections within the pharmaceutical and biotech industry sectors and investment community.

Paul W. Sandman, age 64, was elected a director of the Company in October 2008. Mr. Sandman served at Boston Scientific Corporation in various management positions from May 1993 to February 2008, most recently as its Executive Vice President, Secretary and General Counsel. From 1984 to April 1993, he served at Wang Laboratories, Inc., most recently as Senior Vice President, General Counsel and Secretary. Mr. Sandman received his A.B. from Boston College and his J.D. from Harvard Law School.

As a former general counsel and executive officer of a major, publicly-traded medical technology company, Mr. Sandman provides the Board with experience in corporate governance and the Litigation Committee of the Board with invaluable experience in intellectual property litigation.

Independence of Directors

As required under the NASDAQ Stock Market (NASDAQ) listing standards, a majority of the members of a listed company's board must qualify as "independent," as affirmatively determined by the board of directors. The Board consults with the Company's counsel to ensure that the Board's determinations are consistent with relevant securities and other laws and regulations regarding the definition of "independent," including those set forth in pertinent listing standards of NASDAQ, as in effect from time to time.

Consistent with these considerations, after review of all relevant transactions or relationships between each director, or any of his or her family members, and the Company, its senior management and its independent auditors, the Board has affirmatively determined that the following four directors are independent directors within the meaning of the applicable NASDAQ listing standards: Mr. Frank, Ms. Lindell, Mr. Sandman and Dr. Selick. In making this determination, the Board found that none of these directors or nominees for director had a material or other disqualifying relationship with the Company. Mr. McLaughlin, the Company's President, Chief Executive Officer and Acting Chief Financial Officer, is not an independent director by virtue of his employment with the Company.

Our Board, based on the recommendation of our Nominating and Governance Committee, also determined that each member of each of our Compensation Committee, Nominating and Governance Committee and Audit Committees was independent during 2011, and is currently independent, under NASDAQ's rules for listed companies.

Meetings of the Board of Directors

The Board met eleven (11) times during the last fiscal year. Each Board member attended 75% or more of the aggregate of the meetings of the Board and of the committees on which he or she served during the period for which he or she was a director or committee member.

As required under applicable NASDAQ listing standards, in fiscal year 2011, the Company's independent directors met six (6) times in regularly scheduled executive sessions at which only independent directors were present.

Information Relating to Committees of the Board

The Board currently has the following committees: Audit Committee, Compensation Committee, Litigation Committee and Nominating and Governance Committee.

Audit Committee

The Audit Committee of the Board of Directors was established by the Board in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934 to oversee the Company's corporate accounting and financial reporting processes and audits of our financial statements. For this purpose, the Audit Committee performs several functions, including:

- overseeing the accounting and financial reporting processes and audits of our financial statements;
- appointing an independent registered public accounting firm to audit our financial statements;

overseeing and monitoring (a) the integrity of our financial statements, (b) our compliance with legal and regulatory requirements as they relate to financial statements or accounting matters, (c) our independent registered public accounting firm's qualifications, independence and performance and (d) our internal accounting and financial controls;

- preparing the report that SEC rules require to be included in our annual proxy statement;
 - reviewing all related person transactions for potential conflicts of interests or other improprieties;
- discussing our policies with respect to certain risk assessments, including the risk of fraud, our major financial risk exposures and the steps management has taken to monitor and control such exposures;
- reviewing our investment policy and evaluating our adherence to such policy with regard to investment of our assets;
- providing the Board with the results of its monitoring and recommendations; and
- providing to the Board additional information and materials as it deems necessary to make the Board aware of significant financial matters that require the attention of the Board.

Our Audit Committee is currently comprised of Mr. Frank, Ms. Lindell and Mr. Sandman. Ms. Lindell is the chairperson of the Audit Committee. Ms. Lindell and Mr. Frank have been determined by the Board to be “audit committee financial experts” as defined by applicable SEC rules. The Audit Committee met nine (9) times during the fiscal year 2011. The Audit Committee has adopted a written charter that is available on the Company’s website at www.pdl.com.

The Board has reviewed the NASDAQ listing standards definition of independence for Audit Committee members and has determined that all members of our Audit Committee are independent (as independence is currently defined in Rule 4350(d)(2)(A)(i) and (ii) of the NASDAQ listing standards).

Report of the Audit Committee of the Board of Directors

The Audit Committee has prepared the following report on its activities with respect to our audited financial statements for the fiscal year ended December 31, 2011.

Our management is responsible for the preparation, presentation and integrity of our financial statements. Management is also responsible for maintaining appropriate accounting and financial reporting practices and policies as well as internal controls and procedures designed to provide reasonable assurance that the Company is in compliance with accounting standards and applicable laws and regulations.

The Audit Committee has discussed with the independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1, AU Section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T. Ernst & Young LLP has provided the Audit Committee with the written disclosures and letter required by PCAOB Ethics and Independence Rule 3526, Communication with Audit Committees concerning Independence, and the Audit Committee discussed with the independent registered public accounting firm that firm's independence.

The independent registered public accounting firm is responsible for planning and performing an independent audit of our financial statements in accordance with auditing standards of the Public Company Accounting Oversight Board (United States) and for auditing the effectiveness of our internal control over financial reporting. The independent registered public accounting firm is responsible for expressing an opinion on the conformity of those audited financial statements with accounting principles generally accepted in the United States. In this context, the Audit Committee has reviewed and discussed the audited financial statements for the year ended December 31, 2011, with management and the independent registered public accounting firm, Ernst & Young LLP.

Based on the reviews and discussions referred to above, the Audit Committee recommended to the Board that the audited financial statements referred to above be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

Jody S. Lindell (chairperson)
Frederick Frank
Paul W. Sandman

Compensation Committee

Our Compensation Committee is currently comprised of Mr. Frank, Ms. Lindell and Dr. Selick. Dr. Selick serves as chairperson of the Compensation Committee. All members of the Company's Compensation Committee are independent (as independence is currently defined in Rule 4200(a)(15) of the NASDAQ listing standards). The Compensation Committee met seven (7) times during the fiscal year 2011.

The Compensation Committee of the Board of Directors is responsible for, among other things:

• reviewing and approving for our chief executive officer and other executive officers (i) the annual base salary, (ii) the annual incentive bonus, including the specific goals and amount, (iii) equity compensation, (iv) employment agreements, severance arrangements and change in control agreements/provisions and (v) any other benefits,

compensation, compensation policies or arrangements;

- reviewing the effect of the Company's compensation policies on risk management;

• reviewing and approving or making recommendations to the Board regarding the compensation policy for such other senior management as directed by the Board;

• reviewing and approving or making recommendations to the Board regarding general compensation goals and guidelines for employees and the criteria by which bonuses to employees are determined;

• reviewing with management our Compensation Discussion & Analysis and recommending that it be included in our annual proxy statement. Our Compensation Discussion & Analysis discusses the compensation awarded to, earned by or paid to our named executive officers, including (i) the objectives of the Company's compensation programs, (ii) what each program is designed to reward, (iii) each element of compensation, (iv) why the Compensation Committee chooses to pay each element, (v) how the Compensation Committee determines the amount for each element and (vi) how each element and the Compensation Committee's decisions related thereto fit into the Company's overall compensation objectives and affect decisions regarding other elements; and

acting as administrator of our compensation plans, including approving amendments to the plans (including approving changes in the number of shares reserved for issuance thereunder) and approving the grant or amendment of equity awards issued pursuant thereto.

The Compensation Committee has adopted a written charter that is available on the Company's website at www.pdl.com.

Our Compensation Committee retained its own independent compensation consultant, Setren, Smallberg & Associates, Inc. (Setren), for fiscal year 2011 to advise on various matters related to compensation of executive officers and directors and general compensation programs and matters.

Our Compensation Committee generally engages Setren to provide:

- comparative market data on the executive and director compensation practices and programs of competitive companies;

- guidance on industry best practices and emerging trends and developments in executive and director compensation; and

- advice on determining the total compensation of each of our executive officers and the material elements of total compensation, including (i) annual base salaries, (ii) target cash bonus amounts and (iii) long-term incentives, including restricted stock awards.

Compensation Committee Interlocks and Insider Participation

None of the members of our Compensation Committee was at any time during 2011 one of our officers or employees. None of our executive officers serve as a member of the board of directors or compensation committee of any other entity that has one or more executive officers serving as a member of our Board or Compensation Committee.

Litigation Committee

Our Litigation Committee is currently comprised of Mr. McLaughlin, Mr. Sandman and Dr. Selick. Mr. Sandman is the chairperson of the Litigation Committee. The Litigation Committee met eight (8) times during 2011.

The Litigation Committee of the Board of Directors is responsible for, among other things:

- consulting with management and outside counsel to discuss the initiation of any dispute by us prior to its commencement or the settlement of any dispute prior to its resolution;

- consulting with management and outside counsel following the initiation of a dispute by a third party or an overture by a third party to settle a dispute;

- consulting with management and outside counsel regarding the strategy for the management, prosecution and resolution of all disputes;

- receiving updates on the status of all disputes; and
- assisting the Board in fulfilling its oversight responsibilities with respect to such disputes.

The Litigation Committee has adopted a written charter that is available on the Company's website at www.pdl.com.

Nominating and Governance Committee

Our Nominating and Governance Committee is currently comprised of Mr. Frank, Mr. Sandman and Dr. Selick. Mr. Frank is the chairperson of the Nominating and Governance Committee. The Nominating and Governance Committee met two (2) times during 2011.

The Nominating and Governance Committee is responsible for, among other things:

- identifying individuals qualified to become Board members;
- selecting, and recommending to our Board, director nominees for each election of directors;
- developing, and recommending to our Board, criteria for selecting qualified director candidates;
- considering committee member qualifications, appointment and removal;

• considering and articulating the qualities, experiences, skills and attributes that qualify each director to be a member of our Board;

• assessing the optimum size of our Board and its committees and the needs of our Board for various skills, background and business experience in determining whether it is advisable to consider additional candidates for nomination;

- assessing the Nominating and Governance Committee's effectiveness in diversifying the Board;

• evaluating the effectiveness of the Board's management structure and articulating why the Board's current or proposed leadership structure is effective;

• recommending corporate governance principles, codes of conduct and compliance mechanisms applicable to us; and

- providing oversight in the evaluation of our Board and each committee of our Board.

Our Nominating and Governance Committee has adopted a written charter that is available on the Company's website at www.pdl.com.

Evaluation of Director Nominations

In fulfilling its responsibilities to select and recommend to our Board director nominees for each election of directors, our Nominating and Governance Committee considers the following factors:

- the appropriate size of our Board and its committees;

- the perceived needs of our Board for particular skills, diversity, background and business experience;

• the skills, background, reputation and business experience of nominees compared to the skills, background, reputation and business experience already possessed by other Board members;

- nominees' independence from management;

• applicable regulatory and listing requirements, including independence requirements and legal considerations, such as antitrust compliance;

- the benefits of a constructive working relationship among directors; and

• the desire to balance the considerable benefit of continuity with the periodic injection of the fresh perspective provided by new members.

Our Nominating and Governance Committee's goal is to assemble a board of directors that brings to the Company a variety of perspectives and skills derived from high quality business and professional experience. Directors should possess the highest personal and professional ethics, integrity and values, and be committed to representing the best interests of our stockholders. They must also have an inquisitive and objective perspective and mature judgment. Director candidates, in the judgment of our Nominating and Governance Committee, must also have sufficient time available to perform all Board and committee responsibilities. Board members are expected to prepare for, attend and participate in all Board and applicable committee meetings.

The Nominating and Governance Committee has defined "diversity" for purposes of evaluating director candidates. Under the Nominating and Governance Committee's selection criteria, diversity means experience, professional skill, geographic representation and educational and professional background necessary to assist the Board in the discharge

of its responsibilities. The Nominating and Governance Committee looks at the composition of the whole Board when considering diversity and seeks nominees whose experience, professions, skills, geographic representation and backgrounds compliment and create diversity among the directors. The Nominating and Governance Committee does not assign specific weights to any criteria and no particular criterion is necessarily applicable to all prospective nominees.

The same standards apply to any nominee, regardless of whether recommended internally or by stockholders.

Other than the foregoing, there are no stated minimum criteria for director nominees, although our Nominating and Governance Committee may also consider such other factors as it may deem to be in the best interests of the Company and our stockholders. Our Nominating and Governance Committee annually evaluates all Board members and the Board as a whole. It also evaluates those directors whose terms expire that year and who are willing to continue in service against the criteria set forth above in determining whether to recommend those directors for reelection. The Nominating and Governance Committee has determined that the Board and its members meet such criteria in 2012.

Candidates for Nomination

Candidates for nomination as director come to the attention of our Nominating and Governance Committee from time to time through incumbent directors, management, stockholders or third parties. These candidates may be considered at meetings of our Nominating and Governance Committee at any point during the year. Such candidates are evaluated against the criteria set forth above. If our Nominating and Governance Committee determines at any time that it is desirable that our Board consider additional candidates for nomination, the Committee may poll directors and management for suggestions or conduct research to identify possible candidates and may, if our Nominating and Governance Committee thinks it is appropriate, engage a third-party search firm to assist in identifying qualified candidates.

Our Nominating and Governance Committee has adopted a policy to evaluate any recommendation for director nominee proposed by a stockholder, and our Bylaws also permit stockholders to nominate directors for consideration at an annual meeting, subject to certain conditions. Any recommendation for director nominee must be submitted in writing to:

PDL BioPharma, Inc.
Attention: Corporate Secretary
932 Southwood Boulevard
Incline Village, Nevada 89451

Our Bylaws require that any director nomination made by a stockholder for consideration at an annual meeting must be received in writing not less than ninety (90) calendar days nor more than one hundred twenty (120) calendar days in advance of the date of the one-year anniversary of the Company's (or the Company's predecessor's) previous year's annual meeting of stockholders.

