SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(MARK ONE)

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

For the fiscal year ended December 31, 2001

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission file number: 0-19756

PROTEIN DESIGN LABS, INC.

(Exact name of Registrant as Specified in its Charter)

Delaware	**94-3023969**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

34801 Campus Drive
Fremont, California, 94555
(Address of Principal Executive Offices including Zip Code)

(510) 574-1400
(Registrant's Telephone Number, Including Area Code)

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

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

Common Stock, Par value $.01
(Title of Class)

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, based upon the closing sale price of the Common Stock on January 31, 2002, as reported on the NASDAQ National Market System, was approximately $1,900,000,000.

As of January 31, 2002, registrant had outstanding 88,648,503 shares of Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the registrant's 2002 Annual Meeting of Stockholders, to be filed with the Commission on or prior to April 30, 2002, are incorporated by reference into Part III of this report.

PROTEIN DESIGN LABS, INC.

FORM 10-K
For The Year Ended December 31, 2001
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This Annual Report (including all of its Parts) for Protein Design Labs, Inc. includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended. All statements other than statements of historical facts are "forward looking statements" for purposes of these provisions, including any projections of earnings, revenues or other financial items, any statements of the plans and

objectives of management for future operations, any statements concerning proposed new products or services, any statements regarding future economic conditions or performance, and any statement of assumptions underlying any of the foregoing. In some cases, forward-looking statements can be identified by the use of terminology such as "may," "will," "expects," "plans," "anticipates," estimates," "potential," or "continue" or the negative thereof or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements contained herein are reasonable, there can be no assurance that such expectations or any of the forward-looking statements will prove to be correct, and actual results could differ materially from those projected or assumed in the forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to inherent risks and uncertainties, including but not limited to the risk factors set forth below, and for the reasons described elsewhere in this Annual Report. All forward-looking statements and reasons why results may differ included in this Annual Report are made as of the date hereof, and we assume no obligation to update these forward-looking statements or reasons why actual results might differ.

As used in this Annual Report, the terms "we," "us," "our," the "Company" and "PDL" mean Protein Design Labs, Inc. and its subsidiaries (unless the context indicates a different meaning).

ITEM 1. BUSINESS

OVERVIEW

We are a leader in the development of humanized monoclonal antibodies for the prevention and treatment of disease. We have licensed certain rights to our first humanized antibody product, Zenapax, to Hoffmann-La Roche Inc. and its affiliates (Roche), which markets it for the prevention of kidney transplant rejection. We are also testing Zenapax for the treatment of autoimmune disease. In addition, we have several other humanized antibodies in clinical development for autoimmune and inflammatory conditions, asthma and cancer.

We have fundamental patents in the U.S., Europe and Japan, which we believe cover most humanized antibodies. Twelve companies have licenses under these patents for humanized antibodies that they have developed. We receive royalties on sales of three humanized antibodies developed by other companies that are currently being marketed.

PRODUCTS IN DEVELOPMENT

The following table summarizes the potential therapeutic applications and development status for our approved product and clinical product candidates. Not all clinical trials being conducted are listed. The development and commercialization of our product candidates are subject to numerous risks and uncertainties.

Antibody Product	Indication(s)	Status
Zenapax	Kidney transplant rejection	Marketed
	Heart transplant rejection	Phase III
	Psoriasis	Phase II
	Asthma	Phase II
	Type I diabetes mellitus	Phase II
	Uveitis	Phase I/II
	Multiple sclerosis	Phase I/II
Zamyl	Acute myeloid leukemia	Phase III
Remitogen	Non-Hodgkins B-cell lymphoma	Phase II
SMART Anti-L-Selectin	Trauma	Phase IIa
Nuvion	Graft-versus-host disease	Phase II
Humanized Anti-IL-4	Asthma	Phase II
SMART Anti-Gamma Interferon	Crohn's disease	Phase I/II
	Psoriasis	Phase I

Zenapax. The FDA approved Zenapax in December 1997 for the prevention of kidney transplant rejection. It has since been approved in Europe and other countries. Zenapax was the first humanized antibody to be approved anywhere in the world. The Zenapax approvals are based on two Phase III clinical trials, both of which demonstrated that Zenapax-treated patients had a statistically significant reduction in acute rejection episodes compared to patients who did not receive Zenapax. Also, Zenapax treatment was not associated with any observed side effects in addition to those typically seen in the transplant setting. Our licensee Roche sells Zenapax in the U.S., Europe and other territories for the transplant indication and we receive royalties on Zenapax sales.

Roche has sponsored or authorized several additional Zenapax clinical trials in other transplant settings, including liver transplants, pediatric kidney transplants, in combination with Roche's drug CellCept with and without certain other immunosuppressive drugs in kidney transplants, and for the treatment of graft-versus-host disease in donor bone marrow transplants. Roche is currently conducting a Phase III trial in heart transplant patients. In addition, we are aware of numerous independent clinical studies using Zenapax in settings including heart, lung, pancreas and combined intestinal and liver transplants.

Zenapax binds to the interleukin-2 (IL-2) receptor on immune system cells known as T cells. IL-2 is a lymphokine, one of the substances released by cells as part of the immune response that occurs in autoimmune diseases and often following organ transplants. IL-2 stimulates T cells to divide and participate in an immune response. Zenapax blocks the binding of IL-2 to its receptor on T cells, suppressing an immune response by inhibiting the proliferation of activated T cells.

Zenapax is the first effective immunosuppressive drug without significant side effects. For example, Zenapax is more specific and less toxic than other immunosuppressive drugs such as cyclosporine or ORTHOCLONE OKT3 which suppress essentially all T cells and possibly other cells. As a result, we believe Zenapax may be useful for the long-term treatment of autoimmune and inflammatory diseases such as psoriasis, multiple sclerosis and asthma.

In 1999, we reacquired from Roche specific development and marketing rights to Zenapax (daclizumab) for autoimmune diseases. We are funding costs of clinical trials for daclizumab in autoimmune diseases. In return, we have the right to market daclizumab for approved autoimmune indications in the U.S. and Canada, and will receive a major portion of the revenues from sales for these diseases. Roche will continue to manufacture daclizumab and pay for the cost of goods from its share of the revenues. In Europe and certain other countries, Roche can elect to market daclizumab for approved autoimmune indications or to allow us to market it, and revenues will be shared.

Zenapax is currently in PDL-sponsored Phase II trials in psoriasis, a common autoimmune disease of the skin, and in asthma. Zenapax is also in trials for uveitis, multiple sclerosis, type I diabetes, aplastic anemia, ulcerative colitis and the ocular manifestations of Behcet's disease. In the early stage clinical trial for uveitis, an autoimmune disease of the eye, Zenapax was safely administered to patients for one year and was effective in controlling the disease in most patients, some of whom have continued to receive Zenapax for over four years.

Zamyl (SMART M195 Antibody). Zamyl binds to the cancer cells of most patients with myeloid leukemias. Myeloid leukemia is the major form of adult leukemia. It is classified into two types: acute myeloid leukemia, or AML, and chronic myelogenous leukemia. At least 14,000 new cases of myeloid leukemia occur each year in the U.S. and 10,000 or more of these cases are AML. The current survival rate from myeloid leukemia is very low, despite aggressive chemotherapy and multiple, expensive hospitalizations.

Several clinical trials using Zamyl have been conducted, including:

a multicenter Phase II/III trial designed to evaluate the antibody for prolonging remission in elderly AML patients

a Phase II trial to evaluate whether the antibody alone could induce remission in patients whose AML had relapsed from or was refractory to their initial chemotherapy

a physician-sponsored Phase II trial of the antibody in patients with newly diagnosed acute promyelocytic leukemia, a subtype of AML, and

physician-sponsored trials using the antibody linked to the radioisotopes 90-Yttrium or 213-Bismuth.

In general, these trials have demonstrated that Zamyl has some biological activity and potential for efficacy. In November 1999, we began a randomized, multicenter, international Phase III study of the antibody in patients with refractory or first-relapsed AML. Patients received a regimen of either Zamyl plus standard chemotherapy or standard chemotherapy alone. In December 2001, we reported the results from an initial review of the preliminary data from this trial. These data were analyzed to assess overall responses, complete responses and complete responses occuring within 70 days of the initiation of therapy.

In this analysis, minimal requirements for an overall response were a bone marrow biopsy that demonstrated 5% or fewer blast cells, normal numbers of circulating neutrophils and transfusion independence for both red cells and platelets. The overall response category included patients who made a complete hematologic recovery as well as patients whose platelet counts were less than 100,000 per cubic millimeter. The complete response category required complete hematologic recovery, including a normal platelet and absolute neutrophil count and transfusion independence.

In this initial review of the preliminary data, the analysis of patients who achieved a complete response within 70 days of the initiation of therapy, which was the prospectively defined primary endpoint of the trial, did not demonstrate statistically significant

differences between the two arms of the trial. However, the review of overall responses indicated that Zamyl increased the overall response rate to 43% in the Zamyl plus chemotherapy patients (n=94) from 26% in the chemotherapy alone patients (n=97) (p=0.015), when all evaluable patients were analyzed on an intent-to-treat basis. In addition, the analysis of complete responses showed a positive trend, with a complete response rate of 30% in the Zamyl plus chemotherapy arm compared with 21% in the chemotherapy alone arm (p=0.182) in the intent-to-treat analysis of all patients

We have not completed the analysis of data from this trial. The results seen in the initial review of the preliminary data may differ from the results that will be obtained as additional data are obtained and as the data are further analyzed. Accordingly, we cannot assure that the complete analysis will confirm the results of the initial review, and the results of the complete analysis could be materially different from those seen in the initial review.

Also, we are in the process of analyzing survival rates for the Zamyl plus chemotherapy patient group and the chemotherapy only group as well as for various subgroups. If no discernable differences are apparent, then regulatory authorities may not attribute sufficient benefit to receiving Zamyl and, therefore, may not approve Zamyl for marketing. Moreover, only a limited analysis of adverse events occurring in this trial has been completed to date. In this preliminary review, serious adverse events occurred with greater frequency in patients receiving Zamyl plus chemotherapy (66 of 94 patients, 70%) than in patients receiving chemotherapy alone (49 of 97 patients, 50%)(p=0.005). However, investigators attributed the serious adverse events to Zamyl therapy in only 13 of these 66 patients. Further, the mortality during induction therapy, defined as the first 70 days after initiation of therapy, was similar for the Zamyl plus chemotherapy (15%) and chemotherapy alone (13%) groups.

If the complete analysis of the data confirms the preliminary response data and demonstrates that Zamyl has been well tolerated, then we plan to hold discussions with the FDA and European regulatory authorities. We would then plan to file for regulatory approval for Zamyl in the United States and Europe, if allowed by the FDA and European regulatory authorities.

We plan to manufacture Zamyl on a commercial scale in our existing manufacturing facility at Plymouth, Minnesota. The facility is currently undergoing renovation to accommodate commercial production. The renovations are expected to be complete in the second half of 2002, following which we will manufacture the qualification lots of Zamyl required for completion of a Biologics License Application (BLA). We currently anticipate completing the filing of a BLA in the second half of 2003.

In addition to the Phase III trial, in 1999 a Phase II trial began to test the safety and efficacy of Zamyl in patients with high-risk myelodysplastic syndrome, a precancerous condition. The study is being conducted by the European Organization for the Research and Treatment of Cancer. We have retained worldwide rights to Zamyl.

Nuvion (SMART Anti-CD3 Antibody). We are developing this antibody for the treatment of graft-versus-host disease and, potentially, autoimmune diseases. It binds to the CD3 antigen, a key receptor for stimulating T cells. A mouse anti-CD3 antibody, ORTHOCLONE OKT3, from Johnson & Johnson, is marketed as an immunosuppressive drug for the treatment of acute kidney, liver and heart transplantation rejection. While highly effective, OKT3 use is often limited by serious toxicity as well as formation of anti-OKT3 antibodies because it is a mouse antibody. In contrast, Nuvion is humanized and also has been specifically engineered to reduce certain immune system interactions that we believe contribute to the toxicity of OKT3.

Nuvion has completed a Phase I trial for steroid-refractory graft-versus-host disease, in which the response rate was 100%. We have initiated a Phase II trial in steroid-refractory graft-versus-host disease and expect to initiate a Phase I trial in primary graft-versus-host disease in 2002.

