

**PDL BIOPHARMA, INC.**

**CHARTER OF THE AUDIT COMMITTEE OF THE  
BOARD OF DIRECTORS**

**I. STATEMENT OF POLICY**

This Charter specifies the scope of the responsibilities of the Audit Committee (the “Committee”) of the Board of Directors (the “Board”) of PDL BioPharma, Inc. including its subsidiaries (the “Company”) and the manner in which those responsibilities shall be performed, including its structure, processes and membership requirements.

The primary purpose of the Committee is to oversee the accounting and financial reporting process of the Company and the audits of the Company’s financial statements, assist the Board in fulfilling its oversight responsibilities by reviewing and reporting to the Board on the integrity of the financial reports and other financial information provided by the Company to any governmental body or to the public, and on the Company’s compliance with these legal and regulatory requirements. The Committee shall also review the qualifications, independence and performance, and approve the terms of engagement, of the Company’s independent auditor, review the performance of the Company’s independent auditor, and prepare any reports required of the Committee under rules of the Securities and Exchange Commission. The Committee’s primary duties and responsibilities are to:

- Select and retain the independent auditor, evaluate its independence, qualifications and performance, and approve the terms of engagement for audit service and whether or not to engage such independent auditor for non-audit services and, if so, approve terms of such engagement.
- Review with management and the independent auditor, as appropriate, the Company’s financial reports and other financial information provided by the Company to any governmental body or the public, and the Company’s compliance with these legal and regulatory requirements.
- Appropriately and as further described herein, communicate with the independent auditor, and financial and senior management and appropriately report to the Board.
- Establish and monitor complaint procedures regarding accounting, internal auditing controls and auditing matters.
- Prepare the report required by the Securities and Exchange Commission.
- Coordinate with management and the Compliance Committee so that the Company’s Compliance Head and the Compliance Committee have access to the reports provided to and by the Audit Committee.

The Company shall provide appropriate funding, as determined by the Committee, to permit the Committee to perform its duties under this Charter and to compensate its advisors. The Committee, at its discretion, has the authority to initiate special investigations, and, if appropriate, hire special legal, accounting or other outside advisors or experts to assist the Committee, to fulfill its duties under this Charter. The Committee may also perform such other activities consistent with this Charter, the Company’s Bylaws and governing law, as the Committee or the Board deems necessary or appropriate.

## **II. ORGANIZATION AND MEMBERSHIP REQUIREMENTS**

The Committee shall be comprised of three or more directors selected by the Board, each of whom shall satisfy the independence and experience requirements of Nasdaq for Audit Committee members. In addition, the Committee shall not include any member who:

- accepts any consulting, advisory, or other compensatory fee, directly or indirectly, from the Company, other than in his or her capacity as a member of the Committee, the Board, or any other committee of the Board, or
- is an affiliated person of the Company or any subsidiary of the Company, other than a director who meets the independence requirements of Nasdaq.

Each member of the Committee must be able to read and understand fundamental financial statements, including a balance sheet, income statement, and cash flow statement. In addition, at least one member shall have past employment experience in finance or accounting, professional certification in accounting, or other comparable experience or background resulting in the individual being financially sophisticated, including being or having been a chief executive, chief financial, or other senior officer with financial oversight responsibilities. At least one member shall be an audit committee financial expert as determined by the Board in accordance with the rules and regulations of the Securities and Exchange Commission. The members of the Committee shall be appointed by the Board or appointed by the Board on the recommendation of the Nominating and Governance Committee, if and when such a committee is established, and shall serve until their successors are duly elected and qualified or their earlier resignation or removal. Any member of the Committee may be replaced by the Board, or replaced by the Board on the recommendation of the Nominating and Governance Committee. Unless a chairman is elected by the full Board, the members of the Committee may designate a chairman by majority vote of the full Committee membership.

## **III. MEETINGS**

The Committee shall meet as often as it determines, but not less frequently than quarterly. The Committee may form and delegate authority to subcommittees when appropriate, or to one or more members of the Committee. The Committee shall meet with management, and the independent auditor in separate executive sessions as appropriate. The Committee shall meet with the independent auditor and management on a quarterly basis to review the Company's financial statements and financial reports. The Committee shall maintain written minutes of its meetings, which minutes will be filed with the minutes of the meetings of the Board.

## **IV. COMMITTEE AUTHORITY AND RESPONSIBILITIES**

### **A. Oversight of the Company's Independent Auditor**

The Committee shall be directly and solely responsible for the engagement and oversight of any independent auditor employed by the Company for the purpose of preparing or issuing an audit report or related work. Each independent auditor shall report directly to the Committee. The Committee shall:

1. Obtain periodically from the independent auditor a formal written statement of the matters required to be discussed by Statement on Auditing Standards No. 61, as amended, and, in particular, describing all relationships between the auditor and the Company, and discuss with the auditor any disclosed relationships or services that may impact auditor objectivity and independence.