Each written notice containing a stockholder nomination of a director at an annual meeting must include as to the stockholder submitting the nomination:

• the name and address, as they appear on the Company's books, of such stockholder and the name and address of the beneficial owner, if any, on whose behalf a proposal of business or action, or nomination to election of directors, as applicable, is made;

• the class, series and number of shares of capital stock of the Company which are owned beneficially and of record by such stockholder and such beneficial owner;

• a representation that such stockholder will notify the Company in writing of the class and number of such shares owned beneficially and of record by such stockholder and such beneficial owner as of the record date for the meeting (or action, as applicable) promptly following the later of the record date or the date notice of the record date is first publicly disclosed;

• any option, warrant, convertible security, stock appreciation right, derivative, swap or similar right with an exercise or conversion privilege or a settlement payment or mechanism at a price related to any class or series of shares of the Company or with a value derived in whole or in part from the value or volatility of any class or series of shares of the Company, whether or not such instrument or right shall convey any voting rights in such shares or shall be subject to settlement in the underlying class or series of capital stock of the Company or otherwise (a Derivative Instrument), directly or indirectly owned beneficially by such stockholder or beneficial owner and any other direct or indirect opportunity of such stockholder or beneficial owner to profit or share in any profit derived from any increase or decrease in the value of shares of the Company and a representation that such stockholder will notify the Company in writing of any such Derivative Instrument or other direct or indirect opportunity to profit or share in any profit in effect as of the record date for the meeting (or action, as applicable) promptly following the later of the record date or the date notice of the record date is first publicly disclosed;

• any proxy, contract, arrangement, understanding or relationship pursuant to which such stockholder or beneficial owner has a right to vote any shares of any security of the Company;

• any rights to dividends on the shares of the Company owned beneficially by such stockholder or beneficial owner that are separated or separable from the underlying shares of the Company;

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any proportionate interest in shares of capital stock of the Company or Derivative Instruments or other direct or indirect opportunity to profit or share in any profit held, directly or indirectly, by a general or limited partnership in which such stockholder or beneficial owner is a general partner or, directly or indirectly, beneficially owns an interest in a general partner;

any performance related fees (other than an asset based fee) that such stockholder or beneficial owner is entitled to base on any increase or decrease in the price or value of shares of any class or series of the Company, or any Derivative Instruments or other direct or indirect opportunity to profit or share in any profit, if any;

a description of any agreement, arrangement or understanding with respect to the proposal of business or action or nomination, as applicable, between or among such stockholder and such beneficial owner, any of their respective affiliates or associates, and any others acting in concert with any of the foregoing, and a representation that such stockholder will notify the Company in writing of any such agreements, arrangements or understandings in effect as of the record date for the meeting (or action, as applicable) promptly following the later of the record date or the date notice of the record date is first publicly disclosed;

a description of any material interest of such stockholder and such beneficial owner, if any, on whose behalf the proposal is made in such business or action, as applicable, and of any material benefit that such stockholder and such beneficial owner, if any, on whose behalf the proposal is made expects or intends to derive from such business or action, as applicable;

a representation that such stockholder is a holder of record of stock of the Company entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to propose such business, or nomination, as applicable, or a representation that such stockholder is a holder of record of stock of the Company entitled to consent to corporate action in writing without a meeting, as applicable;

a representation whether such stockholder or such beneficial owner, if any, intends or is part of a group which intends (i) to deliver a proxy statement and/or form of proxy (or consent, as applicable) to holders of at least the percentage of the Company's outstanding capital stock required to approve or adopt the proposal, or elect the nominee, as applicable, and/or (ii) otherwise to solicit proxies (or consents, as applicable) from stockholders in support of such proposal, or nomination, as applicable; and

any other information that is required to be provided by such stockholder pursuant to Section 14 of the Securities Exchange Act of 1934, as amended (the Exchange Act), and the rules and regulations promulgated thereunder (or any successor provision of the Exchange Act or the rules or regulations promulgated thereunder), in such stockholder's capacity as a proponent of a stockholder proposal or nomination, as applicable.

Each written notice containing a stockholder nomination of a director at an annual meeting must include for each person whom the stockholder proposes to nominate for election or reelection as a director:

- the name, age, business address and residence address of the person,
- the principal occupation or employment of the person,

the class, series and number of shares of capital stock of the Corporation that are owned beneficially and of record by the person,

- a statement as to the person's citizenship,
- the completed and signed representation and agreement described in the Bylaws,

a description of all direct and indirect compensation and other material monetary agreements, arrangements and understandings during the past three years, and any other material relationships, between or among such stockholder and beneficial owner, if any, and their respective affiliates and associates, or others acting in concert therewith, on the one hand, and the person, and his or her respective affiliates and associates, or others acting in concert therewith, on the other hand, including, without limitation, all information that would be required to be disclosed pursuant to Rule 404 promulgated under Regulation S-K if the stockholder making the nomination and any beneficial owner on whose behalf the nomination is made, if any, or any affiliate or associate thereof or person acting in concert therewith, were the "registrant" for purposes of such rule and the person were a director or executive officer of such registrant,

any other information relating to the person that is required to be disclosed in solicitations for proxies for election of directors pursuant to Section 14 of the Exchange Act, and

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such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected.

All director nominees must also complete a customary form of director's questionnaire as part of the nomination process. The evaluation process may also include interviews and additional background and reference checks for non-incumbent nominees, at the discretion of our Nominating and Governance Committee.

Code of Ethics

The Company has adopted a Code of Business Conduct (the Conduct Code) that applies to all officers, directors and employees. The Conduct Code is available on our website at www.pdl.com. If we ever were to amend any provision of the Conduct Code, we intend to satisfy our disclosure obligations with respect to any such amendment by posting such information on our Internet website set forth above rather than by filing a Current Report on Form 8-K. Any waiver of the Conduct Code will be disclosed by filing a Current Report on Form 8-K.

Board Leadership Structure

The Board does not have a policy regarding the separation of the roles of chief executive officer and chairperson of the Board as the Board has determined that it is in the best interests of the Company to make that determination based on the position and direction of the Company and the membership of the Board. Since March 2009, the Board has been led by a Lead Director instead of a Chairperson. Under our corporate governance principles, the Lead Director of the Board is responsible for coordinating the Board's activities, including the scheduling of meetings of the full Board, scheduling executive sessions of the non-employee directors and setting relevant items on the agenda (in consultation with the chief executive officer as necessary or appropriate). The Board thinks that this leadership structure, consisting of an independent member of the Board as the Lead Director, has enhanced the Board's oversight of, and independence from, Company management and our overall corporate governance. Mr. Frank, an independent member of the Board, currently serves as our Lead Director.

Risk Oversight by the Board

Companies face a variety of risks, including credit risk, market risk, liquidity risk and operational risk. The Board thinks that an effective risk management system will (i) timely identify the material risks that the Company faces, (ii) communicate necessary information with respect to material risks to senior executives and, as appropriate, to the Board or relevant Board committee, (iii) implement appropriate and responsive risk management strategies consistent with the Company's risk profile and (iv) integrate risk management into Company decision-making.

The Board has designated the Audit Committee to take the lead in overseeing risk management. The Company's management prepares periodic reports to the Audit Committee and the Board discussing in detail the known and anticipated risks to the Company and the Company's approach to mitigating such risks. Based on such reports, the Audit Committee makes periodic reports to the Board as well as the Audit Committee's own analysis and conclusions regarding the adequacy of the Company's risk management processes.

In addition to the formal compliance program, the Board encourages management to promote a corporate culture that incorporates risk management into the Company's corporate strategy and day-to-day business operations.

Risk Assessment of Compensation Policies

In April 2012, the Board, with the assistance of management, conducted a risk assessment of the Company's compensation policies and practices. The Company's compensation policies and practices were evaluated to ensure that they do not foster risk taking above the level of risk associated with the Company's business model. For this purpose, the Board considered the Company's long-term strategy and compared it to the performance metrics and time horizon of the Company's compensation policies and practices. Based on this assessment, the Board concluded that it has a balanced pay and performance program that does not promote excessive risk taking. In this regard, the Company notes that:

- the Company's annual incentive compensation is based on balanced performance metrics set by the Compensation Committee that promote disciplined progress towards Company goals;
- the Company's long-term incentives do not drive high-risk investments at the expense of long-term Company value;
- the Company's compensation programs are weighted towards cash, and the equity component does not promote unnecessary risk taking; and

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the Company's compensation awards are capped at reasonable and sustainable levels, as determined by a review of the Company's economic position and prospects, as well as the compensation offered by comparable companies.

PROPOSAL 2:

RATIFICATION OF SELECTION OF ERNST & YOUNG LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the Board has selected Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2012, and the Board has directed that management submit the selection of its independent registered public accounting firm for ratification by the stockholders at the Annual Meeting. Ernst & Young LLP has audited the Company's financial statements since 1986. Representatives of Ernst & Young LLP are expected to be present at the Annual Meeting. They will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

Neither the Bylaws nor other governing documents or law require stockholder ratification of the selection of Ernst & Young LLP as the Company's independent registered public accounting firm. However, the Audit Committee of the Board is submitting the selection of Ernst & Young LLP to the stockholders for ratification as a matter of good governance practice. If the stockholders fail to ratify the selection, the Audit Committee of the Board will reconsider whether or not to retain that firm. Even if the selection is ratified, the Audit Committee of the Board of Directors in its discretion may direct the appointment of a different independent registered public accounting firm at any time during the year if they determine that such a change would be in the best interests of the Company and its stockholders.

The affirmative vote of the holders of a majority of the shares present in person or represented by proxy and entitled to vote at the Annual Meeting will be required to ratify the selection of Ernst & Young LLP. Abstentions will be counted toward the tabulation of votes cast on proposals presented to the stockholders and will have the same effect as negative votes. Broker non-votes are counted towards a quorum, but are not counted for any purpose in determining whether this matter has been approved.

Principal Independent Registered Public Accounting Firm Fees and Services

The aggregate fees billed to the Company for the fiscal years ended December 31, 2011 and 2010, by Ernst & Young LLP, the Company's independent registered public accounting firm are set forth in the table below:

| (\$ in thousands) | 2011 | % of Total | 2010 | % of Total |
|-----------------------|-------|------------|-------|------------|
| Fee Category | | | | |
| Audit Fees(1) | \$339 | 75.9 | \$348 | 95.4 |
| Audit-related Fees(2) | 106 | 23.7 | 15 | 4.1 |
| Tax Fees(3) | — | — | — | — |
| All Other Fees(4) | 2 | 0.4 | 2 | 0.5 |
| Total Fees | \$447 | 100.0 | \$365 | 100.0 |

- (1) Audit fees consist of fees billed for professional services rendered for the audit of our consolidated financial statements, attestation services surrounding the effectiveness of our internal control environment and review of the interim condensed consolidated financial statements included in quarterly reports, the audit of our subsidiary, QHP Royalty Sub LLC, and services that are normally provided by Ernst & Young LLP in connection with statutory and regulatory filings or engagements and attest services, except those not required by statute or regulation.
- (2) Audit-related fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements and are not reported under "Audit Fees." In 2011 and 2010, these services include accounting consultations.
- (3) Tax fees consist of fees for tax compliance/preparation and other tax services. No such services were incurred in 2011 or 2010.

- (4) All other fees include any fees billed that are not audit, audit related or tax fees. In 2011 and 2010, these fees included a license to an accounting research database.

Our Audit Committee pre-approves all audit and permissible non-audit services provided by the independent registered public accounting firm. These services may include audit services, audit-related services, tax services and other services. Our Audit Committee has a policy for the pre-approval of services provided by the independent registered public accounting firm. Under the policy, any pre-approval is detailed as to the particular service or category of services and includes an estimate of the related fees. Our Audit Committee may delegate pre-approval authority to one or more of its members. Such a member must report any decisions to our Audit Committee at the next scheduled meeting. During fiscal years 2011 and 2010, our Audit Committee approved all of the Audit Fees, Audit-Related Fees and All Other Fees.

THE BOARD RECOMMENDS A VOTE IN FAVOR OF PROPOSAL 2.

**PROPOSAL 3:
ADVISORY VOTE TO APPROVE EXECUTIVE COMPENSATION**

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, and Section 14A of the Securities Exchange Act of 1934, as amended, or the Exchange Act, our stockholders are now entitled to vote to approve, on an advisory (nonbinding) basis, the compensation of our named executive officers as disclosed in this proxy statement in accordance with the SEC's rules.

As described in detail later in this proxy statement under the heading "Compensation Discussion & Analysis," our executive compensation programs are designed to retain and incentivize the high quality executives whose efforts are key to our long-term success. Under these programs, our named executive officers are rewarded on the basis of individual and corporate performance measured against established corporate and strategic goals. Please read the section of this proxy statement under the heading "Compensation Discussion & Analysis" for additional details about our executive compensation programs, including information about the fiscal year 2011 compensation of our named executive officers.

The Compensation Committee of our Board continually reviews the compensation programs for our named executive officers to ensure they achieve the desired goals of aligning our executive compensation structure with our stockholders' interests and current market practices.

We are asking our stockholders to indicate their support for our named executive officer compensation as described in this proxy statement. This proposal, commonly known as a "say-on-pay" proposal, gives our stockholders the opportunity to express their views on our named executive officers' compensation. This vote is not intended to address any specific item of compensation, but rather the overall compensation of our named executive officers and the philosophy, policies and practices described in this proxy statement. Accordingly, we are asking our stockholders to cast a non-binding advisory vote "FOR" the following resolution at the Annual Meeting:

RESOLVED, that the compensation of the named executive officers, as disclosed in the Company's Proxy Statement for the 2012 Annual Meeting of Stockholders pursuant to Item 402 of Regulation S-K, including the Compensation Discussion & Analysis, compensation tables and narrative disclosure is hereby **APPROVED**.

The say-on-pay vote is advisory, and therefore not binding on the Company, the Compensation Committee or our Board. Nevertheless, our Board and our Compensation Committee value the opinions of our stockholders, whether expressed through this vote or otherwise, and, accordingly, the Board and Compensation Committee intend to consider the results of this vote in making determinations in the future regarding executive compensation arrangements.

After consideration of the vote of stockholders at our 2011 annual meeting and other factors, the Board has decided to hold advisory votes on the approval of executive compensation annually until the next advisory vote on frequency occurs. Accordingly, unless the Board modifies its policy on the frequency of future votes, the next advisory vote to approve executive compensation will be held at the 2013 annual meeting of stockholders.

Stockholder approval of this Proposal 3 will require the affirmative vote of a majority of the votes cast in person or by proxy at the Annual Meeting.

THE BOARD RECOMMENDS A VOTE IN FAVOR OF PROPOSAL 3.

COMPENSATION OF OUR DIRECTORS AND OFFICERS

Compensation of Directors

In January 2011, in consultation with the Compensation Committee's compensation consultant, our Board established its compensation policy for outside directors. The cash and equity compensation payable to our outside directors in 2011 is described in this section. Members of our Board who are also employees of the Company are not entitled to any compensation with respect to their service as Board members.

Cash Compensation

In 2011, each outside director received a retainer of \$90,000 per year, except for our Lead Director who received a retainer of \$105,000 per year, for his or her service on our Board. Each outside director also received annual cash retainers for service on Board committees, as follows:

Each member of the Audit Committee received a retainer of \$15,000 per year, except for the Chairperson of the Audit Committee who received a retainer of \$30,000 per year, for his or her service on the Audit Committee.

Each member of the Compensation Committee received a retainer of \$5,000 per year, except for the Chairperson of the Compensation Committee who received a retainer of \$10,000 per year, for his or her service on the Compensation Committee.

Each member of the Litigation Committee received a retainer of \$10,000 per year, except for the Chairperson of the Litigation Committee who received a retainer of \$20,000 per year, for his or her service on the Litigation Committee.

Each member of the Nominating and Governance Committee received a retainer of \$2,500 per year, except for the Chairperson of the Nominating and Governance Committee who received a retainer of \$5,000 per year, for his or her service on the Nominating and Governance Committee.

All cash compensation paid to outside directors for their service on our Board and its committees is paid on a quarterly basis in arrears.