We conducted a Phase I/II trial of Nuvion in psoriasis. Many patients in this trial experienced adverse events consistent with the cytokine release syndrome, which precluded escalation of the dose to a level likely to be consistently effective. Based on these results, we have discontinued development of Nuvion in psoriasis at this time. In 2002, we plan to initiate a trial of Nuvion in ulcerative colitis, a disease in which concomitant steroid administration may block the symptoms of the cytokine release syndrome. We have retained worldwide rights to Nuvion.

SMART Anti-L-Selectin Antibody. This antibody inhibits the process of neutrophil binding to the lining of blood vessels. It may be useful for preventing multiple organ failure and mortality that often follows severe trauma. In primate studies carried out by independent investigators, SMART Anti-L-Selectin treatment resulted in a statistically significant improvement in survival in a model that simulates severe trauma. We believe this antibody also may be useful to treat adult respiratory distress syndrome and reperfusion injury due to heart attacks.

In May 1999, we licensed European marketing rights for this antibody to Scil Biomedicals GmbH, a European biotechnology company. Scil paid us a licensing fee and agreed to conduct and pay for clinical trials in Europe and to provide us with the data; in return, we are making milestone payments to Scil, at our election, on the achievement of defined clinical and regulatory goals. Scil has completed a Phase I trial of SMART Anti-L-Selectin and is now conducting a Phase IIa trial for treatment of trauma. If the results from that Phase IIa trial are encouraging, we may initiate clinical development in the U.S.

Remitogen (SMART 1D10 Antibody). The National Cancer Institute sponsored a Phase I trial of this antibody for non-Hodgkin's B-cell lymphoma. Clinical responses were observed in four of the patients in this trial, and we initiated a Phase II trial. In December 2001, we reported partial data from this ongoing Phase II trial. One partial response was seen by that date in the first 25 patients evaluated. Based on these results, we have altered the dosing regimen to increase the amount of Remitogen administered. Remitogen is also in additional trials in combination with Rituxan in non-Hodgkin's lymphoma and chronic lymphocytic leukemia, in combination with granulocyte colony stimulating factor in non-Hodgkin's lymphoma, and as a single agent for the treatment of chronic lymphocytic leukemia. We also plan to initiate a Phase I trial of Remitogen for the treatment of solid tumors in 2002.

Remitogen is directed to a different target on B cells than Rituxan, the antibody currently marketed for non-Hodgkin's lymphoma, and thus may provide an alternative therapy. In the U.S., approximately 290,000 patients have this disease and 55,000 new cases occur annually. We have retained worldwide rights to Remitogen.

Humanized Anti-IL-4 Antibody. We licensed this antibody, for the potential treatment of asthma and allergy, from SmithKline Beecham, now GlaxoSmithKline plc, in 1999. The humanized anti-IL-4 antibody blocks the effects of interleukin-4, which is believed to play a key role in initiating the series of biological processes that lead to allergy and asthma. GlaxoSmithKline began a Phase I trial of the humanized anti-IL-4 antibody, which we completed. We have also completed a Phase I/II multiple dose study. We initiated a Phase II trial in moderate to severe asthma patients in October 2001.

We will conduct and pay for initial clinical trials of the humanized anti-IL-4 antibody and pay GlaxoSmithKline to manufacture the antibody. GlaxoSmithKline made a milestone payment to us upon the initiation of the ongoing Phase II trial. At the completion of a specified, larger Phase II trial, GlaxoSmithKline may choose to pay us a fee to acquire marketing rights. In that case, we and GlaxoSmithKline will share future development costs and profits from any product sales. If GlaxoSmithKline elects not to pay this fee, we will have the right to develop and market the antibody.

Concurrently, we granted GlaxoSmithKline an exclusive license under our humanization patents for a humanized anti-IL-5 antibody that they are developing, for which GlaxoSmithKline paid us a licensing fee. We also granted GlaxoSmithKline options to obtain non-exclusive licenses under these patents for up to three additional antibodies. These arrangements with GlaxoSmithKline illustrate our ability to leverage our patent portfolio to obtain rights to a potentially important product.

SMART Anti-Gamma Interferon Antibody. This antibody targets gamma interferon, a protein that stimulates several types of white blood cells and that may be involved in some autoimmune diseases. We have completed two Phase I trials of SMART Anti-Gamma Interferon in normal volunteers, which showed the antibody is well tolerated and has biological activity. We are conducting a Phase I/II trial in patients with Crohn's disease, a form of inflammatory bowel disease. Preliminary data from the single dose portion of this trial show a trend toward a higher rate of response and a greater number of remissions as the dose was increased. We are also conducting a Phase I trial in psoriasis. In the future, we may initiate clinical trials in other autoimmune diseases. We have retained worldwide rights to SMART Anti-Gamma Interferon.

OUR TECHNOLOGY

Antibody Background Information

Antibodies are protective proteins released by the immune system's B cells, a type of white blood cell, in response to the presence of a foreign substance in the body, such as a virus, or due to an aberrant autoimmune response. B cells produce millions of different kinds of antibodies, which have slightly different shapes that enable them to bind and, as a result, inactivate different targets. Antibodies that have identical molecular structure that bind to a specific target are called monoclonal antibodies.

Typically, mice have been used to produce monoclonal antibodies to a wide range of targets, including targets to which the human body does not normally produce antibodies. Specifically, many mouse, or murine, antibodies have been developed as potential therapeutics to inhibit immune function, destroy cancer cells or neutralize viruses.

Although murine monoclonal antibodies are relatively easy to generate, they have significant drawbacks as therapeutics. Murine antibodies have a relatively short half-life in human patients, requiring them to be administered frequently. In addition, murine antibodies are not adapted to work effectively with the human immune system and therefore often have limited ability to destroy the target, such as cancer cells. Most importantly, when injected into humans, a murine antibody is usually recognized by the body's immune system as foreign. The immune system therefore responds with a human anti-mouse antibody, or HAMA, response, which rapidly neutralizes the murine antibody and renders it ineffective for further therapy. These problems have largely prevented murine antibodies from fulfilling their promise as therapeutics.

More recently, improved forms of antibodies, such as humanized, human and chimeric antibodies, have been developed using recombinant DNA and other technologies. These new antibodies can minimize or avoid many of the problems associated with murine antibodies and have led to a resurgence of interest in antibody therapeutics by the pharmaceutical and biotechnology industries. As a result of these advances, many monoclonal antibodies are now progressing into clinical trials. In a list of biotechnology medicines under clinical development in the U.S. published in 1999 by the Pharmaceutical Research and Manufacturers of America, antibodies comprised the single largest category (excluding vaccines), representing 22% of the products listed. In particular, we are aware of 50 humanized antibodies in clinical trials, including several antibodies addressing large markets. Nine humanized or chimeric antibodies have already been approved for marketing by the FDA.

Our SMART Antibody Technology

Our patented SMART antibody technology has positioned us as a leader in the development of therapeutic antibodies that overcome the problems associated with murine antibodies. Our SMART antibodies are human-like antibodies designed using structural information from promising murine antibodies to capture the benefits of such antibodies while overcoming many of their limitations in treating humans. Clinical trials and preclinical studies have shown that our SMART antibodies generally avoid a HAMA response and have a longer half-life than murine antibodies.

Every antibody contains two regions: a variable domain that binds to the target antigen and a constant domain that interacts with other portions of the immune system. The variable domain is composed of the complementarity determining regions (CDRs) that

directly bind to the target antigen and the framework region that holds the CDRs in position and helps maintain their required shape. Researchers have used genetic engineering to construct humanized antibodies that consist of the CDRs from a murine antibody with the framework region and constant domain from a human antibody. However, when the CDRs from the murine antibody are combined with the framework of the human antibody, the human framework often distorts the shape of the CDRs so they no longer bind well to the target. Therefore, it is usually necessary to substitute one or more amino acids from the murine antibody into the framework of the humanized antibody for it to maintain the binding ability of the murine antibody.

A SMART antibody is a humanized antibody designed by using our proprietary computer technology to guide the choice of substitutions of amino acids from the murine antibody into the human antibody framework, based on structural information derived from the murine antibody. The construction of a SMART antibody starts with the identification of a murine antibody that has demonstrated favorable results in laboratory, animal or human studies. A model of the murine antibody is generated using proprietary computer modeling software that predicts the shapes of antibodies and eliminates the need for more time-consuming laboratory techniques. The resulting model is carefully analyzed to identify the few key amino acids in the framework most responsible for maintaining the shape of the CDRs. Software we developed as well as the experience of our computational chemists is important in this analysis. These few key murine amino acids are substituted into the human framework of the SMART antibody along with the murine CDRs in order to maintain their ability to bind well to the target. The resulting SMART antibody retains most or all of the binding ability of the murine antibody, but is about 90% human.

BUSINESS STRATEGY

Our objective is to leverage our product pipeline and patent portfolio in the field of antibodies to become a fully integrated, profitable, research-based biopharmaceutical company. We derive revenues, and expect to derive revenues in the future, from three major sources:

Sales of products that we have developed. We receive royalties on sales of Zenapax by our licensee, Roche. We have several other humanized antibodies in clinical development. We plan to market some of our products, once approved, in North America, especially for specialty markets such as cancer that we believe can be effectively serviced with a relatively small sales force. We may license marketing rights for some antibodies or some geographic areas to other pharmaceutical companies.

Royalties from the sale of humanized antibodies developed by other companies. We license our patents covering humanized antibodies in return for license fees, annual maintenance payments and royalties on product sales. Three of the four humanized antibodies currently approved by the FDA in addition to Zenapax are licensed under our patents, Genentech's Herceptin, MedImmune's Synagis and Wyeth's (formerly known as American Home Products') Mylotarg. Combined sales of these products exceeded $900 million in 2001. We have patent license or patent rights agreements with eleven other companies for humanized antibodies they are developing.

Research and development contracts with other companies. We humanize antibodies for other companies in return for upfront fees, milestone payments and royalties on any product sales. In some cases we also receive the right to co-promote these products in designated territories. We also sometimes license out marketing rights to a humanized antibody that we are developing, and then typically receive upfront fees and milestone payments and/or research funding, in addition to royalties on any product sales by our licensee.

COLLABORATIVE, HUMANIZATION AND PATENT LICENSING ARRANGEMENTS

Collaborative Arrangements

Roche. In 1989, we entered into agreements with Roche to collaborate on the research and development of antibodies which bind to the IL-2 receptor, including Zenapax. Under these agreements, Roche has exclusive, worldwide rights to manufacture, market and sell Zenapax. We began receiving royalties on sales of Zenapax in 1998. Our royalties are subject to offsets for milestones, third party license fees and royalties, and patent expenses paid by Roche.

In October 1999, we agreed with Roche to replace the 1989 agreements with new agreements under which we assumed worldwide responsibility for the clinical development of Zenapax for the potential treatment of autoimmune diseases. Roche retained exclusive worldwide rights to Zenapax for non-autoimmune diseases and is continuing to market Zenapax for the prevention of kidney transplant rejection. In return for undertaking clinical development in autoimmune indications, we will receive a significant share of Zenapax revenues from sales for autoimmune indications, either from our own marketing efforts or from revenue sharing with Roche.

In the U.S. and Canada, we will have the right to market daclizumab in autoimmune indications and will pay for these activities from our share of revenues. In Europe and certain other countries, Roche may choose to market daclizumab in autoimmune indications. In this case, we will receive a substantial portion of daclizumab revenue from these indications. For countries and indications for which Roche elects not to market, we will receive an exclusive license to market daclizumab and pay Roche a small royalty.

Scil Biomedicals GmbH. In March 1999, we entered into an agreement with Scil for rights to develop and market SMART Anti-L-Selectin in Europe. Scil paid us a $3.0 million signing and licensing fee for these rights, and we will be entitled to royalties on any product sales. We agreed to make milestone payments to Scil, at our election, upon the achievement of specified clinical and regulatory goals.