2. Evaluate annually the qualifications, performance and independence of the independent auditor, the review and evaluation of the lead partner of the independent auditor, taking into account the opinions of management, and report to the Board on its conclusions, together with any recommendations for additional action.
3. Consult with an independent auditor to assure the rotation of the lead audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit every five years.
4. Approve in advance the engagement of the independent auditor for all audit services and non-audit services, based on independence, qualifications and, if applicable, performance, and approve the fees and other terms of any such engagement, provided that the Audit Committee may form and delegate to subcommittees of one or more members the authority to grant preapprovals for audit and permitted non-audit services, provided further that the decisions of such subcommittees to grant any such preapprovals shall be presented to the Audit Committee at its next scheduled meeting. A list of the nine categories of prohibited non-audit services is attached hereto as Appendix A.
5. Approve as necessary the termination of the engagement of the independent auditor and select a replacement independent auditor.
6. Establish policies for the hiring of employees or former employees of the independent auditor who participated in any capacity in the audit of the Company, taking into account the impact of such policies on auditor independence.
7. Regularly review with the independent auditor any significant difficulties encountered during the course of the audit, any restrictions on the scope of work or access to required information and any significant disagreement among management and the independent auditor in connection with the preparation of the financial statements. Review with the independent auditor any accounting adjustments that were noted or proposed by the auditor but that were “passed” (as immaterial or otherwise) and any “management” or “internal control” letter or schedule of unadjusted differences issued, or proposed to be issued, by the auditor to the Company.
8. Review with the independent auditor the critical accounting policies and practices used by the Company, all alternative treatments of financial information within generally accepted accounting principles (“GAAP”) that the independent auditor has discussed with management, the ramifications of the use of such alternative disclosures and treatments and the treatment preferred by the independent auditor.

**B. Review of Financial Reporting, Policies and Processes**

To fulfill its responsibilities and duties, the Committee shall, to the extent that it deems necessary or appropriate, and in addition to the items described above:

1. Review and discuss with management and the independent auditor the Company's annual audited financial statements, any certification, report, opinion or review rendered by the independent auditor, and recommend to the Board whether the audited financial statements should be included in the Company's annual report on Form 10-K.
2. Review and discuss earnings press releases and other information provided to analysts and rating agencies, including "pro forma" or adjusted financial information.
3. Periodically meet separately with management and with the independent auditor.
4. Review with management and the independent auditor any significant judgments made in management's preparation of the financial statements and the view of each as to appropriateness of such judgments.
5. Review with management annually management's assessment of the effectiveness of the Company's internal control structure and procedures for financial reporting ("Internal Controls"), and review annually with the independent auditor the attestation to, and report on, the assessment made by management, and consider whether any changes to the Internal Controls are appropriate in light of management's assessment or the independent auditor's report.
6. Review with management quarterly management's evaluation of the Company's procedures and controls designed to assure that information required to be disclosed in its periodic public reports ("Disclosure Controls") is recorded, processed, summarized and reported in such reports within the time periods specified by the Securities and Exchange Commission for the filing of such reports, and consider whether any changes are appropriate in light of management's evaluation of the effectiveness of such Disclosure Controls.
7. Review and discuss with management and the independent auditor any off-balance sheet transactions or structures and their effect on the Company's financial results and operations, as well as the disclosure regarding such transactions and structures in the Company's public filings.
8. Review with management and the independent auditor the effect of regulatory and accounting initiatives on the financial statements. Review any major issues regarding accounting principles and financial statement presentations, including any significant changes in selection of an application of accounting principles. Consider and approve, if appropriate, changes to the Company's auditing and accounting principles and practices as suggested by the independent auditor or management.
9. Review analyses prepared by management and/or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements including the effects of alternative GAAP methods on the financial statements.

**C. Risk Management, Related Party Transactions, and Ethical Obligations Relating to Financial Statements**

To further fulfill its responsibilities and duties, the Committee shall, to the extent that it deems necessary or appropriate, and in addition to the items described above:

1. Review with the principal executive, compliance and financial officers of the Company any report on significant deficiencies in the design or operation of the Internal Controls which could adversely affect the Company's ability to record, process, summarize or report financial data, any material weaknesses in Internal Controls identified to the auditors, and any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's Internal Controls.
2. Review and approve all related-party transactions after reviewing each such transaction for potential conflicts of interests or other improprieties.
3. Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by Company employees of concerns regarding questionable accounting or auditing matters. Adopt, as necessary, appropriate remedial measures or actions with respect to such complaints or concerns.
4. Consider and present, in consultation with the Compliance Head, to the Board for adoption, a Code of Ethics for its principal executive officer and senior financial officers, and provide for and review prompt disclosure to the public of any change in, or waiver of, such Code of Ethics. Review conduct alleged to be in violation of such Code of Ethics and adopt as necessary or appropriate, remedial, disciplinary, or other measures with respect to such conduct.
5. Discuss with management and the independent auditor any correspondence with regulators or governmental agencies that raise material issues regarding the Company's financial statements or accounting policies.
6. Review, with the Company's counsel, any legal matter that could have a significant impact on the Company's financial statements.
7. Prepare the Committee's report required by the rules of the Securities Exchange Commission to be included in the Company's annual proxy statement.
8. Regularly report to the Board on the Committee's activities, recommendations and conclusions.
9. Review and reassess the Charter's adequacy, as appropriate, and recommend any proposed changes to the Board for approval.

## Appendix A

### Prohibited Non-Audit Services

The nine categories of prohibited non-audit services are:

- Bookkeeping or other services related to the Company's accounting records or financial statements;
- Financial information systems design and implementation;
- Appraisal or valuation services, fairness opinions, or contribution-in-kind reports;
- Actuarial services;
- Internal audit outsourcing services;
- Management functions or human resources;
- Broker or dealer, investment adviser, or investment banking services;
- Legal services and expert services unrelated to the audit; and
- Any other service that the Board determines, by regulation, is impermissible.