We also reimburse our directors for their reasonable travel expenses for Board and committee meetings. Our Board periodically sponsors a multi-day off-site meeting to which our Board members may bring their spouses. When we hold such a meeting, we reimburse our Board members for their spouses' reasonable travel expenses for such off-site meeting.

In January 2012, in consultation with the Compensation Committee's compensation consultant, our Board revised its compensation policy for outside directors by increasing the annual retainer for outside directors, including the Lead Director, by \$10,000 per year.

Equity Compensation

We provide our outside directors with grants of restricted stock as a portion of their total compensation to ensure that our outside directors own common stock in the Company and their interests are aligned with our stockholders. As approved by our stockholders at the Company's 2009 Annual Meeting, each of our outside directors receives an annual grant of restricted stock under our 2005 Equity Incentive Plan with a grant date value equal to \$50,000, based on the closing price of our common stock on the date of grant. Such grants are made to each current outside director annually at our annual general meeting of stockholders and to each new outside director upon his or her initial election to the

Board. Each grant of restricted stock vests on the first anniversary of the grant date so long as the director continues to serve on our Board during the vesting period. During the vesting period, our outside directors have the right to vote their restricted stock and to receive any dividends or distributions paid on their restricted stock, except that dividends or distributions are accumulated and paid on the earlier of the vesting of the underlying stock in accordance with the vesting conditions of the original award or March 15th of the year following the payment of such dividend or distribution to all stockholders.

2011 Compensation of Directors

In 2011, our outside directors who served during 2011 on our Board earned the compensation set forth in the table below:

| Director | Fees Earned | Stock Awards(1) | All Other Compensation(2) | Total |
|-------------------------|-------------|-----------------|---------------------------|-----------|
| Frederick Frank | \$130,000 | \$50,000 | \$ 7,925 | \$187,925 |
| Jody S. Lindell | \$125,000 | \$50,000 | \$ 7,925 | \$182,925 |
| Paul W. Sandman | \$127,500 | \$50,000 | \$ 7,925 | \$185,425 |
| Harold E. Selick, Ph.D. | \$112,500 | \$50,000 | \$ 7,925 | \$170,425 |

(1) Amounts in this column represent the grant date fair value of the restricted stock granted to our outside directors, as determined in accordance with FASB ASC Topic 718. As of December 31, 2011, each of our outside directors had 8,489 unvested restricted stock awards.

(2) Amounts in this column represent the dollar value of dividends and interest accrued on those dividends paid to the director on the restricted stock award that vested in June 2011.

Shares subject to options held by our outside directors as of December 31, 2011, are set forth in the table below:

| Director | Shares Subject to Options Held as of December 31, 2011 | | |
|-----------------|--|----------|--------|
| | Vested | Unvested | Total |
| Paul W. Sandman | 42,500 | — | 42,500 |

Stock Ownership Guidelines

Our Board has determined that ownership of our common stock by our officers and directors promotes a focus on long-term growth and aligns the interests of our officers and directors with those of our stockholders. As a result, our Board adopted stock ownership guidelines stating that our outside directors, our chief executive officer and our other five most-highly-compensated officers (based on annual base salary), should maintain certain minimum ownership levels of our common stock.

Our stock ownership guidelines encourage that each outside director should own shares of common stock with a value of at least three times the annual cash retainer we pay to the outside director not later than seven years after the date the person initially becomes an outside director.

The Board is permitted, in its discretion, to waive the application of our stock ownership guidelines to any covered individual if it determines that, as a result of the individual's personal circumstances, application of the ownership guidelines would result in a hardship.

EXECUTIVE OFFICERS

Certain information with respect to our current executive officers is set forth below (other than the information regarding John P. McLaughlin, our President, Chief Executive Officer and Acting Chief Financial Officer, which is set forth above under “Proposal 1: Election of Directors – Members of Board of Directors”). Under our Bylaws, each executive officer is appointed annually by our Board of Directors, and each holds office until such officer resigns, is removed, is otherwise disqualified to serve or such officer’s successor is elected and qualified. There are no family relationships among any of our directors or executive officers.

| Name | Age | Position |
|--------------------|-----|---|
| John P. McLaughlin | 60 | President, Chief Executive Officer and Acting Chief Financial Officer |
| Christopher Stone | 47 | Vice President, General Counsel and Secretary |
| Caroline Krumel(1) | 48 | Vice President of Finance and Principal Accounting Officer |
| Danny Hart(2) | 36 | Deputy General Counsel and Assistant Secretary |

(1) Ms. Krumel was appointed Vice President of Finance and Principal Accounting Officer on January 31, 2011.

(2) Mr. Hart was appointed an officer of the Company on April 13, 2011, as Associate General Counsel and Assistant Secretary. On January 17, 2012, the Compensation Committee promoted Mr. Hart and changed his title to Deputy General Counsel and Assistant Secretary.

John P. McLaughlin, please see discussion under “Proposal 1: Election of Directors – Members of Board of Directors” for information about Mr. McLaughlin.

Christopher Stone, our Vice President, General Counsel and Secretary, joined the Company in February 2009. He brings more than 22 years of legal experience to the role. Before joining PDL, Mr. Stone served as Vice President of Legal Affairs and Corporate Secretary at LS9, an advanced biofuels development company, where his work included a focus on intellectual property protection and licensing. Prior to that time, he was Vice President of Intellectual Assets USA at Danisco A/S, a global producer of food ingredients, enzymes and bio-based solutions. From 1994 to 2005, Mr. Stone was with Genencor International, a biotechnology company which was acquired by Danisco in 2005, most recently as Vice President of Intellectual Property and General Patent Counsel. At Genencor, he handled all intellectual property matters, including developing and implementing an overall strategy for its domestic and international patent estate of approximately 3,700 patents and patent applications, and managed multiple litigation and interference proceedings and numerous European patent oppositions. Mr. Stone received a J.D. from the National Law Center at George Washington University and a B.S. in Biochemistry from the University of Massachusetts. He is licensed to practice as company counsel in Nevada and holds active licenses to practice in the District of Columbia and the State of California. Mr. Stone was admitted to practice before the United States Patent & Trademark Office in 1992.

Caroline Krumel, our Vice President of Finance and Principal Accounting Officer, joined the Company in January 2011. Before joining PDL, Ms. Krumel most recently served as Vice President, Finance, at VaxGen Inc., a public company focused on the development of vaccinations, from 2007 until VaxGen merged with diaDexus, Inc. in 2010. From 2006 to 2007, Ms. Krumel worked for Frank, Rimerman + Co. LLP, one of the largest locally-owned providers of accounting and consulting services in Northern California, as a Senior Associate, where she delivered accounting services for various companies. Ms. Krumel is a certified public accountant and holds a Master of Public Management from the University of Maryland at College Park and a Bachelor of Arts with honors from the University of North Carolina at Chapel Hill.

Danny Hart, our Deputy General Counsel and Assistant Secretary, joined the Company in January 2010 as the Company's Corporate Counsel. Since joining the Company, Mr. Hart was promoted to Associate Corporate Counsel and Assistant Secretary in April 2011 and then to his current position of Deputy General Counsel and Assistant Secretary in January 2012. From 2006 until he joined the Company, Mr. Hart worked as an associate with Hogan & Hartson LLP (now Hogan Lovells US LLP), a leading international law firm, where his practice focused on securities, corporate governance and mergers and acquisitions. Before joining Hogan & Hartson, Mr. Hart began his legal career at Skadden, Arps, Slate, Meagher & Flom LLP, a leading international law firm, where he focused on corporate restructurings. Mr. Hart received a J.D. from Vanderbilt University Law School and a B.A. from the University of Washington in Seattle. He is licensed to practice as company counsel in Nevada and holds an active license to practice law in the State of Delaware and an inactive license in the State of Colorado.

COMPENSATION DISCUSSION & ANALYSIS

Overview

This Compensation Discussion & Analysis describes our compensation program as it relates to our named executive officers set forth below in the Summary Compensation Table. In this Compensation Discussion & Analysis, we first present an executive summary of our compensation program for our named executive officers for fiscal year 2011. Next, we discuss the philosophy and objectives of our executive compensation program in greater detail and we review the process the Compensation Committee follows in deciding how to compensate our named executive officers. We then present a brief overview of the specific elements of our compensation program and we present a detailed discussion and analysis of the Compensation Committee's specific decisions about the compensation of our named executive officers for fiscal year 2011.

This Compensation Discussion & Analysis contains forward-looking statements that are based on our current plans, considerations, expectations and determinations regarding future compensation programs. The actual compensation programs that we adopt in the future may differ materially from currently planned programs as summarized in this discussion.

Executive Summary

Compensation Governance

Our executive compensation program includes the compensation governance features and controls discussed below:

- Our stockholders are able to cast an annual advisory vote on executive compensation.
- Our Compensation Committee is comprised solely of independent directors.

Our Compensation Committee annually reviews the executive compensation program with a focus on ensuring that the compensation program appropriately incentivizes its executive officers to accomplish the Company's short-term and long-term goals and aligns the interests of our executive officers and stockholders.

Our Compensation Committee annually reviews and approves the Company's compensation strategy, including a review of compensation-related risk management.

- Our named executive officers receive no supplemental executive retirement benefits or perquisites.
- We do not gross-up tax payments for our named executive officers.

Our annual cash bonus program is compensation fully at risk for our named executive officers and is capped at 150% of the target bonus for each named executive officer.

Our chief executive officer's annual cash bonus is 100% attributable to the achievement of corporate goals set by the Compensation Committee and ratified by the Board of Directors and is fully at risk of no payment in the event of unsatisfactory performance, thereby putting approximately 41% of our chief executive officer's annual cash compensation (comprised of base salary and an annual cash bonus opportunity) at risk and tied to the Company's annual performance.

-

Our long-term incentive plan has been designed to retain our valuable management, align the interest of management with our stockholders and incentivize long-term performance.

The Company's compensation philosophy and related governance features are complemented by several specific elements designed to align our executive compensation with long-term stockholder interests, including:

- stock ownership guidelines for our directors and executive officers, as described further on page 28;

periodic grants of restricted stock in connection with the Company's long-term incentive plan rather than stock options because, in the opinion of our Compensation Committee, use of actual shares rather than options causes our named executive officers and our employees to be more careful with risk and aligns their interests with the interests of our stockholders; and

prohibitions on executive officers engaging in any speculative transactions in our securities, including engaging in short sales, engaging in transactions in put options, call options or other derivative securities or engaging in other forms of hedging transactions, such as collars or forward sale contracts, or holding Company securities in a margin account.

Fiscal 2011 Performance

In 2011, we reported total revenue of \$362 million, a 5% increase over 2010 revenue and an approximate 13.8% increase over the Company's revenue in 2009. And, notably, because of reduced operating expenses in 2011 and settlement of our dispute with MedImmune, net income for 2011 increased by 117% to \$199.4 million from \$91.9 million in 2010.

We are a unique public company consisting of less than ten employees and maintain the highest revenue-per-employee in our industry with limited expenses related to operating a public company, protecting our current assets and increasing our return to our stockholders. We are entirely focused on increasing the return to our stockholders over the life of our current assets, and, if possible, extending the return rate for a longer period of time. Other than increased revenues, for which our licensees are almost entirely responsible, we have a number of tools available to us to implement this focus, and we utilize the various tools available to us when they have the greatest impact on stockholder return. The following paragraphs discuss some of the actions we took in 2011 with our stockholders' return in mind.

In 2011, the Company accomplished three significant achievements to protect and increase stockholder return and to give investors confidence and clarity in the Company's return of capital going forward. We also took important steps in our company-transitioning strategy of acquiring new royalty assets.

First, the Company executed on its plan to resolve several legal disputes that could have materially negatively impacted the Company. The execution of its legal strategy was extremely complex and involved negotiating simultaneous settlements with multiple parties while acquiring an entity holding key rights in the opposition to our European patents. While settlement of one of the pending lawsuits resulted in a large payment by PDL to MedImmune, the MedImmune settlement coupled with the complex strategy eliminated all foreign and domestic administrative challenges to the Company's Queen et al. patent estate and resolved other disputes.

Second, once the overhang of litigation was removed in early 2011, we implemented a regular, quarterly dividend of \$0.15 per share, totaling \$0.60 per share in 2011. By implementing a regular, quarterly dividend policy, we gave our stockholders increased clarity and certainty in the returns to be expected and simultaneously reduced unusual trading patterns and volatility we typically experienced around the record dates of our earlier special dividends.

Third, the Company extended the maturity of its convertible debt at favorable interest rates and, through a complex hedging strategy and exchange of new convertible notes and utilizing a "net share settlement" feature in its convertible notes, removed the potential dilution risk of 19.7 million shares from the Company's convertible debt for our stockholders. During 2011, we reduced our debt by \$89.1 million to \$428.6 million outstanding at the end of 2011 as compared with \$517.7 million at the end of 2010.

Also in 2011, as part of our focus on stockholder return, we continued our search for new royalty assets. To this end, and to facilitate and expedite the process, we retained two key consultants towards the end of 2011. While continuing to pay dividends, we will evaluate opportunities to purchase new royalty assets that extend our royalty revenues beyond 2014, that allow us to pay dividends longer and that maintain our returns to our stockholders.

In addition to increased certainty of future royalty revenues and decreased potential dilution, the Company provided a total stock return (TSR) of 10.1% in 2011 and 23.4% over the three years after the spinoff of Facet and during which Mr. McLaughlin has served as the Company's chief executive officer. Compared to the list of companies our Compensation Committee, in consultation with its independent compensation consultant, prepared as comparable companies with which it could evaluate the compensation of our named executive officers (the comparator companies), PDL's TSR was better than 44% of the comparator companies selected by the Compensation Committee

for 2012 and our TSR over three years was better than 50% of those same companies. When our TSR is compared to the “peer companies” selected by Institutional Shareholder Services (ISS), we outperformed over 48% in 2011 and over 84% of ISS’s “peer companies” over three years.

Fiscal 2011 Executive Compensation

For fiscal year 2011, the Compensation Committee reviewed the base salary and performance of each of our named executive officers as well as the performance of the Company and the analysis and summary of competitive market practice prepared by Setren, Smallberg & Associates (Setren), the Compensation Committee’s independent compensation consultant. Based on this review, the Compensation Committee determined to raise the named executive officers’ salaries so that their salaries are near or at the 50th percentile of the Compensation Committee’s comparator companies.

With respect to the annual cash bonus, the Compensation Committee established the 2011 Annual Bonus Plan for fiscal year 2011. This annual cash bonus is intended to incentivize and reward our named executive officers for accomplishing corporate (75% weighting) and individual (25% weighting) goals, except for our chief executive officer whose bonus is determined solely on the performance of the Company’s corporate goals. The annual cash bonus is compensation that is entirely at risk in the case of underperformance, and while target bonus amounts are set by the Compensation Committee in consultation with the Compensation Committee’s independent compensation consultant, the Compensation Committee determines the ultimate amount of the cash bonus, which can be zero, based on accomplishment of the goals it approved.