GlaxoSmithKline plc. In September 1999, we signed agreements with SmithKline Beecham, now GlaxoSmithKline, involving two humanized antibodies for the possible treatment of asthma. We obtained a license to GlaxoSmithKline's humanized anti-IL-4 antibody and granted an exclusive license under our antibody humanization patents to GlaxoSmithKline for its humanized anti-IL-5 antibody. We have completed Phase I and Phase I/II clinical trials for the humanized anti-IL-4 antibody and are conducting a Phase II trial in asthma patients. We will be entitled to exclusive, worldwide development, marketing and sales rights to the anti-IL-4 antibody unless GlaxoSmithKline pays a fee to acquire marketing rights at the end of a specified, larger Phase II trial. If GlaxoSmithKline decides to participate in the further development of the antibody, we will share future development costs and profits at a pre-agreed ratio. We also may receive co-promotion rights in the U.S.

Exelixis, Inc. In May 2001, we signed a collaborative agreement with Exelixis to discover and develop humanized antibodies for the diagnosis, prevention and treatment of cancer. We agreed to provide Exelixis with $4.0 million in annual research funding for two or more years, and we purchased a $30.0 million five year note convertible after the first year of the collaboration into Exelixis common stock. We received an exclusive, worldwide license to develop antibodies against certain targets identified by Exelixis that are involved in cell growth, cell death and proliferation. Exelixis has the right to co-fund development of antibodies resulting from the collaboration. For antibody products we develop that Exelixis elects not to co-fund, we have agreed to make specified milestone payments and royalty payments on any product sales.

Humanization and Patent Licensing Arrangements.

Yamanouchi Pharmaceutical Co., Ltd. In February 1991, we entered into an agreement with Yamanouchi to humanize a mouse anti-platelet (anti-gpIIb/IIIa) antibody developed by Yamanouchi for cardiovascular disorders. Yamanouchi is conducting a Phase II clinical trial with the antibody we humanized for them. Yamanouchi has exclusive, worldwide rights to the antibody and is responsible for all development activities. We have received milestone payments and will be entitled to royalties on any sales of the antibody.

Mochida Pharmaceutical Co., Ltd. In December 1995, we entered into an agreement with Mochida to humanize a mouse antibody for use in infectious disease. We received a licensing and signing fee and milestone payments and can earn royalties on any product sales. In addition, we have an option to co-promote the antibody in North America.

Wyeth (formerly known as American Home Products Corporation). In December 1996, we entered into an agreement with Genetics Institute, now a wholly owned subsidiary of Wyeth, to initially humanize three mouse antibodies that regulate an immune system pathway. To date, we have received a $2.5 million licensing and signing fee and three milestone payments. We are entitled to royalties on any product sales. We also received an option to co-promote the products in North America under certain conditions. Two of the three antibodies are in Phase II trials.

Teijin Limited. In March 1997, we entered into an agreement with Teijin to humanize a mouse antibody to a toxin produced by the *E. coli* O157 bacteria that can cause serious illness or death from the consumption of contaminated food. We have received a licensing and signing fee and milestone payment and are entitled to royalties on any product sales.

Ajinomoto Co., Inc. In July 1997, we entered into an agreement with Ajinomoto to humanize a mouse antibody directed at cardiovascular conditions. We have received a licensing and signing fee and milestone payments and are entitled to royalties on any product sales. In addition, we received the right to obtain co-promotion rights to the antibody in North America.

Genentech, Inc. In September 1998, we entered into an agreement covering patent rights under our humanization patents and under Genentech patents relating to antibody engineering. Genentech paid us a $6.0 million fee, and we paid Genentech a $1.0 million fee. Each company can obtain up to six licenses for humanized antibodies upon payment of an additional fee of at least $1.0 million per antibody, as well as royalties on any product sales. The number of licensed antibodies may be increased and the term of the agreement extended upon payment of additional fees. In November 1998, Genentech exercised certain of its rights under the agreement and obtained a nonexclusive license for Herceptin. Genentech paid us a $1.0 million licensing and signing fee and we currently receive royalties on Herceptin sales.

Progenics Pharmaceuticals, Inc. In April 1999, we entered into an agreement to humanize PRO 140, Progenics' novel anti-CCR5 monoclonal antibody that inhibits HIV replication in the laboratory. Progenics paid us a licensing and signing fee, has paid a milestone payment, and has agreed to make additional payments upon the achievement of specified milestones and to pay royalties on any sales of the antibody.

Fujisawa Pharmaceuticals Co. In June 1999, we entered into a research agreement with Fujisawa to engineer certain antibodies targeted to the treatment of inflammatory and immunologically based disorders. The engineering included the use of our patented modification of the constant region of certain types of antibodies. In February 2000, we entered into an agreement to humanize one of these antibodies. Fujisawa paid us a $1.5 million licensing and signing fee. We have received milestone payments and are entitled to receive annual maintenance fees and royalties on any product sales.

Celltech Group plc. In December 1999, we entered into a patent rights agreement with Celltech covering specified patents relating to humanized monoclonal antibodies. Under the agreement, Celltech paid us a $3.0 million fee for the right to obtain worldwide licenses under our antibody humanization patents for up to three Celltech antibodies. We paid Celltech a fee for the right to obtain worldwide licenses under Celltech's antibody humanization patent for up to three of our antibodies. When a license is taken by either company, the other will be entitled to an additional license fee. Each company will pay royalties to the other on any sales of licensed antibodies. In December 2001, Celltech obtained, pursuant to the exercise of certain of its rights under the agreement, a nonexclusive license for antibodies directed to tumor necrosis factor-alpha.

Tanox, Inc. In March 2000, we entered into a patent rights agreement with Tanox under our humanization patents. Tanox paid us a $2.5 million fee, which reflected a $1.5 million credit for a fee Tanox previously paid to us for a patent license for an antibody which was incorporated into this agreement. Tanox can obtain up to four patent licenses for humanized antibodies upon payment of an additional fee of at least $1.0 million per antibody, as well as royalties on any product sales.

Eli Lilly and Company. In August and September 2000, we entered into two agreements to humanize antibodies for Lilly. Lilly paid us signing and licensing fees of $1.7 million and $1.36 million, has made milestone payments and has agreed to pay royalties on any sales of the humanized antibodies.

InterMune Pharmaceuticals, Inc. In November 2000, we entered into an agreement to humanize an antibody targeted to the bacteria *Pseudomonas aeruginosa* for InterMune. InterMune paid us a signing and licensing fee, a milestone payment, and has agreed to make additional payments upon the achievement of specified milestones and to pay royalties on any sales of the humanized antibody.

Millennium Pharmaceuticals, Inc. In March 2001, we entered into a patent rights agreement with Millennium under our humanization patents for which they paid us an upfront fee. Millennium can obtain up to three patent licenses for humanized antibodies upon payment of additional fees, as well as royalties on any product sales. The term of the agreement may be extended upon payment of additional fees.

Other Patent License Agreements. We have entered into patent license agreements with a number of other companies that are independently developing humanized antibodies. In each license agreement, we granted a worldwide, exclusive or nonexclusive license under our patents to the other company for an antibody to a specific target antigen. In general, we received a licensing and signing fee and the right to receive annual maintenance fees and royalties on any product sales. Under some of these agreements, we also may receive milestone payments. In addition to Herceptin, we receive royalties on sales of Synagis, an antibody developed by MedImmune which is currently marketed in the U.S. and Europe, and on Mylotarg, an antibody developed by Wyeth which is currently marketed in the U.S. In addition to Genentech, MedImmune and Wyeth, we have patent license agreements with Sankyo, Biogen, IDEC Pharmaceuticals, Elan Pharmaceuticals, Medarex, GlaxoSmithKline, Merck KGaA, Chugai and Celltech.

HUMAN RESOURCES

As of December 31, 2001, we had 363 full-time employees. Of the total, 111 employees were engaged in research and development, 57 in quality assurance and compliance, 76 in clinical and regulatory, 57 in manufacturing and 62 in general and administrative functions. Our scientific staff members have diversified experience and expertise in molecular and cell biology, biochemistry, immunology, protein chemistry, computational chemistry and computer modeling. Our success will depend in large part on our ability to attract and retain skilled and experienced employees. None of our employees are covered by a collective bargaining agreement, and we consider our relations with our employees to be good.

ENVIRONMENT

We seek to comply with environmental statutes and the regulations of federal, state and local governmental agencies. We have put into place processes and procedures and maintain records in order to monitor environmental compliance. We may invest additional resources, if required, to comply with applicable regulations, and the cost of such compliance may increase significantly.

RISK FACTORS

This Annual Report contains, in addition to historical information, forward-looking statements which involve risks and uncertainties. Our actual results may differ significantly from the results discussed in forward-looking statements. Factors that may cause such a difference include those discussed in the material set forth below and elsewhere in this document. Additional risks and uncertainties not presently known to us or that we currently see as immaterial may also impair our business. If any of these risks actually occurs, it could materially harm our business, financial condition or operating results.

We have a history of operating losses and may not achieve sustained profitability.

Although we have recorded small profits for the past two years, in general, our expenses have exceeded revenues. As of December 31, 2001, we had an accumulated deficit of approximately $75.9 million. Our expenses may increase because of the extensive resource commitments required to achieve regulatory approval and commercial success for any individual product. For example, over the next several years, we will incur substantial additional expenses as we continue to develop and manufacture our potential products, invest in research and improve and expand our manufacturing, marketing and sales capabilities. Since we or our collaborative partners or licensees may not be able to successfully develop additional products, obtain required regulatory approvals, manufacture products at an acceptable cost and with appropriate quality, or successfully market such products with desired margins, we may never achieve sustained profitable operations. The amount of net losses and the time required to reach sustained profitability are highly uncertain. We may be unable to achieve sustained profitability.

Our commitment of resources to the continued development of our products will require significant additional funds for development. Our operating expenses may also increase as:

- some of our earlier stage potential products move into later stage clinical development
- additional potential products are selected as clinical candidates for further development

- we invest in additional manufacturing capacity
- we defend or prosecute our patents and patent applications, and
- we invest in research or acquire additional technologies, product candidates or businesses.

In the absence of substantial revenues from new corporate collaborations or patent licensing or humanization agreements, significant royalties on sales of products licensed under our intellectual property rights, product sales or other uncertain sources of revenue, we will incur substantial operating losses.

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

Our revenues have varied in the past and will likely continue to fluctuate considerably from quarter to quarter and from year to year. As a result, our revenues in any period may not be predictive of revenues in any subsequent period. Our royalty revenues may be unpredictable and may fluctuate since they depend upon:

- the seasonality of sales of licensed products
- the existence of competing products
- the marketing efforts of our licensees
- potential reductions in royalties payable to us due to credits for prior payments to us
- the timing of royalty reports, some of which are required quarterly and others semi-annually
- our method of accounting for royalty revenues from our licensees, and
- our ability to successfully defend and enforce our patents.

We receive royalty revenues on sales of the product Synagis. This product has higher sales in the fall and winter, which to date have resulted in much higher royalties paid to us in our first and second quarters than in other quarters. The seasonality of Synagis sales could contribute to fluctuation of our revenues from quarter to quarter.

Other revenue may also be unpredictable and may fluctuate due to the timing of payments of non-recurring licensing and signing fees, payments for manufacturing and clinical development services, and payments for the achievement of milestones under new and existing collaborative, humanization, and patent licensing agreements. Revenue historically recognized under our prior agreements may not be an indicator of non-royalty revenue from any future collaborations.

In addition, our expenses may be unpredictable and may fluctuate from quarter to quarter due to the timing of expenses, which may include payments owed by us and to us under collaborative agreements for reimbursement of expenses and which are reported under our policy during the quarter in which such expenses are reported to us or to our collaborative partners and agreed to by us or our partners.

We may not be able to obtain regulatory approvals required to market Zamyl.

We completed a Phase III clinical trial for our humanized antibody Zamyl in patients with acute myeloid leukemia. The trial compared treatment with Zamyl plus a standardized chemotherapy regimen to treatment with chemotherapy alone in patients who had failed to achieve complete remission with initial therapy, or who had relapsed within one year of achieving complete remission. Our initial review of the preliminary data from this trial indicated that Zamyl demonstrated a statistically significant difference in the overall response rate for patients who received Zamyl plus chemotherapy compared with patients who received chemotherapy alone. However, our Phase III study of Zamyl failed to meet the primary endpoint of the trial, requiring a complete response to occur within 70 days of the initiation of therapy. While we believe that additional endpoints may demonstrate that Zamyl was beneficial in this trial, we cannot predict whether the FDA or European regulatory authorities will accept our analysis of the relevant endpoints for this trial.