In early 2012, the Compensation Committee evaluated the Company’s performance against the 2011 corporate performance goals and the performance of each of the named executive officers, other than the chief executive officer, to their individual goals, their management and leadership, their professional contributions and their technical and organizational contributions. The Compensation Committee determined that 90% of the corporate goals were achieved.

The amount of base salary and annual cash bonus paid to each named executive officer for fiscal year 2011 is set forth in the Summary Compensation Table on page 31.

In May 2011, the Compensation Committee established the 2012 Long-Term Incentive Plan, or the long-term incentive plan, for our named executive officers. The long-term incentive plan is comprised of two components: (i) the right to receive a cash payment and (ii) a number of unvested restricted shares of our common stock with a specific grant value. The purpose of the long-term incentive plan is to enhance stockholder return over the long term, through promotion of long-term corporate goals and retention of the Company's management team. Our Compensation Committee recognizes that the attainment of long-term goals typically takes more than one year to accomplish and therefore our annual cash bonus plan inadequately incentivizes those goals.

Compensation decisions and other details are discussed in greater detail in the remainder of this Compensation Discussion & Analysis.

Executive Compensation Program Philosophy and Objectives

The Company has a unique business model because we conduct no research, development or commercialization activities, but rather earn substantially all our revenues from royalties. In order to efficiently conduct our operations, we rely on a small staff of less than ten persons, with our principal place of business being in the State of Nevada, a state without corporate income tax. To achieve our corporate goals, we need a highly talented and seasoned team of business and technical professionals. We compete with many other companies in seeking to attract and retain a skilled management team and suffer from distinct disadvantages of being located in a remote location with limited access to top executive talent and a Company with a potentially short corporate existence because of general expiry of the Company's patents in 2014.

The Compensation Committee has structured our executive compensation program to take into account our unique business model, location and potentially short corporate existence. Accordingly, the Compensation Committee utilizes four types of compensation to attract and retain a talented management team: base salary, annual cash bonus, a long-term incentive plan and employee benefits.

The goals of our executive compensation established by the Compensation Committee are fourfold:

- Structure our compensation plans to effectively motivate our executive leadership to achieve the stated goals of the Company and to perform in a manner that maximizes stockholder value.
- Offer executive compensation programs that are competitive in the marketplace to enable us to recruit high-quality candidates for senior leadership positions and to retain these executives through appropriate base compensation, equity and cash awards and incentives.
- Strike a balance of short-term and long-term incentives tied to our named executive officers' individual performance and their contribution to our annual and long-term company-wide goals and objectives.
- Align the interests of our named executive officers and stockholders through the use of equity incentives and ownership requirements of PDL stock.

Our business mission is to enhance stockholder value by (i) managing our intellectual property assets appropriately; (ii) investing in new royalty bearing assets and (iii) maximizing the value of our patent portfolio and related assets. Because some of these goals may be accomplished over a varied period of time, the Compensation Committee has established a compensation program that utilizes a mix of annual and long-term incentives to assure that management

and employees are focused on attainment of the Company's corporate goals, whether these goals are short- or long-term. Our Compensation Committee has not employed any specific policies for allocating compensation between annual and long-term compensation, between cash and non-cash compensation or among different forms of non-cash compensation; although it has determined that its current compensation structure adequately accomplishes the Company's objectives.

The Compensation Committee structures our executive compensation program in a manner that it thinks does not promote inappropriate risk taking by our executives, but rather encourages them to take a balanced approach, focused on achieving our corporate goals and enhancing stockholder return. For example, the Company does not currently award stock options; the Compensation Committee instead utilizes restricted stock awards that capture dividend payments and promote a sense of ownership among management and the Company's employees. A more complete discussion regarding the risk assessment process can be found at "Proposal 1: Election of Directors - Risk Assessment of Compensation Policies" above.

Executive Compensation Process

When making executive compensation program decisions, our Compensation Committee reviews competitive market data. For this purpose, the Compensation Committee engaged Setren, a life sciences compensation consultant, to provide advice on competitive market practice and recommendations for named executive officer compensation for fiscal year 2011.

Due to the Company's unique business model and circumstances, our Compensation Committee has found it difficult to establish an appropriate group of peer companies against which to benchmark our named executive officers' compensation. Therefore, our Compensation Committee for fiscal year 2011 again did not approve a peer group of companies. At the Compensation Committee's direction, Setren prepared a list of comparator companies from the healthcare industry, because that is the sector from which the Company primarily draws its talent pool, with revenues between \$100 million and \$600 million, because the Company's revenues fall roughly in the middle of the specified range (the comparator companies). Our Compensation Committee reviewed the resulting market competitive compensation data prepared by Setren from the list of comparator companies.

Our Compensation Committee thinks that, in order to attract the executive talent necessary to lead the Company, total compensation (comprised of base salary, annual bonus opportunity and long-term incentive) should be near or at the 50th percentile of other similar-sized companies within the biopharmaceutical industry. The list of companies for 2011 was significantly reduced from previous years as a result of an increased focus on ensuring that the selected companies more closely resemble the Company. These companies are:

| | | |
|-----------------------------|------------------------------|---------------------------|
| Alexion Pharmaceuticals | Enzon | Santarus |
| Alkermes | Impax Laboratories | Synta Pharmaceuticals |
| Alnylam Pharmaceuticals | Ista Pharmaceuticals | The Medicines Company |
| Auxilium Pharmaceuticals | Jazz Pharmaceuticals | United Therapeutics |
| BioMarin Pharmaceutical | Medicis Pharmaceutical | Vertex Pharmaceuticals |
| Celera | Onyx Pharmaceuticals | ViroPharma |
| Cubist Pharmaceuticals | Regeneron Pharmaceuticals | |
| Emergent BioSolutions | Salix Pharmaceuticals | |

In addition to analyzing market compensation data, the Compensation Committee thinks that an individual's qualifications and experience should be considered when making compensation decisions, as should the Company's unique business model, the difficulty in locating experienced and qualified executive officer candidates in the remote area surrounding the Company's headquarters, the Company's potentially short-term corporate existence (resulting in our named executive officers' potentially short-term employment with the Company) and the fact that we require our named executive officers to be located proximate to the Company's headquarters in Nevada.

The Compensation Committee has not delegated any of its exclusive power to determine matters of executive compensation and benefits. Our chief executive officer assists the Compensation Committee by presenting industry-specific competitive market data, proposals and recommendations to the Compensation Committee,

information on Company and individual performance of the named executive officers and management's perspective and recommendations on compensation matters (our chief executive officer recuses himself from that portion of the Compensation Committee meetings involving deliberation and decision making of his own compensation). The Compensation Committee reports to the Board on the major items covered at each Compensation Committee meeting.

Compensation Program Elements

The annual compensation payable to our named executive officers is composed of four elements which are designed together to motivate our officers to perform in a manner that will enable us to meet our strategic goals. These four elements are (i) base salary, (ii) long-term incentive, (iii) annual cash bonus and (iv) employee benefits.

The long-term incentive, payable to our named executive officers under certain pre-specified conditions, includes two elements: (i) a performance-adjustable cash incentive and (ii) shares of restricted stock.

In addition, we provide other limited perquisites, benefits and severance, but such perquisites and benefits, other than a housing allowance provided to a limited number of employees, are generally available to all of our employees on the same terms as to our named executive officers.

Each element — and why we pay it — is discussed below.

Base Salary

Base salary is the fundamental, fixed element of our named executive officers' compensation and the foundation for each named executive officer's total compensation.

In order to attract the executive talent necessary to lead the Company, our Compensation Committee thinks that base salary should be near or at the 50th percentile of similar-sized companies within the biotechnology industry and should be based on an individual's qualifications and experience. When setting base salaries for our named executive officers, the Compensation Committee considers the Company's unique business model, the executive officers' prior performance, individual contributions, responsibilities, experience and position, the difficulty in locating experienced and qualified executive officer candidates in the remote area surrounding the Company's headquarters, the Company's potentially short-term corporate existence (resulting in our named executive officers' potentially short-term employment with the Company) and the fact that we require our named executive officers to be located proximate to the Company's headquarters in Nevada.

Base salaries are reviewed annually and may be adjusted by our Compensation Committee taking into account the individual performance of the named executive officer as well as that of the Company as a whole.

For fiscal year 2011, the Compensation Committee reviewed the base salary and performance of each of our named executive officers as well as the performance of the Company and Setren's analysis and summary of the market practice of the comparator companies. The Compensation Committee determined that the base salaries of certain of the named executive officers were markedly lower than the 50th percentile at both its comparator companies and the 2010 Radford Biotechnology Survey. Based on this review and a review of the performance of each named executive officer, the unique role of each named executive officer within the Company and the limited resources with which the named executive officers have to work, and noting the planned departure of Ms. Wilson from the Company in January 2011, the Compensation Committee determined to raise the base salaries of its named executive officers. Other than Mr. McLaughlin's base salary, which remains below the 50th percentile, the Compensation Committee raised the base salaries of its named executive officers to at or near the average of the 50th percentile of its comparator companies and the 2010 Radford Biotechnology Survey. The fiscal year 2011 base salaries for our named executive officers are set forth in the table below:

| Name(1) | Title | 2011 Base Salary | % Increase from 2010 Base Salary |
|---------------------|---|---------------------|--|
| John P. McLaughlin | President, Chief Executive Officer and Acting Chief Financial Officer | \$ 585,000 | 13.6% |
| Christopher Stone | Vice President, General Counsel and Secretary | \$ 375,000 | 17.4% |
| Caroline Krumel | Vice President of Finance and Principal Accounting Officer | \$ 230,000 | —(1) |
| Danny Hart | Deputy General Counsel and Assistant Secretary | \$ 186,300 | —(1) |
| Christine R. Larson | Former Vice President and Chief Financial Officer | \$ 400,000 | 11% |
| Karen Wilson | Former Vice President of Finance and Principal Accounting Officer | \$ 263,925 | 3.5% |

(1) Raises for Ms. Krumel and Mr. Hart are absent from this table because their appointments to officers of the Company occurred in 2011.

Annual Cash Bonus

The second component of our named executive officers' total compensation is the annual cash bonus. The annual cash bonus is intended to encourage high levels of individual and Company performance by rewarding our named executive officers for their individual contributions and our overall performance during the year.

As discussed above, in order to attract the executive talent necessary to lead the Company, our Compensation Committee thinks that total compensation should be near or at the 50th percentile of other similar-sized companies within the biotechnology industry and should be based on an individual's qualifications and experience. Furthermore, our Compensation Committee thinks that a significant portion of a named executive officer's compensation should be based on Company and individual performance. As a result, we provide our named executive officers with an annual cash bonus opportunity that can be earned based on achievement of certain predetermined corporate and, in the case of the named executive officers other than our chief executive officer, individual performance goals.

As with base salary, when determining annual bonus opportunities, the Compensation Committee considers the Company's unique business model, the executive officers' prior performance, individual contributions, responsibilities, experience and position, the difficulty in locating experienced and qualified executive officer candidates in the remote area surrounding the Company's headquarters, the Company's potentially short-term corporate existence (resulting in our named executive officers' potentially short-term employment with the Company) and the fact that we require our named executive officers to be located proximate to the Company's headquarters in Nevada.

Fiscal Year 2011 Bonus Evaluation

For fiscal year 2011, the Compensation Committee established the 2011 Annual Bonus Plan. The 2011 Annual Bonus Plan is composed entirely of cash and is compensation entirely at risk depending on performance. In the event of underperformance, the Compensation Committee can award no bonus. In the event of performance that exceeds the Compensation Committee's performance expectations, the bonus amount is capped at 150% of the target amount, unless the Compensation Committee determines in its discretion to award amounts outside and in addition to the 2011 Annual Bonus Plan.

As part of the 2011 Annual Bonus Plan, the Board reviewed and approved the Company's corporate goals for 2011, and the Compensation Committee reviewed and approved individual goals for our officers as well as the weighting of corporate and individual goals in determining their bonuses for fiscal year 2011.

In determining the appropriate ratio of corporate goals and individual goals for measuring overall performance, the Compensation Committee determined that the president and chief executive officer should be measured by the Company's overall performance with respect to corporate goals. With respect to the other named executive officers, the Compensation Committee determined that the ratio should be heavily skewed toward the attainment of the corporate goals, but also recognized that, in a company with a small staff such as PDL, some weight should be accorded to the attainment of individual goals because the individual goals contribute toward attainment of the corporate goals.

In connection with its annual cash bonus, the Compensation Committee reviewed the target and maximum bonus (as a percentage of base salary) of each named executive officer and Setren's analysis and summary of the market practice of the comparator companies. The Compensation Committee determined that the target bonus percentage of certain of the named executive officers was lower than the 50th percentile at both its comparator companies and the 2010 Radford Biotechnology Survey. Based on this review and a review of the performance of each named executive officer, and noting the planned departure of Ms. Wilson from the Company in January 2011, the Compensation Committee determined to raise the target bonus percentage of certain of the named executive officers to a percentage at or near the 50th percentile of the comparator companies and the Radford Biotechnology Survey. The target and maximum bonus (as a percentage of base salary) and the ratio of corporate to individual goals for each named executive officer are set forth in the table below:

| Name | Title | 2010 Target Bonus | | 2011 Target Bonus | | 2011 Maximum Bonus | | Ratio of 2011 Corporate Goals/ 2011 Individual Goals | |
|--------------------|---|-------------------------|---|-------------------------|---|--------------------------|---|---|---|
| John P. McLaughlin | President, Chief Executive Officer and Acting Chief Financial Officer | 50 | % | 70 | % | 105 | % | 100%/0 | % |
| Christopher Stone | Vice President, General Counsel and Secretary | 40 | % | 50 | % | 75 | % | 75%/25 | % |
| Caroline Krumel(1) | Vice President of Finance and Principal Accounting Officer | — | | 30 | % | 45 | % | 75%/25 | % |
| Danny Hart(1) | Deputy General Counsel and Assistant Secretary | — | | 20 | % | 30 | % | 75%/25 | % |
| | | 40 | % | 50 | % | 75 | % | 75%/25 | % |

| | | | | | | |
|------------------------|---|----|---|---|---|---|
| Christine R. Larson(2) | Former Vice President and Chief Financial Officer | | | | | |
| Karen Wilson(3) | Former Vice President of Finance and Principal Accounting Officer | 35 | % | — | — | — |

- (1) The 2011 target bonus percentages for Ms. Krumel and Mr. Hart were not evaluated along with the other named executive officers because at the time of the target bonus evaluation, Ms. Krumel and Mr. Hart were not officers of the Company (although Ms. Krumel’s target bonus percentage was evaluated in connection with her employment offer). Ms. Krumel and Mr. Hart were not officers of the Company in 2010; therefore, their 2010 target bonuses are not disclosed.
- (2) While Ms. Larson’s target bonus was set for the 2011 Annual Bonus Plan, she was not eligible to receive a bonus under the 2011 Annual Bonus Plan because she resigned from the Company on December 9, 2011.
- (3) Ms. Wilson was not considered for the 2011 Annual Bonus Plan because of Ms. Wilson’s planned resignation from the Company on January 28, 2011.