Further, the results seen in the initial review of the preliminary data may differ from the results that will be obtained as additional data are obtained and as the data are further analyzed. Accordingly, we cannot assure that the complete analysis will confirm the results of the initial review, and the results of the complete analysis could be materially different from those seen in the initial review. Thus, there can be no assurance that the complete data and analysis from the Phase III clinical trial of Zamyl will support the filing of a BLA or approval of the product by the FDA or other regulatory authorities.

Also, we are in the process of analyzing survival rates for the Zamyl plus chemotherapy patient group and the chemotherapy only group as well as for various subgroups. If no discernable differences are apparent, then regulatory authorities may not attribute sufficient benefit to receiving Zamyl and, therefore, may not approve Zamyl for marketing. Moreover, only a limited analysis of adverse events occurring in this trial has been completed to date. In this preliminary review, serious adverse events occurred with greater frequency in patients receiving Zamyl plus chemotherapy (66 of 94 patients, 70%) than in patients receiving chemotherapy alone (49 of 97 patients, 50%)($p=0.005$). However, investigators attributed the serious adverse events to Zamyl therapy in only 13 of these 66 patients. No significant differences for serious adverse events were seen between treatment groups for any body system. Further, the mortality during induction therapy, defined as the first 70 days after initiation of therapy, was similar for the Zamyl

plus chemotherapy (15%) and chemotherapy alone (13%) groups. However, if regulatory authorities determine that Zamyl causes an unacceptable incidence or severity of side effects, we may not be able to obtain regulatory approval of the drug, or further development may be slowed by the need to find dosing regimens that do not cause such side effects.

In addition, we initiated the Phase III study without a meeting with the FDA or European regulatory authorities to discuss the protocol and its adequacy to support approval of Zamyl. Once we analyze all of the data for the Phase III trial, discuss such data with regulatory authorities, and/or file for regulatory approval, we may discover that the FDA or European regulatory authorities may not agree that the study will be adequate to obtain regulatory approval.

Our humanization patents are being opposed and a successful challenge could limit our future revenues.

Most of our current revenues are related to our humanization patents. At an oral hearing in March 2000, the Opposition Division of the European Patent Office decided to revoke the broad claims of our first European humanization patent. We have appealed this decision. Until our appeal is resolved, we may be limited in our ability to collect royalties or to negotiate future licensing or collaborative research and development arrangements based on this and our other humanization patents. Moreover, if our appeal is unsuccessful, our ability to collect royalties on European sales of antibodies humanized by others would depend on the scope and validity of our second European patent, whether the antibodies are manufactured in a country outside of Europe where they are covered by one of our patents, and in that case the terms of our license agreements with respect to that situation. Also, the Opposition Division's decision could encourage challenges of our related patents in other jurisdictions, including the U.S. This decision may lead some of our licensees to stop making royalty payments or lead potential licensees not to take a license, either of which might result in us initiating formal legal actions to enforce our rights under our humanization patents. In such a situation, a likely defensive strategy to our action would be to challenge our patents in that jurisdiction. During the appeals process with respect to our first European patent, if we were to commence an infringement action to enforce that patent, such an action would likely be stayed until the appeal is decided by the European Patent Office. As a result, we may not be able to successfully enforce our rights under our European or related U.S. and Japanese patents. Eight notices of opposition have been filed with respect to our second European antibody humanization patent and we have filed our response with the European Patent Office. Also, three opposition statements have been filed with the Japanese Patent Office with respect to our humanization patent issued in Japan in late 1998. We received a notice from the Japanese Patent Office supporting one aspect of the position of the opponents to our Japanese humanization patent in the Japanese Patent Office opposition proceeding. Under Japanese Patent Office procedures, until receiving this notice, we had not been afforded an opportunity to respond to arguments made by the opponents to this patent. We have filed a response with the Japanese Patent Office, and we are awaiting a final decision from the Japanese patent examiner.

We intend to vigorously defend the European patents and the Japanese patent in these proceedings; however, we may not prevail in the opposition proceedings or any litigation contesting the validity of these patents. If our appeal with respect to our first European patent is unsuccessful or if the outcome of the other European or Japanese opposition proceedings or any litigation involving our antibody humanization patents were to be unfavorable, our ability to collect royalties on existing licensed products and to license our patents relating to humanized antibodies may be materially harmed. In addition, these proceedings or any other litigation to protect our intellectual property rights or defend against infringement claims by others could result in substantial costs and diversion of management's time and attention, which could harm our business and financial condition.

If we are unable to protect our patents and proprietary technology, we may not be able to compete successfully.

Our pending patent applications may not result in the issuance of valid patents or our issued patents may not provide competitive advantages. Also, our patent protection may not prevent others from developing competitive products using related or other technology.

A number of companies, universities and research institutions have filed patent applications or received patents in the areas of antibodies and other fields relating to our programs. Some of these applications or patents may be competitive with our applications or contain material that could prevent the issuance of patents to us or result in a significant reduction in the scope of our issued patents.

The scope, enforceability and effective term of patents can be highly uncertain and often involve complex legal and factual questions. No consistent policy has emerged regarding the breadth of claims in biotechnology patents, so that even issued patents may later be modified or revoked by the relevant patent authorities or courts. Moreover, the issuance of a patent in one country does not assure the issuance of a patent with similar claims in another country, and claim interpretation and infringement laws vary among countries, so we are unable to predict the extent of patent protection in any country.

In addition to seeking the protection of patents and licenses, we also rely upon trade secrets, know-how and continuing technological innovation which we seek to protect, in part, by confidentiality agreements with employees, consultants, suppliers and licensees. If these agreements are not honored, we might not have adequate remedies for any breach. Additionally, our trade secrets might otherwise become known or patented by our competitors.

We may require additional patent licenses in order to manufacture or sell our potential products.

Other companies, universities and research institutions may obtain patents that could limit our ability to use, import, manufacture, market or sell our products or impair our competitive position. As a result, we might be required to obtain licenses from others before we could continue using, importing, manufacturing, marketing, or selling our products. We may not be able to obtain required licenses on terms acceptable to us, if at all. If we do not obtain required licenses, we may encounter significant delays in product development while we redesign potentially infringing products or methods or may not be able to market our products at all.

Celltech has been granted a European patent covering humanized antibodies, which we have opposed. At an oral hearing in September 2000, the Opposition Division of the European Patent Office decided to revoke this patent. Celltech has appealed that decision. Also, Celltech has a second issued divisional patent in Europe, which has claims that may be broader in scope than its first European patent. In addition, Celltech has a third divisional application currently drafted with broad claims directed towards humanized antibodies. We cannot predict whether Celltech will be able to successfully appeal the decision of the Opposition Division with respect to their first European patent or whether Celltech's second European patent will be modified or revoked in any future opposition proceedings, or whether it will be able to obtain the grant of a patent from the pending divisional application with claims broad enough to generally cover humanized antibodies. Celltech has also been issued a corresponding U.S. patent that contains claims that may be considered broader in scope than their first European patent. We have entered into an agreement with Celltech providing each company with the right to obtain nonexclusive licenses for up to three antibody targets under the other company's humanization patents. Nevertheless, if our SMART antibodies were covered by Celltech's European or U.S. patents and if we were to need more than the three licenses under those patents currently available to us under the agreement, we would be required to negotiate additional licenses under those patents or to significantly alter our processes or products. We might not be able to successfully alter our processes or products to avoid conflict with these patents or to obtain the required additional licenses on commercially reasonable terms, if at all.

In addition, if the Celltech U.S. patent or any related patent applications conflict with our U.S. patents or patent applications, we may become involved in proceedings to determine which company was the first to invent the products or processes contained in the conflicting patents. These proceedings could be expensive, last several years and either prevent issuance of additional patents to us relating to humanization of antibodies or result in a significant reduction in the scope or invalidation of our patents. Any limitation would reduce our ability to negotiate or collect royalties or to negotiate future collaborative research and development agreements based on these patents.

Lonza Biologics, Inc. has a patent issued in Europe to which we do not have a license that may cover a process that we use to produce our potential products. In addition, we do not have a license to an issued U.S. patent assigned to Stanford University and Columbia University, which may cover a process we use to produce our potential products. We have been advised that an exclusive license has been previously granted to a third party, Centocor, Inc., under this patent. If our processes were covered by either of these patents, we might be required to obtain licenses or to significantly alter our processes or products. We might not be able to successfully alter our processes or products to avoid conflicts with these patents or to obtain licenses on acceptable terms.

We are also aware of issued patents that could apply to one or more of our specific products. For example, a U.S. patent recently issued to Advanced Biotherapy, Inc. has claims to the use of anti-gamma interferon antibodies to treat certain autoimmune diseases. The claims, however, do not cover treatment of either Crohn's disease or psoriasis -- the two indications currently being investigated in our SMART Anti-Gamma Interferon Antibody clinical trials. Additional examples include an issued U.S. patent to Schering Corporation that may cover our humanized anti-IL-4 antibody, and issued U.S. and European patents to Genetics Institute (now a wholly-owned subsidiary of Wyeth) that may cover our SMART anti-Il-12 antibody. As a result, we might be required to obtain licenses from others. We may not be able to obtain required licenses on terms acceptable to us, if at all. If we do not obtain required licenses, we may encounter significant delays in product development while we redesign potentially infringing products or methods or we may not be able to market our products at all.

If we cannot successfully complete our clinical trials, we will be unable to obtain regulatory approvals required to market our products.

To obtain regulatory approval for the commercial sale of any of our potential products or to promote these products for expanded indications, we must demonstrate through preclinical testing and clinical trials that each product is safe and effective for use in indications for which approval is requested. We have conducted only a limited number of clinical trials to date. Moreover, we have a relatively large number of potential products in clinical development. We may not be able to successfully commence and complete all of our planned clinical trials without significant additional resources and expertise. Additionally, regulatory review of our clinical trial protocols may cause us in some cases to delay or abandon our planned clinical trials. Our potential inability to commence or continue clinical trials, to complete the clinical trials on a timely basis or to demonstrate the safety and efficacy of our potential products, further adds to the uncertainty of regulatory approval for our potential products.

Earlier clinical trials such as Phase I and II trials generally are designed to gather information to determine whether further trials are appropriate and, if so, how such trials should be designed. As a result, data gathered in these trials may indicate that the endpoints selected for these trials are not the most relevant for purposes of assessing the product or the design of future trials. Moreover, success or failure in meeting such early clinical trial endpoints may not be dispositive of whether further trials are appropriate and, if so, how such trials should be designed.

Larger or later stage clinical trials may not produce the same results as earlier trials. Many companies in the pharmaceutical and biotechnology industries, including our company, have suffered significant setbacks in clinical trials, including advanced clinical trials, even after promising results had been obtained in earlier trials. As an example, in a Phase I trial, Remitogen produced partial clinical responses in several B-cell lymphoma patients. Partial, preliminary results in a Phase II trial of Remitogen, however, did not show a similar response rate. Consequently, the dosing regimen has been amended in that trial to attempt to determine an effective dosing regimen.

Even when a drug candidate shows indications of efficacy in a clinical trial, it may be impossible to further develop or receive regulatory approval for the drug if it causes an unacceptable incidence or severity of side effects, or further development may be slowed down by the need to find dosing regimens that do not cause such side effects. For example, while Nuvion has shown biological activity in some patients in a Phase I/II trial for psoriasis, it has also caused a level of side effects that would be

unacceptable in this patient population. Enrollment in this trial currently is suspended and our current plan is not to continue this trial and we may choose not to further develop Nuvion for psoriasis.

Our clinical trial strategy may increase the risk of clinical trial difficulties.

Research, preclinical testing and clinical trials may take many years to complete and the time required can vary depending on the indication being addressed and the nature of the product. We may at times elect to use aggressive clinical strategies in order to advance potential products through clinical development as rapidly as possible. For example, we may commence clinical trials without conducting preclinical animal efficacy testing where an appropriate animal efficacy testing model does not exist, or we may conduct later stage trials based on limited early stage data. As a result, we anticipate that only some of our potential products may show safety and efficacy in clinical trials and some may encounter difficulties or delays during clinical development.

We may be unable to enroll sufficient patients to complete our clinical trials.

The rate of completion of our clinical trials, and those of our collaborators, is significantly dependent upon the rate of patient enrollment. Patient enrollment is a function of many factors, including:

- the size of the patient population
- perceived risks and benefits of the drug under study
- availability of competing therapies
- availability of clinical drug supply
- availability of clinical trial sites
- design of the protocol
- proximity of and access by patients to clinical sites
- patient referral practices of physicians
- eligibility criteria for the study in question, and
- efforts of the sponsor of and clinical sites involved in the trial to facilitate timely enrollment.

We may have difficulty obtaining sufficient patient enrollment or clinician support to conduct our clinical trials as planned, and we may need to expend substantial additional funds to obtain access to resources or delay or modify our plans significantly. These considerations may lead us to consider the termination of ongoing clinical trials or development of a product for a particular indication.

Our revenues from licensed technologies depend on the efforts and successes of our licensees.

In those instances where we have licensed rights to our technologies, the product development and marketing efforts and successes of our licensees will determine the amount and timing of royalties we may receive, if any. We have no assurance that any licensee will successfully complete the product development, regulatory and marketing efforts required to sell products. The success of products sold by licensees will be affected by competitive products, including potential competing therapies that are marketed by the licensee or others.

If our collaborations are not successful, we may not be able to effectively develop and market some of our products.

We have collaborative agreements with several pharmaceutical and other companies to develop, manufacture and market Zenapax and some of our potential products. In some cases, we are relying on our collaborative partners to manufacture such products, to conduct clinical trials, to compile and analyze the data received from these trials, to obtain regulatory approvals and, if approved, to market these licensed products. As a result, we may have little or no control over the manufacturing, development and marketing of these potential products and little or no opportunity to review clinical data prior to or following public announcement.

Our collaborative agreements can generally be terminated by our partners on short notice. A collaborator may terminate its agreement with us or separately pursue alternative products, therapeutic approaches or technologies as a means of developing treatments for the diseases targeted by us or our collaborative effort. Even if a collaborator continues its contributions to the arrangement, it may nevertheless determine not to actively pursue the development or commercialization of any resulting products. In these circumstances, our ability to pursue potential products could be severely limited.

Continued funding and participation by collaborative partners will depend on the timely achievement of our research and development objectives, the retention of key personnel performing work under those agreements and on each collaborative partner's own financial, competitive, marketing and strategic considerations. Such considerations include:

- the commitment of management of the collaborative partners to the continued development of the licensed products or technology

- the relationships among the individuals responsible for the implementation and maintenance of the collaborative efforts, and

- the relative advantages of alternative products or technology being marketed or developed by the collaborators or by others, including their relative patent and proprietary technology positions, and their ability to manufacture potential products successfully.

Our ability to enter into new collaborations and the willingness of our existing collaborators to continue development of our potential products depends upon, among other things, our patent position with respect to such products. If we are unable to successfully maintain our patents we may be unable to collect royalties on existing licensed products or enter into additional collaborations and agreements.

Our lack of experience in sales, marketing and distribution may hamper market introduction and acceptance of our products.

We intend to market and sell a number of our products either directly or through sales and marketing partnership arrangements with collaborative partners. To market products directly, we must either establish a marketing group and direct sales force or obtain the assistance of another company. We may not be able to establish marketing, sales and distribution capabilities or succeed in gaining market acceptance for our products. If we were to enter into co-promotion or other marketing arrangements with pharmaceutical or biotechnology companies, our revenues would be subject to the payment provisions of these arrangements and dependent on the efforts of third parties. If we are successful in obtaining regulatory approval to market Zamyl, we intend to market and sell Zamyl both directly and through arrangements with collaborative partners. If we were to enter into co-promotion or other marketing arrangements with collaborative partners, our revenues would be subject to the payment provisions of these arrangements and could largely depend on these partners' marketing and promotion efforts.

Manufacturing difficulties could delay commercialization of our products.

Of the products that we currently have in clinical development, Hoffmann-La Roche Inc. and its affiliates (Roche) are responsible for manufacturing Zenapax, GlaxoSmithKline is responsible for manufacturing the humanized anti-IL-4 antibody and Scil Biomedicals is responsible for manufacturing the SMART Anti-L-Selectin Antibody. We are responsible for manufacturing our other products for our own development. We intend to continue to manufacture potential products for use in preclinical and clinical trials using our manufacturing facility in accordance with standard procedures that comply with appropriate regulatory standards. The manufacture of sufficient quantities of antibody products that comply with these standards is an expensive, time-consuming and complex process and is subject to a number of risks that could result in delays. We and our collaborative partners have experienced some manufacturing difficulties. Product supply interruptions could significantly delay clinical development of our potential products, reduce third party or clinical researcher interest and support of proposed clinical trials, and possibly delay commercialization and sales of these products. Manufacturing difficulties can even interrupt the supply of marketed products, thereby reducing revenues and risking loss of market share. For example, in December 1999, Roche received a warning letter from the FDA regarding deficiencies in the manufacture of various products. Although the letter primarily related to products other than Zenapax, Roche has also experienced difficulties in the manufacture of Zenapax leading to interruptions in supply. If future manufacturing difficulties arise and are not corrected in a timely manner, Zenapax supplies could be interrupted, which could cause a delay or termination of our clinical trials of Zenapax in autoimmune disease and could force Roche to withdraw Zenapax from the market temporarily or permanently, resulting in loss of revenue to us. These occurrences could impair our competitive position.

We do not have experience in manufacturing commercial supplies of our potential products, nor do we currently have sufficient facilities to manufacture our potential products on a commercial scale. To obtain regulatory approvals and to create capacity to produce our products for commercial sale at an acceptable cost, we will need to improve and expand our existing manufacturing capabilities. We currently plan to improve our existing manufacturing plant in order to manufacture initial commercial supplies of certain products, including at least Zamyl. Our ability to file for, and to obtain, regulatory approval for Zamyl, as well as the timing of such filing, will depend on our ability to successfully improve our existing manufacturing plant. We may be unable to do so, or to obtain regulatory approval or to successfully produce commercial supplies on a timely basis. Failure to do so could delay commercialization of this product.

In addition, we plan to construct a new commercial manufacturing plant. When we implement these plans we will incur substantial costs. Any construction or other delays could impair our ability to obtain necessary regulatory approvals and to produce adequate commercial supplies of our potential products on a timely basis. Failure to do so could delay commercialization of some of our products and could impair our competitive position.

Our revenue may be adversely affected by competition and rapid technological change.

Potential competitors have developed and are developing human and humanized antibodies or other compounds for treating autoimmune and inflammatory diseases, transplantation, asthma and cancers. In addition, a number of academic and commercial organizations are actively pursuing similar technologies, and several companies have developed or may develop technologies that may compete with our SMART antibody technology. Competitors may succeed in more rapidly developing and marketing technologies and products that are more effective than our products or that would render our products or technology obsolete or noncompetitive. Our collaborative partners may also independently develop products that are competitive with products that we have licensed to them. This could reduce our revenues under our agreements with these partners.

Any product that we or our collaborative partners succeed in developing and for which regulatory approval is obtained must then compete for market acceptance and market share. The relative speed with which we and our collaborative partners can develop

products, complete the clinical testing and approval processes, and supply commercial quantities of the products to the market compared to competitive companies will affect market success. In addition, the amount of marketing and sales resources and the effectiveness of the marketing used with respect to a product will affect its marketing success. For example, Novartis, which has a significant marketing and sales force directed to the transplantation market, has received approval to market Simulect, a product competitive with Zenapax, in the U.S. and Europe. Recently, Novartis acquired a significant interest in Roche. We cannot predict the impact, if any, that this relationship may have on Roche's efforts to market Zenapax.

We may be unable to obtain or maintain regulatory approval for our products.

In addition to the risks described above with respect to Zamyl, all of our products in development are subject to risks associated with applicable government regulations. The manufacturing, testing and marketing of our products are subject to regulation by numerous governmental authorities in the U.S. and other countries. In the U.S., pharmaceutical products are subject to rigorous FDA regulation. Additionally, other federal, state and local regulations govern the manufacture, testing, clinical and nonclinical studies to assess safety and efficacy, approval, advertising and promotion of pharmaceutical products. The process of obtaining approval for a new pharmaceutical product or for additional therapeutic indications within this regulatory framework requires a number of years and the expenditure of substantial resources. Companies in the pharmaceutical and biotechnology industries, including us, have suffered significant setbacks in various stages of clinical trials, even in advanced clinical trials after promising results had been obtained in earlier trials.

In addition to the requirement for FDA approval of each pharmaceutical product, each pharmaceutical product manufacturing facility must be registered with, and approved by, the FDA. The manufacturing and quality control procedures must conform to rigorous guidelines in order to receive FDA approval. Pharmaceutical product manufacturing establishments are subject to inspections by the FDA and local authorities as well as inspections by authorities of other countries. To supply pharmaceutical products for use in the U.S., foreign manufacturing establishments must comply with these FDA approved guidelines. These foreign manufacturing establishments are subject to periodic inspection by the FDA or by corresponding regulatory agencies in these countries under reciprocal agreements with the FDA. Moreover, pharmaceutical product manufacturing facilities may also be regulated by state, local and other authorities.

For the marketing of pharmaceutical products outside the U.S., we and our collaborative partners are subject to foreign regulatory requirements and, if the particular product is manufactured in the U.S., FDA and other U.S. export provisions. Requirements relating to the manufacturing, conduct of clinical trials, product licensing, promotion, pricing and reimbursement vary widely in different countries. Difficulties or unanticipated costs or price controls may be encountered by us or our licensees or marketing partners in our respective efforts to secure necessary governmental approvals. This could delay or prevent us, our licensees or our marketing partners from marketing potential pharmaceutical products.

Both before and after approval is obtained, a biologic pharmaceutical product, its manufacturer and the holder of the BLA for the pharmaceutical product are subject to comprehensive regulatory oversight. The FDA may deny a BLA if applicable regulatory criteria are not satisfied. Moreover, even if regulatory approval is granted, such approval may be subject to limitations on the indicated uses for which the pharmaceutical product may be marketed. Further, regulatory approvals may be withdrawn if compliance with regulatory standards is not maintained or if problems with the pharmaceutical product occur following approval. In addition, under a BLA, the manufacturer continues to be subject to facility inspection and the applicant must assume responsibility for compliance with applicable pharmaceutical product and establishment standards. Violations of regulatory requirements at any stage may result in various adverse consequences, which may include, among other adverse actions, withdrawal of the previously approved pharmaceutical product or regulatory approvals and/or the imposition of criminal penalties against the manufacturer and/or BLA holder.

Manufacturing changes may result in delays in obtaining regulatory approval or marketing for our products.

Manufacturing of antibodies for use as therapeutics in compliance with regulatory requirements is complex, time-consuming and expensive. If we make changes in the manufacturing process, we may be required to demonstrate to the FDA and corresponding foreign authorities that the changes have not caused the resulting drug material to differ significantly from the drug material previously produced. This is particularly important if we want to rely on results of prior preclinical studies and clinical trials performed using the previously produced drug material. Depending upon the type and degree of differences between the newer and older drug material, we may be required to conduct additional animal studies or human clinical trials to demonstrate that the newly produced drug material is sufficiently similar to the previously produced drug material. We have made manufacturing changes and are likely to make additional manufacturing changes for the production of our products currently in clinical development. These manufacturing changes could result in delays in development or regulatory approvals or in reduction or interruption of commercial sales and could impair our competitive position.

Our business may be harmed if we cannot obtain sufficient quantities of raw materials.

We depend on outside vendors for the supply of raw materials used to produce our product candidates. Once a supplier's materials have been selected for use in our manufacturing process, the supplier in effect becomes a sole or limited source of that raw material due to regulatory compliance procedures. If the third party suppliers were to cease production or otherwise fail to supply us with quality raw materials and we were unable to contract on acceptable terms for these services with alternative suppliers, our ability to produce our products and to conduct preclinical testing and clinical trials of product candidates would be adversely affected. This could impair our competitive position.

If we do not attract and retain key employees, our business could be impaired.

To be successful we must retain our qualified clinical, manufacturing, scientific and management personnel. We face competition for personnel from other companies, academic institutions, government entities and other organizations. We are currently conducting a search for several senior management personnel. If we are unsuccessful in filling these positions or retaining qualified personnel, our business could be impaired.

We may be subject to product liability claims, and our insurance coverage may not be adequate to cover these claims.