Corporate Goals

Our corporate goals for 2011 and the relative weight ascribed to them are set forth in the table below:

| 2011 Corporate Goal | Weight |
|--|--------|
| Optimize Value of Patent Estate | 65% |
| Implement Corporate Strategy & Business Development | 20% |
| Manage Risk and Maintain Capital Structure within Guidelines | 10% |
| Enhance Investor Relations | 5% |
| Total | 100% |

For 2011, the Compensation Committee determined that it would review the 2011 corporate goals throughout the second half of 2011 to assure that the goals continued to reflect the Company's priorities. During its review of the 2011 corporate goals throughout the second half of 2011, the Compensation Committee determined that the goals continued to reflect the Company's priorities.

Individual Goals

Christopher Stone

Goals for 2011 for Christopher Stone, our Vice President, General Counsel and Secretary, included: (i) manage EPO appeal; (ii) manage litigation with MedImmune; (iii) manage litigation with Roche/Genentech; (iv) manage any other disputes; and (v) perform diligence for asset purchase opportunities. A specific value was not attached to each goal.

Caroline Krumel

Goals for 2011 for Caroline Krumel, our Vice President of Finance and Principal Accounting Officer, included: (i) prepare SEC filings; (ii) prepare QHP Royalty Sub financial statements and required reporting; (iii) support financial and Sarbanes-Oxley audits; (iv) support 2011 proxy preparation; (v) enhance monthly management reporting, prepare financial analyses for the Board of Directors, committees and management and prepare 2012 expense budget; (vi) complete audit readiness project and (vii) resolve any legacy accounting issues, if they arise. A specific value was not attached to each goal.

Danny Hart

Goals for 2011 for Danny Hart, our Deputy General Counsel and Assistant Secretary, included: (i) manage corporate governance; (ii) manage compliance matters related to state of incorporation, SEC and NASDAQ; (iii) manage proxy and annual meeting; (iv) improve processes related to regulatory filings; (v) optimize use of outside corporate and transactional counsel; (vi) provide legal support on investor relations; (vii) manage legal issues and transactions, if any, related to corporate debt; and (viii) manage transaction component of any acquisitions, if they arise. A specific value was not attached to each goal.

2011 Performance Evaluations and Bonus Amounts

The 2011 Annual Bonus Plan requires that our chief executive officer conduct the performance reviews of our other named executive officers, which is then reviewed by our Compensation Committee. Following these assessments, our Compensation Committee determines the amount of bonus for our other named executive officers. Our Compensation

Committee is responsible for evaluating our chief executive officer's performance.

In January 2012, the Compensation Committee evaluated the Company's performance against the 2011 corporate performance goals established for the Company's 2011 Annual Bonus Plan. The Compensation Committee determined that 90% of the corporate goals were achieved. The Compensation Committee then reviewed the individual 2011 performance of each of the Company's named executive officers and, specifically, their level of achievement of the individual goals established for them at the beginning of 2011, their management and leadership, their professional contributions and their technical and organizational contributions. Based on its review, the Compensation Committee determined that:

• Mr. McLaughlin, whose 2011 Annual Bonus Plan is based solely upon the achievement of corporate goals, would be 90% of the target amount;

• Mr. Stone achieved nearly all of his individual goals in 2011 and that, combined with his continued strong performance in 2011 resulted in Mr. Stone receiving a payout with respect to his individual goals for the 2011 Annual Bonus Plan at 100%;

• Ms. Krumel achieved nearly all of her individual goals in 2011 and that, combined with her performance in 2011 resulted in Ms. Krumel receiving a payout with respect to her individual goals for the 2011 Annual Bonus Plan at 90%; and

• Mr. Hart achieved all of his individual goals in 2011 and that, combined with his continued superior performance and contribution to the Company in 2011 resulted in Mr. Hart receiving a payout with respect to his individual goals at 150%.

Following this review, the Compensation Committee approved the following bonus payments to each of the named executive officers set forth in the table below:

| Name | Title | 2011 Annual Bonus Plan Bonus |
|------------------------|---|------------------------------|
| John P. McLaughlin | President, Chief Executive Officer and Acting Chief Financial Officer | \$368,550 |
| Christopher Stone | Vice President, General Counsel and Secretary | \$173,438 |
| Caroline Krumel | Vice President of Finance and Principal Accounting Officer | \$62,100 |
| Danny Hart | Deputy General Counsel and Assistant Secretary | \$39,123 |
| Christine R. Larson(1) | Former Vice President and Chief Financial Officer | — |
| Karen Wilson(2) | Former Vice President of Finance and Principal Accounting Officer | — |

(1) Ms. Larson was not eligible to receive a bonus under the 2011 Annual Bonus Plan because Ms. Larson resigned from the Company on December 9, 2011.

(2) Ms. Wilson was not eligible to receive a bonus under the 2011 Annual Bonus Plan because Ms. Wilson resigned from the Company on January 28, 2011.

Long-Term Incentive

The final component of the Company's compensation strategy is the long-term incentive plan. As currently arranged, the named executive officers receive long-term incentives that vest at the end of the year following the year in which the long-term incentive plan is adopted. In May 2011, the Compensation Committee adopted a long-term incentive plan that will vest on December 31, 2012, and pay to eligible named executive officers at vesting or soon thereafter.

The purpose of our long-term incentive plan is to enhance stockholder return over the long-term, through promotion of long-term corporate goals and retention of the Company's management team. The Compensation Committee recognizes that continuity of a management team is critical to corporate success in most instances and, therefore, it is in the Company's best interests to retain certain key members of the Company.

Under the 2012 long-term incentive plan, each executive officer is eligible for awards consisting of (i) restricted stock and (ii) a cash payment. Subject to the acceleration provisions set forth in the severance agreements of the named executive officers and the long-term incentive plan described below, the restricted stock award will fully vest on December 31, 2012, provided the executive officer remains employed by the Company through such date. Dividend

payments and other distributions made on the restricted stock during the vesting period of the restricted stock will accrue through the vesting period and will be paid, plus interest, to the named executive officer upon vesting of the restricted stock award. In the event of a change in control, the long-term incentive plan directs that vesting of the restricted stock award, including any accrued but unpaid dividends or other distributions, plus interest, and the target cash payment, including any adjustments (as discussed below) earned on the target cash payment, will accelerate and pay in connection with the change in control.

Payment of the target cash payment under the long-term incentive plan will be made on or as soon as practicable after December 31, 2012, provided the named executive officer remains employed by the Company through December 31, 2012. In addition, if any of the performance goals adopted by the Board set forth below are achieved on or before December 31, 2012, the executive officer may receive an additional cash payment equal to a percentage of the target cash payment (the adjustment). The amount of the adjustment and the achievement of each performance goal will be determined by the Compensation Committee, in its sole discretion, provided that the aggregate maximum cash payment that any executive officer may receive under the long-term incentive plan may not exceed two times his or her target cash payment. The adjustment for each performance goal is set forth in the table below:

| Performance Goal | Adjustment |
|---|------------|
| Protection of European Union Queen et al. Patent Rights | 40% |
| Sale or Merger of Company | 20-50% |
| Recapitalization of Company | 10% |
| Royalty Rights Acquisition | 30-50% |

The following examples demonstrate the calculation of the adjustments:

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

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

The Compensation Committee determined the above adjustment percentages by assessing the value delivered to the Company's stockholders upon attainment of the specified goal and the difficulty of each performance goal. For example, the Compensation Committee has determined that protecting our European patent rights would take considerable time and effort from the Company and would at the same time deliver a significant value to our stockholders. The goals related to sale of the Company or acquiring royalty rights are goals that are equally complicated to achieve, but slightly less complicated to achieve than the goal related to protection of our European patent rights. However, both of those goals have the potential to deliver more value to our stockholders; therefore, their adjustment percentage range is ultimately higher than the adjustment percentage for protection of our European patent rights. "Recapitalization of the Company" is anticipated to require less effort to achieve even though it will deliver value to our stockholders if accomplished successfully.

The Compensation Committee fashioned the long-term incentive plan to consist of a mix of 70% cash and 30% restricted stock. In determining the appropriate mix of the cash and non-cash, the Compensation Committee determined that it was important to include a significant cash component because (i) the cash component could easily be subjected to adjustments that would incentivize the accomplishment of certain, valuable long-term goals and (ii) in the event that the Company's management successfully accomplished a transaction that resulted in a change in control and the loss of employment for some or all of the named executive officers, the cash component would provide financial support in the likely event that the officers are terminated following such a transaction. The equity component seeks to align management's interest with the interests of our stockholders by ensuring that (i) only transactions on terms attractive to equity holders are implemented and (ii) management is incentivized to continue the Company's robust dividend payments. The equity component is not subject to adjustment.

The amount of the long-term incentive awarded to each named executive officer at adoption of the long-term incentive plan is set forth in the table below:

| Name | Title | Target Cash | Value of Restricted Stock Award | Number of Shares Underlying Restricted Stock Award |
|--------------------|---|-------------|---------------------------------|--|
| John P. McLaughlin | President, Chief Executive Officer and Acting Chief Financial Officer | \$469,000 | \$201,000 | 30,501 |
| Christopher Stone | | \$258,000 | \$110,600 | 16,783 |

| | | | | |
|------------------------|---|-----------|-----------|--------|
| | Vice President, General Counsel and Secretary | | | |
| Caroline Krumel | Vice President of Finance and Principal Accounting Officer | \$70,400 | \$30,200 | 4,583 |
| Danny Hart | Deputy General Counsel and Assistant Secretary | \$58,600 | \$25,100 | 3,809 |
| Christine R. Larson(1) | Former Vice President and Chief Financial Officer | \$281,400 | \$120,600 | 18,300 |
| Karen Wilson(2) | Former Vice President of Finance and Principal Accounting Officer | — | — | — |

(1) Ms. Larson is not eligible to receive payment under the long-term incentive plan because Ms. Larson resigned from the Company on December 9, 2011.

(2) Ms. Wilson was not considered under the long-term incentive plan because Ms. Wilson resigned from the Company on January 28, 2011, before the long-term incentive plan was adopted.

Employee Benefits

We provide our employees, including our named executive officers, with customary benefits, including medical, dental, vision and life insurance coverage, short-term and long-term disability coverage and the ability to participate in our 401(k) plan, which provides for a Company matching contribution up to certain limits. The costs of our insurance coverage benefits are largely borne by us; however, employees pay portions of the premiums for some of these benefits. We think that these benefits are of the type customarily offered to employees by our peer group and in our industry.

This element of compensation is intended to provide assurance of financial support in the event of illness or injury and encourage retirement savings through a 401(k) plan.

All Other Compensation

We generally do not offer perquisites to our named executive officers. However, due to the Company's unique business model, the difficulty in locating experienced and qualified executive officer candidates in the remote area surrounding the Company's headquarters, the Company's potentially short-term corporate existence (resulting in our named executive officers' potentially short-term employment with the Company) and the fact that we require our named executive officers to be located proximate to the Company's headquarters in Nevada, the Compensation Committee decided to provide housing assistance to Ms. Larson (\$4,000 per month), Ms. Wilson (\$3,500 per month), Ms. Krumel (\$3,500 per month, increased from \$3,000 because of increased local-area rental prices and lack of suitable housing) and Mr. Hart (\$2,500 per month).

Severance Benefits

In May 2011, our Board of Directors authorized the Company to enter into severance agreements with each of its named executive officers that provide for certain compensation, benefits and accelerated vesting rights if the named executive officer's employment is terminated without "cause" or he or she resigns for "good reason," as those terms are defined in the applicable severance agreement.

Specifically, the severance agreements provide that, upon termination of the named executive officer's employment without cause or his or her resignation for good reason, the named executive officer will be entitled to receive, subject to the execution of a general release of all claims against the Company, the following severance payment and benefits: (i) a percentage of the named executive officer's annual base salary, (ii) a percentage of the named executive officer's target annual bonus for the year in which the separation occurs, (iii) payment of the named executive officer's COBRA premiums, if any, for a certain number of months, (iv) acceleration of vesting of a pro-rated amount of the restricted stock awards granted pursuant to any outstanding long-term incentive plan, (v) payment of any accrued but unpaid dividends or other distributions, plus interest, paid on the restricted stock awards which are accelerated pursuant to clause (iv) and (vi) payment of a pro-rated amount of the named executive officer's target cash payment that the executive officer is eligible to earn under any long-term incentive plan. Any severance payments under the severance agreements will be paid in a lump sum within 5 days after the effective date of the named executive officer's release of claims.

The Company adopted the severance agreements in connection with its long-term incentive plan, recognizing that severance agreements are necessary to attract and retain a talented management team. The Board of Directors determined the amount of severance benefits for each of its named executive officers upon recommendation of the Compensation Committee, which, in consultation with its compensation consultant, Setren, determined the recommended amount based on the 50th percentile of its comparator companies' practices.

A calculation of these severance benefits can be found at "Potential Payments upon Termination or Change in Control" below.

Stock Ownership Guidelines

Our Board has determined that ownership of our common stock by our officers and directors promotes a focus on long-term growth and aligns the interests of our officers and directors with those of our stockholders. As a result, our Board adopted stock ownership guidelines stating that our outside directors, our chief executive officer and our other five most-highly-compensated officers (based on annual base salary), should maintain certain minimum ownership

levels of our common stock.

Our stock ownership guidelines encourage the following levels of ownership among our named executive officers:

Our chief executive officer should own shares of common stock with a value of at least three times the chief executive officer's annual base salary not later than seven years after the date the person initially becomes chief executive officer; and

Our five most-highly-compensated officers (based on annual base salary), other than our chief executive officer, should own shares of common stock with a value of at least two times the officer's annual base salary not later than seven years after the date the person initially becomes such an officer.

The Board is permitted, in its discretion, to waive the application of our stock ownership guidelines to any covered individual if it determines that, as a result of the individual's personal circumstances, application of the ownership guidelines would result in a hardship.

Prohibition against Certain Equity Transactions

Our Trading Compliance Policy prohibits our officers from engaging in “short” sales and hedging or monetization transactions which could reasonably cause our officers to have interests adverse to our stockholders. “Short” sales, which are sales of shares of common stock by a person that does not own the shares at the time of the sale, evidence an expectation that the value of the shares will decline. We prohibit our officers from entering into “short” sales because such transactions signal to the market that the officer has no confidence in us or our short-term prospects and may reduce the officer’s incentive to improve our performance. In addition, Section 16(c) of the Exchange Act expressly prohibits executive officers and directors from engaging in short sales. Our officers are also prohibited under our Trading Compliance Policy from entering into hedging or monetization transactions, such as zero-cost collars and forward sale contracts, which allow a party to lock in much of the value of their stock holdings, often in exchange for all or part of the potential for upside appreciation in the stock. These transactions would allow someone to continue to own the covered securities, but without the full risks and rewards of ownership. If an officer were to enter into such a transaction, the officer would no longer have the same objectives as our other stockholders.

Consideration of the Stockholders’ Advisory Vote on Compensation

At the Company’s annual meeting of stockholders held in June 2011, an overwhelming majority of the votes cast on the say-on-pay proposal were voted in favor of the proposal. In reviewing our executive compensation program, the Compensation Committee considered, among other things, the 2011 vote results and other feedback we received from stockholders. After careful consideration, the Compensation Committee did not make any changes to the executive compensation as a result of the 2011 vote results. In addition, taking into consideration the voting results from the 2011 annual meeting concerning the frequency of the stockholders advisory votes on executive compensation, our current policy is to hold an annual advisory vote on executive compensation until the next advisory vote on the frequency of such votes.

Compensation Recovery Policy

We have not implemented a policy regarding retroactive adjustments to any cash or equity-based incentive compensation paid to our named executive officers where the payments were predicated upon the achievement of financial results that were subsequently the subject of a financial restatement. We intend to adopt a compensation recovery policy in compliance with the Securities and Exchange Commission’s final rules related to compensation recovery.

Tax and Accounting Considerations

In determining executive compensation, the Compensation Committee also considers, among other factors, the possible tax consequences to the Company and to its executives. However, to maintain maximum flexibility in designing compensation programs, the Compensation Committee will not limit compensation to those levels or types of compensation that are intended to be deductible. For example, our Compensation Committee considers the provisions of Section 162(m) of the Code and related Treasury Department regulations that restrict deductibility for federal income tax purposes of executive compensation paid to our chief executive officer and each of our three other most-highly-compensated executive officers holding office at the end of any year, other than our chief executive officer and other than our chief financial officer, to the extent such compensation exceeds \$1,000,000 for any of such officers in any year and does not qualify for an exception under the statute or regulations. The members of our Compensation Committee qualify as outside directors for purposes of exempting executive compensation from the limits on deductibility under Section 162(m). Further, as a result of stockholder approval of our 2005 Equity Incentive Plan and the amended Plan in June 2009, certain performance-based awards granted under the plan are eligible to be fully deducted by the Company. However, the Compensation Committee has determined that our interests are best

served in certain circumstances by providing compensation that does not qualify as performance-based compensation under Section 162(m) and, accordingly, has granted such compensation which may be subject to the \$1,000,000 annual limit on deductibility, including base salary, annual cash bonuses and time-vested restricted stock.

In addition to Section 162(m), Sections 280G and 4999 of the Code provide that executive officers, persons who hold significant equity interests and certain other highly-compensated service providers may be subject to an excise tax if they receive payments or benefits in connection with a change in control of the Company that exceeds certain prescribed limits, and that the Company (or a successor) may forfeit a deduction on the amounts subject to this additional tax. Further, Section 409A of the Code imposes certain additional taxes on service providers who enter into certain deferred compensation arrangements that do not comply with the requirements of Section 409A. We have not agreed to pay any named executive officer, a “gross-up” or other reimbursement payment for any tax liability that he or she might owe as a result of the application of Sections 280G, 4999 or 409A of the Code.

The Compensation Committee also considers the accounting consequences to the Company of different compensation decisions and the impact of certain arrangements on stockholder dilution. However, neither of these factors by themselves will compel a particular compensation decision.

Compensation Committee Report

The Compensation Committee has reviewed and discussed with management the Compensation Discussion & Analysis contained in this proxy statement. Based on this review and discussion, the Compensation Committee has recommended to the Board that the Compensation Discussion & Analysis be included in this proxy statement and incorporated into our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

Respectfully Submitted By:

The Compensation Committee

Harold Selick, Ph.D. (chairperson)

Frederick Frank

Jody S. Lindell

EXECUTIVE OFFICER COMPENSATION

Summary Compensation Table

The compensation earned by our chief executive officer, our chief financial officer, our three other executive officers (the named executive officers) and our executive officers who departed the Company in 2011 for the last three fiscal years is set forth in the table below:

| Name and Title | Year | Salary | Bonus | Stock Awards(1) | Non-Equity Incentive Plan Compensation | All Other Compensation | Total |
|---|----------|-----------------|-----------------|-----------------|--|------------------------|--------------|
| John P. McLaughlin President, Chief Executive Officer and Acting Chief Financial Officer | 2011 | \$ 585,000 | \$ — | \$ 201,000 | \$ 368,550 | \$ 9,800 (2) | \$ 1,164,350 |
| | 2010 | \$ 515,000 | \$ 742,500 (3) | \$ — | \$ 257,500 | \$ 186,013 (4) | \$ 1,701,013 |
| | 2009 | \$ 500,000 | \$ — | \$ 300,000 | \$ 262,500 | \$ 9,800 (2) | \$ 1,072,300 |
| Christopher Stone Vice President, General Counsel and Secretary | 2011 | \$ 360,635 (5) | \$ — | \$ 110,600 | \$ 173,438 | \$ 9,800 (2) | \$ 654,473 |
| | 2010 | \$ 319,300 | \$ 391,315 (6) | \$ — | \$ 143,685 | \$ 104,850 (7) | \$ 959,150 |
| | 2009 | \$ 284,167 (8) | \$ — | \$ 165,000 | \$ 131,750 | \$ 9,800 (2) | \$ 590,717 |
| Caroline Krumel Vice President of Finance and Principal Accounting Officer | 2011 | \$ 220,417 (9) | \$ 2,000 (10) | \$ 30,200 | \$ 62,100 | \$ 47,800 (11) | \$ 362,517 |
| Danny Hart Deputy General Counsel and Assistant Secretary | 2011(12) | \$ 186,300 | \$ — | \$ 25,100 | \$ 39,123 | \$ 38,652 (13) | \$ 289,175 |
| Christine R. Larson Former Vice President and Chief Financial Officer | 2011 | \$ 377,273 (14) | \$ — | \$ — | (15) \$ — | \$ 807,812 (16) | \$ 1,185,085 |
| | 2010 | \$ 360,500 | \$ 420,000 (17) | \$ — | \$ 150,000 | \$ 163,525 (18) | \$ 1,094,025 |

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| | | | | | | | | |
|--|------|------------|------------|------------|------------|-----------|------|------------|
| Officer | 2009 | \$ 350,000 | \$ — | \$ 180,000 | \$ 148,750 | \$ 57,800 | (19) | \$ 736,550 |
| Karen Wilson | 2011 | \$ 20,994 | (20) \$ — | \$ — | \$ — | \$ 13,560 | (21) | \$ 34,554 |
| Former Vice President of Finance and Principal Accounting Officer | 2010 | \$ 255,000 | \$ 185,750 | (22) \$ — | \$ 89,250 | \$ 85,122 | (23) | \$ 615,122 |
| | 2009 | \$ 173,296 | (24) \$ — | \$ 75,000 | \$ 59,358 | \$ 37,053 | (25) | \$ 344,707 |

- (1) Amounts in this column represent the grant date fair value of restricted stock awards granted in 2011 and 2009, calculated in accordance with FASB ASC Topic 718. The amounts shown disregard estimated forfeitures. Assumptions used in the calculation of these amounts for awards granted in 2011 and 2009 are included in Note 14 Form 10-K filed with the SEC on February 23, 2012. The 2009 restricted stock grants were made in connection with the Company's special retention incentive that was included in Mr. McLaughlin's, Mr. Stone's, Ms. Larson's and Ms. Wilson's offer letters and that vested in December 2010. The 2011 restricted stock grants were made in connection with the Company's adoption of the 2012 Long-Term Incentive Plan that will vest on December 31, 2012.
- (2) Consists of matching contributions we made to the officer's 401(k) plan.
- (3) Consists of (i) the cash amount of the special retention incentive awarded to Mr. McLaughlin in 2010 - \$700,000 and (ii) the cash discretionary bonus awarded to Mr. McLaughlin in addition to his 2010 Annual Bonus Plan reflected in the "Non-Equity Incentive Plan Compensation" column - \$42,500.
- (4) Consists of (i) matching contributions we made to Mr. McLaughlin's 401(k) plan - \$9,800 and (ii) the dollar value of dividends and interest accrued on those dividends paid to Mr. McLaughlin on the restricted stock awards that vested in December 2010 - \$176,213.
- (5) Mr. Stone's annual base salary for 2011 was \$375,000. The amount of salary reflected in this column is lower than his annual base salary because of disability leave in 2011.
- (6) Consists of (i) the cash amount of the special retention incentive awarded to Mr. Stone in 2010 - \$385,000 and (ii) the cash discretionary bonus awarded to Mr. Stone in addition to his 2010 Annual Bonus Plan reflected in the "Non-Equity Incentive Plan Compensation" column - \$6,315.
- (7) Consists of (i) matching contributions we made to Mr. Stone's 401(k) plan - \$9,800 and (ii) the dollar value of dividends and interest accrued on those dividends paid to Mr. Stone on the restricted stock awards that vested in December 2010 - \$95,050.
- (8) Mr. Stone's annual base salary for 2009 was \$310,000. The amount of salary reflected in this column is lower than his annual base salary because Mr. Stone joined PDL in February 2009.
- (9) Ms. Krumel's annual base salary for 2011 was \$230,000. The amount of salary reflected in this column is lower than her annual base salary because Ms. Krumel joined PDL in January 2011.
- (10) Ms. Krumel was awarded a special cash bonus in July 2011 to account for her extra efforts in accomplishing the Company's Quarterly Report on Form 10-Q.

- (11) Consists of (i) matching contributions we made to Ms. Krumel's 401(k) plan - \$9,800 and (ii) the housing allowance paid to Ms. Krumel - \$38,000.
- (12) Compensation for Mr. Hart is not shown for years before 2011 because he was appointed a named executive officer of the Company in 2011.
- (13) Consists of (i) matching contributions we made to Mr. Hart's 401(k) plan - \$8,652 and (ii) the housing allowance paid to Mr. Hart - \$30,000.
- (14) Ms. Larson's annual base salary for 2011 was \$400,000. The amount of salary reflected in this column is lower than her annual base salary because Ms. Larson departed the Company in December 2011.
- (15) Ms. Larson forfeited the restricted stock (\$120,600) that was granted to her in 2011 upon her departure from the Company in December 2011.
- (16) Consists of (i) matching contributions we made to Ms. Larson's 401(k) plan - \$9,800, (ii) the housing allowance paid to Ms. Larson - \$46,000, (iii) the payment made to Ms. Larson in connection with her execution of separation and release agreement upon her departure from the Company - \$700,000 and (iv) payout of accrued vacation upon separation - \$52,012.
- (17) Consists of the cash amount of the special retention incentive awarded to Ms. Larson in 2010 - \$420,000.
- (18) Consists of (i) matching contributions we made to Ms. Larson's 401(k) plan - \$9,800, (ii) the dollar value of dividends and interest accrued on those dividends paid to Ms. Larson on the restricted stock awards that vested in December 2010 - \$105,725 and (iii) the housing allowance paid pursuant to our employment offer letter with Ms. Larson - \$48,000.
- (19) Consists of (i) matching contributions we made to Ms. Larson's 401(k) plan - \$9,800 and (ii) the housing allowance paid pursuant to our employment offer letter with Ms. Larson - \$48,000.
- (20) Ms. Wilson's annual base salary for 2011 was \$263,925. The amount of salary reflected in this column is lower than her annual base salary because Ms. Wilson departed the Company in January 2011.
- (21) Consists of (i) matching contributions we made to Ms. Wilson's 401(k) plan - \$1,188, (ii) the housing allowance paid to Ms. Wilson - \$3,500 and (iii) payout of accrued vacation upon separation - \$8,872.
- (22) Consists of (i) the cash amount of the special retention incentive awarded to Ms. Wilson in 2010 - \$175,000 and (ii) the cash discretionary bonus awarded to Ms. Wilson in addition to her 2010 Annual Bonus Plan reflected in the "Non-Equity Incentive Plan Compensation" column - \$10,750.
- (23) Consists of (i) matching contributions we made to Ms. Wilson's 401(k) plan - \$9,800, (ii) the dollar value of dividends and interest accrued on those dividends paid to Ms. Wilson on the restricted stock awards that vested in December 2010 - \$33,322 and (iii) the housing allowance paid pursuant to our employment offer letter with Ms. Wilson - \$42,000.
- (24) Ms. Wilson's annual base salary for 2009 was \$250,000. The amount of salary reflected in this column is lower than her annual base salary because Ms. Wilson joined PDL in April 2009.
- (25) Consists of (i) matching contributions we made to Ms. Wilson's 401(k) plan - \$8,052, (ii) the housing allowance paid pursuant to our employment offer letter with Ms. Wilson - \$28,000 and (iii) moving expenses reimbursement pursuant to our employment offer letter with Ms. Wilson - \$1,001.

Grants of Plan-Based Awards During 2011

The following table lists each grant of plan-based awards made by PDL during 2011 to our named executive officers:

| Name | Grant Date | Action Date | Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1) | | | All Other Stock Awards: Number of Shares of | Grant Date Fair Value of Stock Awards |
|------|------------|-------------|--|--------|---------|---|---------------------------------------|
| | | | Threshold(2) | Target | Maximum | Stock (3) | Awards |
| | 05/23/2011 | 05/21/2011 | | | | 30,501 | \$201,000 |

| | | | | | | |
|------------------------|------------|------------|------|------------|------------|------------|
| John P. McLaughlin | | | | | | |
| | N/A | N/A | \$ 0 | \$ 409,500 | \$ 614,250 | |
| | N/A | N/A | \$ 0 | \$ 469,000 | \$ 938,000 | |
| Christopher Stone | | | | | | |
| | 05/23/2011 | 05/21/2011 | | | | 16,783 |
| | N/A | N/A | \$ 0 | \$ 187,500 | \$ 281,250 | \$ 110,600 |
| | N/A | N/A | \$ 0 | \$ 258,000 | \$ 516,000 | |
| Caroline Krumel | | | | | | |
| | 05/23/2011 | 05/21/2011 | | | | 4,583 |
| | N/A | N/A | \$ 0 | \$ 69,000 | \$ 103,500 | \$ 30,200 |
| | N/A | N/A | \$ 0 | \$ 70,400 | \$ 140,800 | |
| Danny Hart | | | | | | |
| | 05/23/2011 | 05/21/2011 | | | | 3,809 |
| | N/A | N/A | \$ 0 | \$ 37,260 | \$ 55,890 | \$ 25,100 |
| | N/A | N/A | \$ 0 | \$ 58,600 | \$ 117,200 | |
| Christine R. Larson(4) | | | | | | |
| | 05/23/2011 | 05/12/2011 | | | | 18,300 |
| | N/A | N/A | \$ 0 | \$ 200,000 | \$ 300,000 | \$ 120,600 |
| | N/A | N/A | \$ 0 | \$ 281,400 | \$ 562,800 | |
| Karen Wilson(5) | | | | | | |
| | — | — | — | — | — | — |

- (1) The amounts in the below columns relate to the Company's 2011 Annual Bonus Plan (second row for each named executive officer) and 2012 Long-Term Incentive Plan (third row for each named executive officer). Actual amounts paid in January 2012 under the 2011 Annual Bonus Plan were based on our Compensation Committee's review of corporate performance and individual achievements in 2011 and are included in the "Non-Equity Incentive Plan Compensation" column of the Summary Compensation Table above.
- (2) The amounts in the "Threshold" column reflect the minimum amount that could be awarded under the 2011 Annual Bonus Plan and the 2012 Long-Term Incentive Plan.
- (3) These shares of stock relate to the shares of restricted stock granted to our named executive officers in 2011 under the 2012 Long-Term Incentive Plan that vests on December 31, 2012.
- (4) Ms. Larson resigned from the Company on December 9, 2011, and therefore was ineligible to receive payment under either plan.
- (5) Ms. Wilson resigned from the Company on January 28, 2011, before adoption of either plan.