We face an inherent business risk of exposure to product liability claims in the event that the use of products during research and development efforts or after commercialization results in adverse effects. This risk will exist even with respect to any products that receive regulatory approval for commercial sale. While we have obtained liability insurance for our products, it may not be sufficient to satisfy any liability that may arise. Also, adequate insurance coverage may not be available in the future at acceptable cost, if at all.

We may incur significant costs in order to comply with environmental regulations or to defend claims arising from accidents involving the use of hazardous materials.

We are subject to federal, state and local laws and regulations governing the use, discharge, handling and disposal of materials and wastes used in our operations. As a result, we may be required to incur significant costs to comply with these laws and regulations. We cannot eliminate the risk of accidental contamination or injury from these materials. In the event of such an accident, we could be held liable for any resulting damages and incur liabilities which exceed our resources. In addition, we cannot predict the extent of the adverse effect on our business or the financial and other costs that might result from any new government requirements arising out of future legislative, administrative or judicial actions.

Changes in the U.S. and international health care industry could adversely affect our revenues.

The U.S. and international health care industry is subject to changing political, economic and regulatory influences that may significantly affect the purchasing practices and pricing of pharmaceuticals. Cost containment measures, whether instituted by health care providers or imposed by government health administration regulators or new regulations, could result in greater selectivity in the purchase of drugs. As a result, third-party payors may challenge the price and cost effectiveness of our products. In addition, in many major markets outside the U.S., pricing approval is required before sales can commence. As a result, significant uncertainty exists as to the reimbursement status of approved health care products.

We may not be able to obtain or maintain our desired price for our products. Our products may not be considered cost effective relative to alternative therapies. As a result, adequate third-party reimbursement may not be available to enable us to maintain prices sufficient to realize an appropriate return on our investment in product development. Also, the trend towards managed health care in the U.S. and the concurrent growth of organizations such as health maintenance organizations, as well as legislative proposals to reform health care or reduce government insurance programs, may all result in lower prices, reduced reimbursement levels and diminished markets for our products. These factors will also affect the products that are marketed by our collaborative partners.

Our common stock price is volatile and an investment in our company could decline in value.

Market prices for securities of biotechnology companies, including ourselves, have been highly volatile so that investment in our securities involves substantial risk. Additionally, the stock market from time to time has experienced significant price and volume fluctuations that may be unrelated to the operating performance of particular companies. The following are some of the factors that may have a significant effect on the market price of our common stock:

- developments or disputes as to patent or other proprietary rights
- disappointing sales of approved products
- approval or introduction of competing products and technologies
- results of clinical trials
- failures or unexpected delays in obtaining regulatory approvals or FDA advisory panel recommendations
- delays in manufacturing or clinical trial plans
- fluctuations in our operating results
- disputes or disagreements with collaborative partners
- market reaction to announcements by other biotechnology or pharmaceutical companies
- announcements of technological innovations or new commercial therapeutic products by us or our competitors
- initiation, termination or modification of agreements with our collaborative partners
- loss of key personnel

- litigation or the threat of litigation
- public concern as to the safety of drugs developed by us
- sales of our common stock held by collaborative partners or insiders
- comments and expectations of results made by securities analysts, and
- general market conditions.

If any of these factors causes us to fail to meet the expectations of securities analysts or investors, or if adverse conditions prevail or are perceived to prevail with respect to our business, the price of the common stock would likely drop significantly. A significant drop in the price of a company's common stock often leads to the filing of securities class action litigation against the company. This type of litigation against us could result in substantial costs and a diversion of management's attention and resources.

ITEM 2. PROPERTIES

PDL owns two buildings comprising approximately 92,000 square feet of research and development and general office space in Fremont, California. In July 2001, we leased approximately 11,000 square feet of general office space in Fremont, California. Our lease will terminate on July 30, 2004.

In Plymouth, Minnesota, we lease approximately 74,000 square feet of manufacturing, laboratory and office space. Our leases will terminate on February 29, 2009, subject to our option to extend the leases for an additional five year term. We plan to obtain additional manufacturing space in the future and may lease or acquire additional space as required.

PDL also leases approximately 6,000 square feet of general office space in Somerville, New Jersey. Our lease will terminate on October 31, 2005.

We own substantially all of the equipment used in our facilities. See Note 4 to the financial statements.

ITEM 3. LEGAL PROCEEDINGS

PDL is involved in administrative opposition proceedings being conducted by the European Patent Office with respect to our first European patent relating to humanized antibodies. At an oral hearing in March 2000, the Opposition Division of the European Patent Office decided to revoke the broad claims of our first European patent. We have appealed the Opposition Division's decision to the Technical Board of Appeals at the European Patent Office. The Technical Board of Appeals will consider all issues anew. The appeal suspends the decision of the Opposition Division during the appeals process.

Until our appeal is resolved, we may be limited in our ability to collect royalties or to negotiate future licensing or collaborative research and development arrangements based on this and our other humanization patents. Moreover, if our appeal is unsuccessful, our ability to collect royalties on European sales of antibodies humanized by others would depend on the scope and validity of our second European patent, whether the antibodies are manufactured in a country outside of Europe where they are covered by one of our patents, and in that case the terms of our license agreements with respect to that situation. Also, the Opposition Division's decision could encourage challenges of our related patents in other jurisdictions, including the U.S. This decision may lead some of our licensees to stop making royalty payments or lead potential licensees not to take a license, either of which might result in us initiating formal legal actions to enforce our rights under our humanization patents. In such a situation, a likely defensive strategy to our action would be to challenge our patents in that jurisdiction. During the appeals process with respect to our first European patent, if we were to commence an infringement action to enforce that patent, such an action would likely be stayed until the appeal is decided by the European Patent Office. We may not be able to successfully enforce our rights under our European or related U.S. and Japanese patents. Eight notices of opposition have been filed with respect to our second European antibody humanization patent and we have filed our response to the European Patent Office. Also, three opposition statements have been filed with the Japanese Patent Office with respect to our humanization patent issued in Japan in late 1998. We received a notice from the Japanese Patent Office supporting one aspect of the position of the opponents to our Japanese humanization patent in the Japanese Patent Office opposition proceeding. Under Japanese Patent Office procedures, until receiving this notice, we had not been afforded an opportunity to respond to arguments made by the opponents to this patent. We have filed a response with the Japanese Patent Office, and we are awaiting a final decision from the Japanese patent examiner.

We intend to vigorously defend the European patents and the Japanese patent in these proceedings; however, we may not prevail in the opposition proceedings or any litigation contesting the validity of these patents. If our appeal with respect to our first European patent is unsuccessful or if the outcome of the other European or Japanese opposition proceedings or any litigation involving our antibody humanization patents were to be unfavorable, our ability to collect royalties on existing licensed products and to license our patents relating to humanized antibodies may be materially harmed. In addition, these proceedings or any other litigation to protect our intellectual property rights or defend against infringement claims by others could result in substantial costs and diversion of management's time and attention, which could harm our business and financial condition.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITYHOLDERS

Not applicable.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

MARKET INFORMATION AND DIVIDEND POLICY ($)

2000	**High**	**Low**
First Quarter	81.82	14.86
Second Quarter	46.00	14.83
Third Quarter	62.85	30.30
Fourth Quarter	71.41	35.44
2001		
First Quarter	42.25	17.38
Second Quarter	45.20	17.47
Third Quarter	42.09	20.48
Fourth Quarter	40.56	23.43

Our common stock trades on the Nasdaq National Market under the symbol "PDLI." Prices indicated above are the high and low closing bid prices as reported by the Nasdaq National Market System for the periods indicated, adjusted for the stock split described below. We have never paid any cash dividends on our capital stock and we do not anticipate paying any cash dividends in the foreseeable future. On August 22, 2000 and October 9, 2001, we effected two-for-one stock splits of our common stock, each in the form of a dividend of one share of Protein Design Labs, Inc. common stock for each share held at the close of business on August 1, 2000 and September 18, 2001, respectively. Our stock began trading on a split-adjusted basis in 2000 as of August 23, 2000 and in 2001 as of October 10, 2001.

As of December 31, 2001, we had approximately 135 common stockholders of record. Because many of these shares are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders. The market for our securities is volatile. See *"Risk Factors."*

ITEM 6. SELECTED FINANCIAL DATA

(In thousands, except per share data)

	YEARS ENDED DECEMBER 31,				
	2001	**2000**	**1999**	**1998**	**1997**
CONSOLIDATED STATEMENTS OF OPERATIONS DATA:					
Revenues:					
Revenue under agreements with third parties	$ 44,375	$ 39,907	$ 26,811	$ 21,325	$ 11,137
Interest and other income	35,160	23,149	8,943	9,503	9,118
Total revenues	79,535	63,056	35,754	30,828	20,255
Costs and expenses:					
Research and development	52,173	42,334	36,090	31,645	25,614
General and administrative	15,726	12,110	9,842	8,685	6,629
Special charge (1)	--	--	--	--	11,887
Interest expense	8,989	7,965	155	--	--
Total costs and expenses	76,888	62,409	46,087	40,330	44,130
Net income (loss)	$ 2,647	$ 647	$ (10,333)	$ (9,502)	$ (23,875)
Net income (loss) per share (2):					
Basic	$ 0.03	$ 0.01	$ (0.14)	$ (0.13)	$ (0.34)

Diluted	$ 0.03	$ 0.01	$ (0.14)	$ (0.13)	$ (0.34)
Shares used in computation of net income (loss) per share:					
Basic	87,624	80,904	74,792	74,100	70,596
Diluted	92,889	88,562	74.792	74,100	70,596

	DECEMBER 31,				
	2001	2000	1999	1998	1997
CONSOLIDATED BALANCE SHEET DATA:					
Cash, cash equivalents and investments	$650,315	$661,173	$137,237	$143,439	$163,655
Working capital	641,896	651,641	22,669	82,394	66,490
Total assets	729,898	704,980	182,551	171,850	175,026
Long-term debt obligations, less current portion	158,892	159,324	9,724	--	--
Accumulated deficit	(75,923)	(78,570)	(79,217)	(68,884)	(59,382)
Total stockholders' equity	558,443	534,144	164,743	162,496	168,468

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1. Represents a non-cash special charge of approximately $11.9 million related to the extension of the term of all outstanding stock options held by employees, officers, directors and consultants to the Company that were granted prior to February 1995, with the single exception of stock options granted to one non-employee director. The extension conforms the term of previously granted stock options, which was six years, to those granted since February 1995, ten years.

2. For a description of the computation of net income (loss) per share, see Note 1 to the Financial Statements.

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

OVERVIEW

In general, we have a history of operating losses and may not achieve sustained profitability. Although we have recorded small profits for the past two years, in general, our expenses have exceeded revenues. As of December 31, 2001, we had an accumulated deficit of approximately $75.9 million. Our expenses may increase because of the extensive resource commitments required to achieve regulatory approval and commercial success for any individual product. For example, over the next several years, we will incur substantial additional expenses as we continue to develop and manufacture our potential products, invest in research and improve and expand our manufacturing, marketing and sales capabilities. Since we or our collaborative partners or licensees may not be able to successfully develop additional products, obtain required regulatory approvals, manufacture products at an acceptable cost and with appropriate quality, or successfully market such products with desired margins, we may never achieve sustained profitable operations. The amount of net losses and the time required to reach sustained profitability are highly uncertain. Although we have had some profitable reporting periods, we may be unable to achieve sustained profitability.

Our commitment of resources to the continued development of our products will require significant additional funds for development. Our operating expenses may also increase as some of our earlier stage potential products move into later stage clinical development, as additional potential products are selected as clinical candidates for further development, as we invest in additional manufacturing capacity, as we defend or prosecute our patents and patent applications, and as we invest in research or acquire additional technologies, product candidates or businesses.

In the absence of substantial revenues from new corporate collaborations or patent licensing or humanization agreements, significant royalties on sales of products licensed under our intellectual property rights, product sales or other uncertain sources of revenue, we will incur substantial operating losses.

Our revenues, expenses and operating results will likely fluctuate in future periods. Our revenues have varied in the past and will likely continue to fluctuate considerably from quarter to quarter and from year to year. As a result, our revenues in any period may not be predictive of revenues in any subsequent period. Our royalty revenues may be unpredictable and may fluctuate since they depend upon the seasonality of sales of licensed products, the existence of competing products, the marketing efforts of our licensees, potential reductions in royalties payable to us due to credits for prior payments to us, the timing of royalty reports, some of which are required quarterly and others semi-annually, our method of accounting for royalty revenues from our licensees in the period reported to us, and our ability to successfully defend and enforce our patents.