Outstanding Equity Awards at December 31, 2011

The following table sets forth information concerning stock options and stock awards held by the named executive officers as of December 31, 2011:

| Name | Option Awards | | | | Stock Awards(2) | |
|------------------------|---|---|-----------------------|---------------------------|---|---|
| | Number of Securities Underlying Unexercised Options Exercisable | Number of Securities Underlying Unexercised Options Unexercisable | Option Exercise Price | Option Expiration Date(1) | Number of Shares or Units of Stock That Have Not Vested | Market Value of Shares or Units of Stock That Have Not Vested |
| John P. McLaughlin | 15,085 (3) | — | \$ 5.414 | 10/08/2015 | — | — |
| Christopher Stone | — | — | — | — | 30,501 | \$ 189,106 |
| Caroline Krumel | — | — | — | — | 16,783 | \$ 104,055 |
| Danny Hart | — | — | — | — | 4,583 | \$ 28,415 |
| Christine R. Larson(4) | — | — | — | — | 3,809 | \$ 23,616 |
| Karen Wilson(5) | — | — | — | — | — | — |

(1) The expiration date of this stock option is seven years from its grant date.

(2) These shares of stock relate to the shares of restricted stock granted to our named executive officers in 2011 under the 2012 Long-Term Incentive Plan that vests on December 31, 2012.

(3) The shares subject to this option were granted with respect to Mr. McLaughlin's service as an outside director prior to being appointed President and Chief Executive Officer of our Company.

(4) Ms. Larson resigned from the Company on December 9, 2011, and therefore held no equity awards at December 31, 2011.

(5) Ms. Wilson resigned from the Company on January 28, 2011, and therefore held no equity awards at December 31, 2011.

Option Exercises and Stock Vested in 2011

No options were exercised by the named executive officers and no shares vested during 2011.

Potential Payments upon Termination or Change in Control

Termination

While we have employment agreements with our named executive officers, our named executive officers are employed “at will.” However, they are eligible to receive certain severance payments and benefits upon their termination of employment under certain defined circumstances. The amount and type of such severance payments and benefits depends upon the specific circumstances under which a named executive officer’s employment terminates. There are two general categories of termination:

• **Voluntary Termination/For Cause Termination:** includes voluntary termination of employment by the named executive officer (other than in connection with a resignation for good reason), and termination of the named executive officer’s employment by us for cause.

• **Involuntary Termination without Cause:** includes termination of the named executive officer’s employment by us for reasons not constituting cause, such as due to a company-wide or departmental reorganization, or resignation by the named executive officer for good reason.

Payments and benefits receivable upon an involuntary termination without cause or a voluntary termination for good reason are governed by the Severance Agreement between the applicable named executive officer and PDL. A copy of the form of our severance agreement is available as an exhibit to our Current Report on Form 8-K filed with the SEC on May 26, 2011 (the Severance Agreement).

For purposes of determining an individual’s eligibility for the various severance payments and benefits available under the Severance Agreement, the following definitions are relevant:

A resignation for “good reason” will be deemed to occur should a named executive officer resign from his or her employment with us for any of the following reasons without such named executive officer’s informed written consent (following a notice and cure period):

- a material diminution in the authority, duties or responsibilities of the named executive officer, causing the position to be of materially lesser rank or responsibility within PDL;
- a requirement that the named executive officer report to a corporate officer or other employee less senior than the named executive officer’s previous report;
- a material reduction in annual base salary of the named executive officer, unless reductions comparable in amount and duration are concurrently made for all other PDL officers; or
- any action or inaction by PDL that constitutes, with respect to the named executive officer, a material breach of the applicable offer letter.

A named executive officer’s employment will be deemed to have been terminated for “cause” if such termination occurs by reason of the named executive officer’s:

intentional theft, dishonesty, willful misconduct, breach of fiduciary duty for personal profit or falsification of any PDL documents or records;

- material failure to abide by the PDL's code of conduct or other written policies (including, without limitation, policies relating to confidentiality and reasonable workplace conduct);

material and intentional unauthorized use, misappropriation, destruction or diversion of any tangible or intangible asset or corporate opportunity of PDL (including, without limitation, your improper use or disclosure of PDL confidential or proprietary information);

- willful act that has a material detrimental effect on PDL's reputation or business;

repeated failure or inability to perform any reasonable assigned duties after written notice from the chief executive officer of, and a reasonable opportunity to cure, such failure or inability;

material breach of any employment, service, non-disclosure, non-competition, non-solicitation or other similar agreement between the named executive officer and PDL, which breach is not cured pursuant to the terms of such agreement or within twenty (20) days of receiving written notice of such breach; or

conviction (including any plea of guilty or nolo contendere) of any criminal act involving fraud, dishonesty, misappropriation or moral turpitude, or which impairs your ability to perform your duties with PDL.

Specifically, the Severance Agreement provides that, upon termination of the named executive officer's employment without cause or his or her resignation for good reason, the executive officer will be entitled to receive, subject to the execution of a general release of all claims against the Company, the following severance payment and benefits:

- a percentage of the executive officer's annual base salary;
 - a percentage of the executive officer's target annual bonus for the year in which the separation occurs;
 - payment of the executive officer's COBRA premiums, if any, for a certain number of months;
- acceleration of vesting of a pro-rated amount of the restricted stock awards granted pursuant to any outstanding long-term incentive plan;
- payment of any accrued but unpaid dividends or other distributions, plus interest, paid on the restricted stock awards which are accelerated pursuant to the above clause; and
- payment of a pro-rated amount of the named executive officer's target cash payment that the executive officer is eligible to earn under any long-term incentive plan.

The following table sets forth the amount of severance each executive officer is eligible to receive pursuant to the first, second and third bullet points above:

| Name | Title | % of Annual Base Salary | % of Target Annual Bonus | Number of Months of COBRA Premiums |
|----------------------|---|-------------------------|--------------------------|------------------------------------|
| John P. McLaughlin | President, Chief Executive Officer and Acting Chief Financial Officer | 100% | 100% | 12 |
| Christopher L. Stone | Vice President, General Counsel and Secretary | 100% | 75% | 12 |
| Caroline Krumel | Vice President and Principal Accounting Officer | 50% | 50% | 6 |
| Danny Hart | Deputy General Counsel and | 50% | 50% | 6 |

Assistant Secretary

Any severance payments under the Severance Agreement will be paid in a lump sum within 5 days after the effective date of the named executive officer's release of claims. In the event of a change in control, the Severance Agreement may not be terminated until 24 months following the date of the change in control. Otherwise, a change in control has no bearing on the benefits received by a named executive officer upon termination.

Change in Control

A change in control, however, will trigger acceleration and vesting of the Company's long-term incentive plans. Under the 2012 Long-Term Plan, "change in control" is deemed to have occurred as of the first day after any one or more of the following conditions is satisfied:

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

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

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

Table of Termination and Change in Control Payments

The following table sets forth the amount of severance each officer would be eligible to receive upon a hypothetical termination or change in control on December 31, 2011, and does not include accrued wages or vacation pay that would be payable to a named executive officer upon a termination:

| Benefits and Payments upon Separation | Termination for Cause or Voluntary Termination without Good Reason | Involuntary Termination without Cause or Voluntary Termination for Good Reason | Change in Control without Termination |
|---------------------------------------|--|---|--|
| John P. McLaughlin | | | |
| Salary | \$0 | \$585,000 | \$0 |
| Bonus | \$0 | \$409,500 | \$0 |
| 2012 Long-Term Incentive Plan | \$0 | \$455,458 | (1) \$910,915 (2) |
| COBRA Benefits | \$0 | \$18,576 | \$0 |
| Total | \$0 | \$1,468,534 | \$910,915 |
| Christopher Stone | | | |
| Salary | \$0 | \$375,000 | \$0 |
| Bonus | \$0 | \$140,625 | \$0 |
| 2012 Long-Term Incentive Plan | \$0 | \$250,565 | (3) \$501,130 (4) |
| COBRA Benefits | \$0 | \$34,428 | \$0 |
| Total | \$0 | \$800,618 | \$501,130 |
| Caroline Krumel | | | |
| Salary | \$0 | \$115,000 | \$0 |
| Bonus | \$0 | \$34,500 | \$0 |
| 2012 Long-Term Incentive Plan | \$0 | \$68,383 | (5) \$136,766 (6) |
| COBRA Benefits | \$0 | \$12,666 | \$0 |
| Total | \$0 | \$230,549 | \$136,766 |
| Danny Hart | | | |
| Salary | \$0 | \$93,150 | \$0 |
| Bonus | \$0 | \$18,630 | \$0 |

| | | | | | |
|-------------------------------|-----|-----------|-----|-----------|-----|
| 2012 Long-Term Incentive Plan | \$0 | \$56,901 | (7) | \$113,802 | (8) |
| COBRA Benefits | \$0 | \$12,666 | | \$0 | |
| Total | \$0 | \$181,347 | | \$113,802 | |

- (1) Assumes that the cash portion of the 2012 Long-Term Incentive Plan is increased by 50% to account for the probable accomplishment of certain performance adjustments totaling 50%: \$455,458 (cash award increased by 50% - \$703,500; accelerated vesting of equity - \$189,106; payment of accrued dividends - \$18,301; and interest paid on accrued dividends - \$8; all prorated by 50%).
- (2) Assumes that the cash portion of the 2012 Long-Term Incentive Plan is increased by 50% to account for the probable accomplishment of certain performance adjustments totaling 50%: \$910,915 (cash award increased by 50% - \$703,500; accelerated vesting of equity - \$189,106; payment of accrued dividends - \$18,301; and interest paid on accrued dividends - \$8).
- (3) Assumes that the cash portion of the 2012 Long-Term Incentive Plan is increased by 50% to account for the probable accomplishment of certain performance adjustments totaling 50%: \$250,565 (cash award increased by 50% - \$387,000; accelerated vesting of equity - \$104,055; payment of accrued dividends - \$10,070; and interest paid on accrued dividends - \$5; all prorated by 50%).
- (4) Assumes that the cash portion of the 2012 Long-Term Incentive Plan is increased by 50% to account for the probable accomplishment of certain performance adjustments totaling 50%: \$501,130 (cash award increased by 50% - \$387,000; accelerated vesting of equity - \$104,055; payment of accrued dividends - \$10,070; and interest paid on accrued dividends - \$5).
- (5) Assumes that the cash portion of the 2012 Long-Term Incentive Plan is increased by 50% to account for the probable accomplishment of certain performance adjustments totaling 50%: \$68,383 (cash award increased by 50% - \$105,600; accelerated vesting of equity - \$28,415; payment of accrued dividends - \$2,750; and interest paid on accrued dividends - \$1; all prorated by 50%).
- (6) Assumes that the cash portion of the 2012 Long-Term Incentive Plan is increased by 50% to account for the probable accomplishment of certain performance adjustments totaling 50%: \$136,766 (cash award increased by 50% - \$105,600; accelerated vesting of equity - \$28,415; payment of accrued dividends - \$2,750; and interest paid on accrued dividends - \$1).
- (7) Assumes that the cash portion of the 2012 Long-Term Incentive Plan is increased by 50% to account for the probable accomplishment of certain performance adjustments totaling 50%: \$56,901 (cash award increased by 50% - \$87,900; accelerated vesting of equity - \$23,616; payment of accrued dividends - \$2,285; and interest paid on accrued dividends - \$1; all prorated by 50%).
- (8) Assumes that the cash portion of the 2012 Long-Term Incentive Plan is increased by 50% to account for the probable accomplishment of certain performance adjustments totaling 50%: \$113,840 (cash award increased by 50% - \$87,900; accelerated vesting of equity - \$23,616; payment of accrued dividends - \$2,285; and interest paid on accrued dividends - \$1).

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Unless otherwise specified, the following table sets forth certain information regarding the beneficial ownership of our common stock as of April 1, 2012, with respect to our officers and directors, and as of the date noted below for those persons or groups that beneficially hold more than 5% of our outstanding shares of common stock. The table contains ownership information for:

each person who is known by us, based on the records of our transfer agent and relevant documents filed with the SEC, to own beneficially more than 5% of the outstanding shares of our common stock;

- each member of or nominee to our Board;
- each of our named executive officers; and
- all members of our Board and our executive officers as a group.

Except as indicated in the footnotes to this table, we think that the persons named in the table have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them, subject to community property laws where applicable. Unless otherwise specified, the address of each named individual in the table below is the address of the Company:

| Name of Beneficial Owner or Identity of Group | Shares Beneficially Owned(1) | Percent of Outstanding(2) | % |
|---|------------------------------|---------------------------|---|
| FMR LLC(3) 82 Devonshire Street Boston, MA 02109 | 13,830,757 | 9.9 | % |
| The Bank of New York Mellon Corporation(4) One Wall Street, 31st Floor New York, NY 10286 | 12,559,226 | 9.0 | % |
| Renaissance Technologies Corp.(5) 800 Third Avenue New York, NY 10022 | 11,047,654 | 7.9 | % |
| BlackRock, Inc.(6) 40 East 52nd Street New York, NY 10022 | 7,928,239 | 5.7 | % |
| John P. McLaughlin(7) | 153,872 | * | |
| Frederick Frank(8) | 25,372 | * | |
| Jody S. Lindell(8) | 28,746 | * | |
| Paul W. Sandman(9) | 77,872 | * | |
| Harold Selick(8) | 24,300 | * | |

| | | |
|---|---------|---|
| Christopher Stone(10) | 60,212 | * |
| Caroline Krumel(11) | 9,384 | * |
| Danny Hart(12) | 10,610 | * |
| All officers and directors as a group (8 persons)(13) | 390,368 | * |

*

less than 1%

- (1) Beneficial ownership is determined in accordance with SEC rules. Shares which the person or group has the right to acquire within 60 days after April 1, 2012, are deemed to be outstanding in calculating the share ownership of the person or group. Beneficial ownership calculations for 5% stockholders are based on the most recently publicly-filed Schedule 13Ds or 13Gs, which 5% stockholders are required to file with the SEC and which generally set forth their ownership interests, as amended for known changes.
- (2) Percentage is based on 139,875,399 shares of common stock outstanding as of April 1, 2012. Shares to which the person or group has the right to acquire within 60 days after April 1, 2012, are deemed to be outstanding in calculating the share ownership of the person or group but are not deemed to be outstanding as to any other person or group.