Other revenue may also be unpredictable and may fluctuate due to the timing of payments of non-recurring licensing and signing fees, payments for manufacturing and clinical development services and payments for the achievement of milestones under new and existing collaborative, humanization, and patent licensing agreements. Revenue historically recognized under our prior agreements may not be an indicator of revenue from any future collaborations.

In addition, our expenses may be unpredictable and may fluctuate from quarter to quarter due to the timing of expenses, which may include payments owed by us and to us under collaborative agreements for reimbursement of expenses and which are reported under our policy during the quarter in which such expenses are reported to us or to our collaborative partners and agreed to by us or our partners.

We receive royalty revenues on sales of the product Synagis. This product has higher sales in the fall and winter, which to date have resulted in much higher royalties paid to us in our first and second quarters than in other quarters. The seasonality of Synagis sales could contribute to fluctuation of our revenues from quarter to quarter.

CRITICAL ACCOUNTING POLICIES AND THE USE OF ESTIMATES

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in our financial statements and accompanying notes. Actual results could differ materially from those estimates. The items in our financial statements requiring significant estimates and judgments are as follows:

- Contract revenues from research and development arrangements are recognized based on the performance requirements of the contracts.
- Revenues from achievement of milestones are recognized when the funding party agrees that the milestone (typically scientific, regulatory or clinical results) stipulated in the agreement has been met.
- Our collaborative, humanization and patent licensing agreements with third parties provide for the payment of royalties to us based on net sales of the licensed product under the agreement. The agreements generally provide for royalty payments to us following completion of each calendar quarter or semi-annual period. Royalty revenue is recognized in the quarter in which royalty reports are received by us from the third party. As a result of this policy and the seasonality of certain royalty revenues, as noted above, our revenues in any period may not be predictive of revenues in any subsequent period.
- Non-refundable signing and licensing fees under collaborative and humanization agreements are recognized over the period in which performance obligations are achieved.
- Non-refundable signing and licensing fees under patent rights and patent licensing agreements are recognized when there are no future performance obligations remaining with respect to such fees.
- Maintenance fees are recognized when received or when collection is assured.
- Expenses for research and development funding to third parties are generally recognized ratably over the performance period.
- We have a policy of recording expenses for clinical trials based upon pro rating estimated total costs of a clinical trial over the estimated length of the clinical trial and the number of patients anticipated to be enrolled in the trial. Expenses related to each patient are recognized ratably beginning upon entry into the trial and over the course of the trial. In the event of early termination of a clinical trial, management accrues an amount based on its estimate of the remaining non-cancellable obligations associated with the winding down of the clinical trial.

RESULTS OF OPERATIONS

Years ended December 31, 2001, 2000 and 1999

Our total revenues were $79.5 million in 2001 as compared to $63.1 million in 2000 and $35.8 million in 1999.

Total revenue under agreements with third parties represented $44.4 million, $39.9 million and $26.8 million of total revenues in 2001, 2000 and 1999, respectively. Revenue under agreements with third parties includes royalties, licensing and signing fees, payments recognized under humanization agreements, milestone payments, research and development reimbursement funding, payments for manufacturing services and license maintenance fees. The increase in total revenue under agreements with third parties in 2001 from the prior years was primarily attributable to an increase in royalties during the period. We recognized revenues

of zero in 2001, $2.3 million in 2000 and $2.4 million in 1999 representing third-party funded research and development activities (not including licensing and signing fees, milestone payments and product sales) related to amounts we expended for research and development.

Interest and other income increased to $35.2 million in 2001 from $23.1 million and $8.9 million in 2000 and 1999, respectively. The increase in 2001 is primarily attributable to the interest earned on our cash, cash equivalents, and marketable debt securities balances as a result of our public offering of common stock in the second half of 2000 which raised approximately $343.6 in net proceeds and the sale of $150 million convertible subordinated notes in February 2000.

Total costs and expenses increased to $76.9 million in 2001 from $62.4 million in 2000 and $46.1 million in 1999.

Research and development expenses in 2001 increased to $52.2 million from $42.3 million in 2000 and $36.1 million in 1999. The increase in 2001 costs and expenses as compared to 2000 and 1999 was primarily a result of the addition of staff, the expansion of development programs and capabilities, including support for both clinical development and manufacturing process development, and payments related to third party research funding.

General and administrative expenses for 2001 increased to $15.7 million from $12.1 million in 2000 and $9.8 million in 1999. These increases were primarily the result of increased staffing and associated expenses necessary to manage and support our expanding operations including pre-marketing expenses associated with our clinical development program.

Interest expense increased in 2001 to $9.0 million from $8.0 million in 2000 and $0.2 million in 1999. The increase is primarily due to the interest expense associated with our convertible subordinated notes issued in February 2000.

LIQUIDITY AND CAPITAL RESOURCES

To date, we have financed our operations primarily through public and private placements of equity and debt securities, revenue under agreements with third parties and interest income on invested capital. At December 31, 2001, we had cash, cash equivalents and marketable securities in the aggregate of $650.3 million, compared to $661.2 million at December 31, 2000 and $137.2 million at December 31, 1999.

As set forth in the Statements of Cash Flows, net cash provided by our operating activities for the year ended December 31, 2001 was approximately $2.6 million and $6.8 million in 2000 as compared to net cash used of approximately $10.7 million in 1999. The change in net cash provided by operating activities was primarily due to our net income in 2001 and 2000, changes in working capital and other assets, principally convertible debt issuance costs in 2000, as compared to our net loss and changes in working capital in 1999.

As set forth in the Statements of Cash Flows, net cash used in our investing activities for the year ended December 31, 2001 was $316.3 million as compared to $118.2 million in 2000 and $24.9 million in 1999. The changes in 2001 and 2000, as compared to 1999, were primarily the result of our reinvestment activities associated with the purchases of short- and long-term investments and a convertible note in 2001.

As set forth in the Statements of Cash Flows, net cash provided by our financing activities for the year ended December 31, 2001 was $12.5 million compared to $515.8 million in 2000 and $24.9 million in 1999. The net cash provided by our financing activities in 2001 was primarily the result of proceeds from the exercise of stock options. The change in 2000 was primarily the result of our public offering of common stock in the second half of 2000, which raised approximately $343.6 million in net proceeds and the sale of $150 million convertible subordinated notes in February 2000.

We estimate that our existing capital resources will be sufficient to fund our current level of operations for at least the next few years. Our future capital requirements will depend on numerous factors, including, among others, interest income, royalties from sales of products of third party licensees, including Synagis, Herceptin, Zenapax and Mylotarg; our ability to enter into additional collaborative, humanization and patent licensing arrangements; progress of product candidates in clinical trials; the ability of our licensees to obtain regulatory approval and successfully manufacture and market products licensed under our patents; the continued or additional support by our collaborative partners or other third parties of research and development efforts and clinical trials; investment in existing and new research and development programs; time required to gain regulatory approvals; resources we devote to self-funded products, manufacturing facilities and methods and advanced technologies; our ability to obtain and retain funding from third parties under collaborative arrangements; our continued development of internal marketing and sales capabilities; the demand for our potential products, if and when approved; potential acquisitions of technology, product candidates or businesses by us; and the costs of defending or prosecuting any patent opposition or litigation necessary to protect our proprietary technology. In order to develop and commercialize our potential products we may need to raise substantial additional funds through equity or debt financings, collaborative arrangements, the use of sponsored research efforts or other means. No assurance can be given that such additional financing will be available on acceptable terms, if at all, and such financing may only be available on terms dilutive to existing stockholders.

In Fremont, California, Somerville, New Jersey and Plymouth, Minnesota, we occupy leased facilities under agreements that expire in 2004, 2005 and 2009. We also have leased certain office equipment under operating leases.

In September 1999, Fremont Holding L.L.C. (our wholly owned subsidiary) obtained a $10.2 million term loan to purchase our Fremont, California facilities. The loan bears interest at the rate of 7.64% per year amortized over 15 years with principal and

interest payable monthly. The loan is secured by our Fremont, California facilities and is subject to the terms and covenants of the loan agreement.

In February 2000, we issued 5.50% Convertible Subordinated Notes due February 15, 2007 with a principal amount of $150 million (the Convertible Notes). The Convertible Notes are convertible at the holders' option into our common stock at a conversion price of $37.75 per share, subject to adjustment as a result of certain events. Interest on the Convertible Notes is payable semiannually in arrears on February 15 and August 15 of each year. The Convertible Notes are unsecured and are subordinated to all our existing and future Senior Indebtedness (as defined in the indenture relating to the Convertible Notes). The Convertible Notes may be redeemed at our option, in whole or in part, beginning on February 15, 2003 at the redemption prices set forth in the Convertible Notes indenture.

In May 2001, we signed a collaborative agreement with Exelixis to discover and develop humanized antibodies for the diagnosis, prevention and treatment of cancer. We agreed to provide Exelixis with $4.0 million in annual research funding for two or more years, and we purchased a $30.0 million five year note, convertible after the first year of the collaboration into Exelixis common stock. We received an exclusive, worldwide license to develop antibodies against certain targets identified by Exelixis that are involved in cell growth, cell death and proliferation. Exelixis has the right to co-fund development of antibodies resulting from the collaboration. For antibody products we develop that Exelixis elects not to co-fund, we have agreed to make specified milestone payments and royalty payments on any product sales.

Our material contractual obligations under lease, debt and research funding agreements for the next five years, and thereafter as of December 31, 2001 are as follows:

(In thousands)	PAYMENTS DUE BY PERIOD				
CONTRACTUAL OBLIGATIONS (1)	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years	Total
Operating leases	$ 1,184	$ 2,316	$ 1,710	$ 1,638	$ 6,848
Long-term debt	1,139	2,278	2,278	8,922	14,617
Convertible debentures (2)	8,250	16,500	16,500	154,125	195,375
Research funding	4,000	1,000	--	--	5,000
Total contractual cash obligations	$ 14,573	$ 22,094	$ 20,488	$164,685	$221,840

1. This table does not include (a) any milestone payments which may become payable under research collaborations or license agreements as the timing and likelihood of such payments are not known, (b) any royalty payments to third parties as the amounts of such payments and / or likelihood of such payments are not known and (c) contracts that are entered into in the ordinary course of business which are not material in the aggregate in any period presented above.

2. Our convertible debenture may be converted to common stock prior to the maturity date and therefore may not require use of our capital resources.

Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board (FASB) issued FAS 141, "Business Combinations"(FAS 141). FAS 141 supersedes APB 16, "Business Combinations," and FAS 38, "Accounting for Preacquisition Contingencies of Purchased Enterprises." FAS 141 requires the purchase method of accounting for all business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests method. FAS 141 also includes guidance on the initial recognition and measurement of goodwill and other intangible assets arising from business combinations completed after June 30, 2001.

In July 2001, the FASB issued FAS 142, "Goodwill and Other Intangible Assets" (FAS 142). FAS 142 supersedes APB 17, "Intangible Assets," and requires the discontinuance of goodwill amortization. In addition, FAS 142 includes provisions regarding the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, reclassification of certain intangibles out of previously reported goodwill and the testing for impairment of existing goodwill and other intangibles. FAS 142 is required to be applied for fiscal years beginning after December 15, 2001, with certain early adoption permitted. The Company does not expect the adoption of FAS 142 to have a material effect on its financial condition or results of operations.

In August 2001, the FASB issued FAS 143, "Accounting for Asset Retirement Obligations" (FAS 143). FAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated retirement costs. The Company is in the process of assessing the effect of adopting FAS 143, which will be effective for the Company's fiscal year ending December 31, 2002.

In October 2001, the FASB issued FAS 144, "Accounting for the Impairment or Disposal of Long Lived Assets" (FAS 144), which supersedes FAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of"(FAS 121). FAS 144 addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of. However, FAS 144 retains the fundamental provisions of FAS 121 for: 1) recognition and measurement of the impairment of long-lived assets to be held and used; and 2) measurement of long-lived assets to be disposed of by sale. FAS 144 is

effective for fiscal years beginning after December 15, 2001. The Company does not expect the adoption of FAS 144 to have a material effect on its financial condition or results of operations.