(3) All information included in this footnote and table regarding the beneficial ownership of Fidelity Management & Research Company (Fidelity), a wholly-owned subsidiary of FMR LLC and an investment adviser registered under Section 203 of the Investment Advisers Act of 1940, is based on our review of the Schedule 13G/A filed with the SEC on February 14, 2012 (the FMR 13G). Fidelity is the beneficial owner of 13,378,031 shares or 9.567% of our outstanding common stock as a result of acting as investment adviser to various investment companies registered under Section 8 of the Investment Company Act of 1940.

As described in the FMR 13G, Edward C. Johnson 3d, Chairman of FMR LLC, and FMR LLC, through its control of Fidelity, and the funds each has sole power to dispose of the 13,378,031 shares owned by the Funds (as that term is defined by Fidelity in its related filings with the SEC).

As described in the FMR 13G, members of the family of Mr. Johnson are the predominant owners, directly or through trusts, of Series B voting common shares of FMR LLC, representing 49% of the voting power of FMR LLC (the Johnson Family Group). The Johnson Family Group and all other Series B shareholders have entered into a shareholders' voting agreement under which all Series B voting common shares will be voted in accordance with the majority vote of Series B voting common shares. Accordingly, through the Johnson Family Group's ownership of voting common shares and the execution of the shareholders' voting agreement, members of the Johnson Family Group may be deemed, under the Investment Company Act of 1940, to form a controlling group with respect to FMR LLC.

As described in the FMR 13G, neither FMR LLC nor Mr. Johnson has the sole power to vote or direct the voting of the shares owned directly by the Fidelity Funds (as that term is defined by Fidelity in its related filings with the SEC), which power resides with the Funds' (as that term is defined by Fidelity in its related filings with the SEC) Boards of Trustees. Fidelity carries out the voting of the shares under written guidelines established by the Funds' Boards of Trustees.

As described in the FMR 13G, Pyramis Global Advisors, LLC (PGA), whose principal business address is 900 Salem Street, Smithfield, Rhode Island, 02917, an indirect wholly-owned subsidiary of FMR LLC and an investment adviser registered under Section 203 of the Investment Advisers Act of 1940, is the beneficial owner of 66,130 shares or 0.047% of our outstanding common stock as a result of its serving as investment adviser to institutional accounts, non-U.S mutual funds, or investment companies registered under Section 8 of the Investment Company Act of 1940 owning such shares.

As described in the FMR 13G, Mr. Johnson and FMR LLC, through its control of PGA, each has sole dispositive power over 66,130 shares and sole power to vote or to direct the voting of 0 shares of our common stock owned by the institutional accounts or funds advised by PGA as reported above.

As described in the FMR 13G, Pyramis Global Advisors Trust Company (PGATC), 900 Salem Street, Smithfield, Rhode Island, 02917, an indirect wholly-owned subsidiary of FMR LLC and a bank as defined in Section 3(a)(6) of the Securities Exchange Act of 1934, is the beneficial owner of 181,066 shares or 0.129% of our outstanding common stock as a result of its serving as investment manager of institutional accounts owning such shares.

Mr. Johnson and FMR LLC, through its control of PGATC, each has sole dispositive power over 181,066 shares and sole power to vote or to direct the voting of 105,116 shares of our common stock owned by the institutional accounts managed by PGATC as reported above.

FIL Limited (FIL), Pembroke Hall, 42 Crow Lane, Hamilton, Bermuda, and various foreign-based subsidiaries provide investment advisory and management services to a number of non-U.S. investment companies and certain institutional investors. FIL, which is a qualified institution under section 240.13d-1(b)(1)(ii), is the beneficial owner of 205,530 shares or 0.147% of our common stock outstanding.

Partnerships controlled predominantly by members of the family of Mr. Johnson, Chairman of FMR LLC and FIL, or trusts for their benefit, own shares of FIL voting stock. While the percentage of total voting power represented by these shares may fluctuate as a result of changes in the total number of shares of FIL voting stock outstanding from time to time, it normally represents more than 25% and less than 50% of the total votes which may be cast by all holders of FIL voting stock. FMR LLC and FIL are separate and independent corporate entities, and their Boards of Directors are generally composed of different individuals.

FMR LLC and FIL are of the view that they are not acting as a “group” for purposes of Section 13(d) under the Securities Exchange Act of 1934 (the Exchange Act) and that they are not otherwise required to attribute to each other the “beneficial ownership” of securities “beneficially owned” by the other corporation within the meaning of Rule 13d-3 promulgated under the Exchange Act. Therefore, they are of the view that the shares held by the other corporation need not be aggregated for purposes of Section 13(d). However, FMR LLC posits that it made its 13G filing on a voluntary basis as if all of the shares are beneficially owned by FMR LLC and FIL on a joint basis.

(4) All information included in this footnote and table regarding the beneficial ownership of The Bank of New York Mellon Corporation (BNY), a New York corporation; MBC Investments Corporation (MBC), a Delaware corporation; Mellon International Holdings S.A.R.L. (MIH), possessing Luxembourg citizenship; BNY Mellon International Asset Management Group Limited (BNYM), possessing London citizenship; Newton Management Limited (NML), possessing London citizenship; and Newton Investment Management Limited (NIML), possessing London citizenship, is based on our review of the Schedule 13G/A filed with the SEC on January 30, 2012.

| | Sole voting power (shares) | Shared voting power (shares) | Sole dispositive power (shares) | Shared dispositive power (shares) |
|------|----------------------------------|------------------------------------|---------------------------------------|--|
| BNY | 12,559,226 | 1,250 | 12,871,062 | 402,500 |
| MBC | 11,420,915 | — | 12,249,115 | — |
| MIH | 10,813,806 | — | 11,588,932 | — |
| BNYM | 10,813,806 | — | 11,588,932 | — |
| NML | 10,813,806 | — | 11,588,932 | — |
| NIML | 10,813,806 | — | 11,517,389 | — |

- (5) All information included in this footnote and table regarding the beneficial ownership of Renaissance Technologies LLC (RTC), a Delaware limited liability company, and Renaissance Technologies Holdings Corporation (RTHC), a Delaware corporation, is based on our review of the Schedule 13G/A filed with the SEC on February 13, 2012. RTHC maintains a majority ownership of RTC.

| | Sole voting power (shares) | Shared voting power (shares) | Sole dispositive power (shares) | Shared dispositive power (shares) |
|------|----------------------------------|------------------------------------|---------------------------------------|--|
| RTC | 9,560,833 | — | 10,072,780 | 974,874 |
| RTHC | 9,560,833 | — | 10,072,780 | 974,874 |

- (6) All information included in this footnote and table regarding the beneficial ownership of BlackRock, Inc., a Delaware corporation, is based on our review of the Schedule 13G/A filed with the SEC on February 13, 2012. Blackrock, Inc. discloses the identity of the subsidiaries which acquired the securities being reported by Blackrock, Inc. as BlackRock Japan Co. Ltd.; BlackRock Institutional Trust Company, N.A.; BlackRock Fund Advisors; BlackRock Asset Management Canada Limited; BlackRock Asset Management Australia Limited; BlackRock Advisors, LLC; BlackRock Investment Management, LLC; and BlackRock International Limited.
- (7) Includes 15,085 shares issuable upon the exercise of options that are currently exercisable. Includes 30,501 and 31,955 restricted shares that will vest on December 31, 2012 and 2013, respectively, under the Company's long-term incentive plans, provided Mr. McLaughlin is employed by the Company at such dates.
- (8) Includes 8,489 restricted shares that will vest on June 22, 2012, provided the director continues to serve on our Board on that date.
- (9) Includes 42,500 shares issuable upon the exercise of options that are currently exercisable and 8,489 restricted shares that will vest on June 22, 2012, provided the director continues to serve on our Board at that date.
- (10) Includes 16,783 and 17,583 restricted shares that will vest on December 31, 2012 and 2013, respectively, under the Company's long-term incentive plans, provided Mr. Stone is employed by the Company at such dates.
- (11) Includes 4,583 and 4,801 restricted shares that will vest on December 31, 2012 and 2013, respectively, under the Company's long-term incentive plans, provided Ms. Krumel is employed by the Company at such dates.
- (12) Includes 3,809 and 4,801 restricted shares that will vest on December 31, 2012 and 2013, respectively, under the Company's long-term incentive plans, provided Mr. Hart is employed by the Company at such dates.
- (13) Consists of all shares beneficially owned by all directors and executive officers as a group as of April 1, 2012. Includes 57,585 shares issuable upon the exercise of options that are currently exercisable, 33,956 shares that will vest on June 22, 2012, provided the director(s) continues to serve on our Board on that date, 55,676 restricted shares that will vest on December 31, 2012, provided the named executive officer(s) continues to be employed by the Company on that date, and 59,140 restricted shares that will vest on December 31, 2013, provided the named executive officer(s) continues to be employed by the Company on that date.

RELATED PERSON TRANSACTIONS

Procedures for Approval of Related Person Transactions

Our Audit Committee is responsible for reviewing and approving all related person transactions, including transactions with executive officers and directors, for potential conflicts of interests or other improprieties. Under SEC rules, related person transactions are those transactions where we are or may be a party and the amount involved exceeds \$120,000, and where any of our directors or executive officers or any other related person had or will have a direct or indirect material interest, excluding, among other things, compensation arrangements with respect to employment and Board membership. Our Audit Committee would approve a related person transaction if it determined that the transaction was in the Company's best interests and on terms no less favorable than terms generally available to an unaffiliated third party under the same or similar circumstances.

Our Audit Committee has adopted a stringent policy whereby the Audit Committee will review for approval all related party transactions where the amount involved is anticipated to exceed \$25,000. Our directors are required to disclose to our Board any potential conflict of interest or personal interest in a transaction that our Board or Company is considering. Our executive officers are required to disclose any related person transaction to our Compliance Officer who would notify the Audit Committee of the transaction. We also poll our directors at least annually with respect to related party transactions and their service as an officer or director of other entities.

Any director involved in a related party transaction that is being reviewed or approved must recuse himself or herself from participation in any related deliberation or decision. All related party transactions anticipated to exceed \$25,000 are reviewed in advance of the transaction being completed.

Related Party Transactions

There were no transactions in 2011 and there is not any currently proposed transaction where we were or are to be a party and the amount involved exceeds \$120,000, and where any of our directors or executive officers or any other related person had or will have a direct or indirect material interest, other than the compensation paid to our executive officers with respect to their employment relationship with us and compensation paid to our outside directors for their service as members of our Board, which compensation is disclosed in this proxy statement.

OTHER MATTERS

Equity Compensation Plan Information

As of December 31, 2011, we maintained one active stock-based compensation plan under which we could grant stock-based awards to officers and other employees, directors and consultants. 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.

Prior to 2009, we had five stock-based incentive plans and one employee stock purchase plan under which we could grant stock based awards to officers and other employees, directors and consultants. These plans consisted of the 1993 Employee Stock Purchase Plan, 1991 Stock Option Plan, 1999 Stock Option Plan, 2002 Outside Directors Stock Option Plan and 2005 Equity Incentive Plan, which all were approved by our stockholders, and the 1999 Nonstatutory Stock Option Plan, which was not approved by our stockholders.

In February 2009, our Compensation Committee terminated the 2002 Outside Directors Stock Option Plan, subject to any outstanding options. In June 2009, our Compensation Committee terminated the 1993 Employee Stock Purchase Plan. In September 2009, our Compensation Committee terminated the 1991 Stock Option Plan. Also in September 2009, our Compensation Committee terminated the 1999 Stock Option Plan and the 1999 Nonstatutory Stock Option Plan, subject to any outstanding options. 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.

The following table sets forth information regarding all of our existing equity compensation plans under which we were authorized to issue shares of our common stock or which we have options outstanding as of December 31, 2011:

| Plan Category | Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a) | Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b) | Number of securities remaining available for future issuance under equity compensation plans (excludes securities reflect in column (a)) (c) |
|---|--|--|---|
| Equity compensation plans approved by security holders | 121,819 | \$11.46 | 4,709,857 (2) |
| Equity compensation plans not approved by security holders(1) | 109,524 | \$22.35 | — |
| Total | 231,343 | \$16.62 | 4,709,857 |

(1) Consists of options that are outstanding, and shares available for future issuance under the 1999 Nonstatutory Stock Option Plan. See Note 14 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, for a description of our 1999 Nonstatutory Stock Option Plan.

(2) The shares remaining available for future issuance are all under the 2005 Equity Incentive Plan.

Stockholder Proposals

If a stockholder wishes to have a proposal considered for presentation directly, without its inclusion in our proxy statement, at the 2013 Annual Meeting of Stockholders, including for a recommendation of candidates for election to our Board, the stockholder must submit the proposal to us in writing between February 5, 2013, and March 7, 2013, which is not less than ninety (90) calendar days nor more than one hundred twenty (120) calendar days in advance of the date of the one-year anniversary of the Company's 2012 Annual Meeting of Stockholders. Proposals should be addressed to:

PDL BioPharma, Inc.
Attention: Corporate Secretary
932 Southwood Boulevard
Incline Village, NV 89451

Stockholders submitting a proposal must provide certain other information as described in our Bylaws. Copies of our Bylaws are available online in the "Investor Relations – Corporate Governance" section of our corporate Internet site at www.pdl.com. In addition, proposals submitted for inclusion in our proxy statement must comply with Rule 14a-8 under the Securities Exchange Act of 1934 and must be received at our principal executive offices shown above no later than the close of business on December 24, 2012, which is not less than 120 days before the date of the Company's proxy statement released to stockholders in connection with the previous year's annual meeting.

We did not receive from any of our stockholders a request to include any proposal in this proxy statement.

Section 16(a) Beneficial Ownership Reporting Compliance

Our directors and executive officers are required by Section 16(a) of the Securities Exchange Act of 1934 to timely file with the SEC certain reports regarding their beneficial ownership of our common stock. These persons are also required to furnish us with copies of these reports they file with the SEC. To our knowledge, based solely on our review of such Section 16 Reports we have received and written representations from our directors and executive officers, we have concluded that our officers and executive officers complied with all filing requirements under Section 16(a) during 2010, except as set forth below.

The Company was inadvertently late in filing a Form 4 disclosing the annual grant of restricted stock to each of our outside directors (4).

Transaction of Other Business

At the date of this proxy statement, the only business which our Board intends to present or knows that others will present at the Annual Meeting is as set forth above. If any other matter or matters are properly brought before the Annual Meeting, or any adjournment thereof, it is the intention of the persons named in the accompanying form of proxy to vote the proxy on such matters in accordance with their best judgment.

By Order of the Board of Directors
Christopher Stone
Vice President, General Counsel and Secretary

April 23, 2012