ITEM 7a. MARKET RISKS

We maintain a non-trading investment portfolio of investment grade, highly liquid, debt securities which limits the amount of credit exposure to any one issue, issuer, or type of instrument. The securities in our investment portfolio are not leveraged and are classified as available for sale and therefore are subject to interest rate risk. We do not currently hedge interest rate exposure. If market interest rates were to increase by 100 basis points from December 31, 2001 levels, the fair value of the portfolio would decline by approximately $9.5 million. The modeling technique used measures the change in fair values arising from an immediate hypothetical shift in market interest rates and assumes ending fair values include principal plus accrued interest. We do not use derivative financial instruments for speculative or trading purposes and currently do not use or hold derivative financial instruments.

As of December 31, 2001, the aggregate fair values of our long-term debt and convertible subordinated notes were approximately $9.5 million and $170.0 million, respectively. The long-term debt bears interest at a fixed rate of 7.64% and the convertible subordinated notes bear interest at a fixed rate of 5.50%. These obligations are subject to interest rate risk because the fixed interest rates under these obligations may exceed current interest rates. See Notes 9 and 10 to the 2001 Consolidated Financial Statements for details relating to our debt instruments.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

PROTEIN DESIGN LABS, INC.
CONSOLIDATED BALANCE SHEETS

(In thousands, except par value per share)

	DECEMBER 31, 2001	2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 120,268	$ 421,541
Marketable securities	530,047	239,632
Other current assets	4,144	1,980
Total current assets	654,459	663,153
Land, property and equipment, net	42,111	37,673
Other assets	3,328	4,154
Convertible note receivable	30,000	-
Total assets	$ 729,898	$ 704,980
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,249	$ 1,062
Accrued compensation	2,000	1,729
Accrued clinical trial costs	2,588	1,103
Accrued interest	3,071	3,071
Other accrued liabilities	3,123	2,692

Deferred revenue	100	1,455
Current portion of long-term debt	432	400
Total current liabilities	12,563	11,512
Convertible subordinated notes	150,000	150,000
Long-term debt	8,892	9,324
Total liabilities	171,455	170,836
Commitments and Contingencies		
Stockholders' equity:		
Preferred stock, par value $0.01 per share, 10,000 shares authorized; no shares issued and outstanding	--	--
Common stock, par value $0.01 per share, 250,000 shares authorized; 88,499 and 87,153 issued and outstanding at December 31, 2001 and December 31, 2000, respectively	885	872
Additional paid-in capital	624,094	611,254
Accumulated deficit	(75,923)	(78,570)
Accumulated other comprehensive income	9,387	588
Total stockholders' equity	558,443	534,144
Total liabilities and stockholders' equity	$ 729,898	$ 704,980

See accompanying notes

PROTEIN DESIGN LABS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	YEARS ENDED DECEMBER 31,		
	2001	**2000**	**1999**
Revenues:			
Revenue under agreements with third parties-other	$ 44,375	$ 39,907	$ 26,811
Interest and other income	35,160	23,149	8,943
Total revenues	79,535	63,056	35,754
Costs and expenses:			
Research and development	52,173	42,334	36,090

General and administrative	15,726	12,110	9,842
Interest expense	8,989	7,965	155
Total costs and expenses	76,888	62,409	46,087
Net income (loss)	$ 2,647	$ 647	$ (10,333)
Net income (loss) per share:			
Basic	$ 0.03	$ 0.01	$ (0.14)
Diluted	$ 0.03	$ 0.01	$ (0.14)
Shares used in computation of net income (loss) per share:			
Basic	87,624	80,904	74,792
Diluted	92,889	88,562	74,792

See accompanying notes

PROTEIN DESIGN LABS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands, except per share and shares of common stock data)

	Common Stock		Additional Paid-In
	Shares	Amount	Capital
Balance at December 31, 1998	74,380,996	$ 744	$230,477
Issuance of common stock	2,746,040	28	14,756
Balance at December 31, 1999	77,127,036	772	245,233
Follow-on public offering of common stock at $59.2187 per share (net of underwriters discount of $18,103 and offering expenses of approximately $500)	6,116,000	61	343,517
Issuance of common stock	3,910,264	39	22,504
Balance at December 31, 2000	87,153,300	872	611,254
Issuance of common stock	1,346,001	13	12,840
Balance at December 31, 2001	88,499,301	$ 885	$ 624,094

	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at December 31, 1998	$ (68,884)	$ 159	$162,496
Issuance of common stock	--	--	14,784
Comprehensive income (loss):			
Net loss	(10,333)	--	(10,333)
Other comprehensive income (loss)			
Unrealized loss on securities	--	(2,204)	(2,204)
Total comprehensive income (loss)			(12,537)
Balance at December 31, 1999	(79,217)	(2,045)	164,743
Follow-on public offering of common stock at $59.2187 per share (net of underwriters discount of $18,103 and offering expenses of approximately $500)	--	--	343,579
Issuance of common stock	--	--	22,542
Comprehensive income:			
Net income	647	--	647
Other comprehensive income			
Unrealized gain on securities	--	2,633	2,633
Total comprehensive income			3,280
Balance at December 31, 2000	(78,570)	588	534,144
Issuance of common stock	--	--	12,853
Comprehensive income:			
Net income	2,647	--	2,647
Other comprehensive income			
Unrealized gain on securities	--	8,799	8,799
Total comprehensive income			11,446
Balance at December 31, 2001	$ (75,923)	$ 9,387	$ 558,443

See accompanying notes

PROTEIN DESIGN LABS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	YEARS ENDED DECEMBER 31,		
	2001	**2000**	**1999**
Cash flows from operating activities:			
Net income (loss)	$ 2,647	$ 647	$ (10,333)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	4,782	3,570	3,538
Amortization of convertible notes offering costs	721	628	--
Other	(4,522)	(1,920)	(413)
Changes in assets and liabilities:			
Other current assets	(2,164)	4,739	(2,111)
Other assets	105	(4,233)	238
Accounts payable	187	185	(433)
Accrued liabilities	2,187	4,031	(1,245)
Deferred revenue	(1,355)	(820)	40
Total adjustments	(59)	6,180	(386)
Net cash provided by (used in) operating activities	2,588	6,827	(10,719)
Cash flows from investing activities:			
Purchases of marketable securities	(485,483)	(129,821)	(81,336)
Maturities of marketable securities	207,885	15,000	74,900
Purchases of convertible note	(30,000)	--	--
Purchase of land, property and equipment	(8,716)	(3,355)	(18,815)
Proceeds from sale of equipment	--	--	325
Net cash used in investing activities	(316,314)	(118,176)	(24,926)
Cash flows from financing activities:			
Proceeds from issuance of capital stock, net of issuance costs	12,853	366,121	14,784
Proceeds from issuance of convertible notes	--	150,000	--
Proceeds from issuance of long-term debt	--	--	10,150
Payments on long-term debt	(400)	(369)	(58)

Net cash provided by financing activities	12,453	515,752	24,876
Net increase (decrease) in cash and cash equivalents	(301,273)	404,403	(10,769)
Cash and cash equivalents at beginning of year	421,541	17,138	27,907
Cash and cash equivalents at end of year	$ 120,268	$ 421,541	$ 17,138
Supplemental cash flow data:			
Cash paid during the year for:			
Interest	$ 8,989	$ 4,894	$ 131

See accompanying notes

PROTEIN DESIGN LABS, INC.
NOTES TO COLIDATED FINANCIAL STATEMENTS

December 31, 2001

1. Summary of Significant Accounting Policies

Organization and Business

Protein Design Labs, Inc. is a biotechnology company engaged in the development of humanized antibodies to prevent or treat various disease conditions. PDL currently has antibodies under development for autoimmune and inflammatory conditions, asthma and cancer. PDL holds fundamental patents in the U.S., Europe and Japan for its antibody humanization technology.

Principles of Consolidation

The consolidated financial statements include the accounts of Protein Design Labs, Inc. and its wholly-owned subsidiaries, Fremont Holding L.L.C. and Fremont Management, Inc., after elimination of inter-company accounts and transactions.

Cash Equivalents, Marketable Securities and Concentration of Credit Risk

We consider all highly liquid investments with maturities of three months or less at the date of purchase to be cash equivalents. The "Other" adjustments line item in the Statements of Cash Flows represents the accretion of the book value of certain debt securities. We place our cash and marketable debt securities with high-credit-quality financial institutions and in securities of the U.S. government, U.S. government agencies and U.S. corporations and, by policy, limit the amount of credit exposure in any one financial instrument. To date, we have not experienced credit losses on investments in these instruments.

Revenue Recognition

Contract revenues from research and development arrangements are recognized based on the performance requirements of the contracts. Revenues from achievement of milestones are recognized when the funding party agrees that the milestone (typically scientific, regulatory or clinical results) stipulated in the agreement has been met. Deferred revenue arises principally due to timing of cash payments received under research and development contracts.

Our collaborative, humanization and patent licensing agreements with third parties provide for the payment of royalties to us based on net sales of the licensed product under the agreement. The agreements generally provide for royalty payments to us following completion of each calendar quarter or semi-annual period and royalty revenue is recognized in the quarter in which royalty reports are received by us from the third party. Non-refundable signing and licensing fees under collaborative and humanization agreements are recognized over the period in which performance obligations are achieved. Non-refundable signing and licensing fees under patent licensing agreements are recognized when there are no future performance obligations remaining with respect to such fees. The majority of the Company's revenues were earned in the United States. Royalty payments from two companies accounted for 33% of the Company's 2001 revenues and 28% of the Company's revenues in both 2000 and 1999.

Research and Development

Major components of research and development expenses consist of personnel costs, including salaries and benefits, clinical development performed by us and contract research organizations, preclinical work, pharmaceutical development, materials and supplies, third party research funding and overhead allocations consisting of various administrative and facilities related costs. All

research and development costs are charged to expense. Certain of these costs may include payments owed by us under collaborative agreements for reimbursement of expenses which are expensed under our policy during the quarter in which such expenses are reported to us or to our collaborative partners and agreed to by us or our partners.

Net Income (Loss) Per Share

In accordance with Financial Accounting Standards Board Statement No. 128, "Earnings Per Share" (FAS 128), basic and diluted net income (loss) per share amounts have been computed using the weighted average number of shares of common stock outstanding during the periods presented. Calculation of diluted net income per share also includes the dilutive effect of outstanding stock options in 2001 and 2000, but does not include the dilutive effect of outstanding convertible notes because the assumed conversion of these notes would be anti-dilutive. We incurred a net loss for the year ended December 31, 1999, and as such, we did not include the effect of outstanding stock options in the diluted net loss per share calculation, as their effect is anti-dilutive.

The following is a reconciliation of the numerators and denominators of the basic and diluted net income (loss) per share computations for the periods presented below:

(In thousands, except basic and diluted net income (loss) per share)

	2001	2000	1999
Numerator:			
Net income (loss)	$ 2,647	$ 647	$(10,333)
Denominator:			
Basic net income (loss) per share - Weighted-average shares	87,624	80,904	74,792
Dilutive potential common shares -			
Stock options	5,265	7,658	--
Denominator for diluted net income (loss) per share	92,889	88,562	74,792
Basic net income (loss) per share	$ 0.03	$ 0.01	$ (0.14)
Diluted net income (loss) per share	$ 0.03	$ 0.01	$ (0.14)

The total number of shares excluded from the calculations of diluted net income per share for outstanding convertible notes was 3,974,000 in 2001 and 2000. The total number of shares excluded from the calculation of diluted net loss per share for stock options was 2,467,000 in 1999. Such securities, had they been dilutive, would have been included in the computations of diluted net income (loss) per share.

Comprehensive Income (Loss)

In accordance with Financial Accounting Standards Board Statement No. 130, "Reporting Comprehensive Income" (FAS 130), we are required to display comprehensive income (loss) and its components as part of our complete set of financial statements. The measurement and presentation of net income (loss) did not change. Comprehensive income (loss) is comprised of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) includes certain changes in equity that are excluded from our net income (loss), specifically, the unrealized gains and losses on our holdings of available-for-sale securities. Comprehensive income (loss) for the years ended December 31, 2001, 2000 and 1999 is reflected in the Statements of Stockholders' Equity.

Stock-Based Compensation

We have elected to follow the "disclosure only" alternative prescribed by Financial Accounting Standards Board Statement No. 123, "Accounting for Stock-Based Compensation" and therefore we account for our stock options and equity awards in accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees".

Segment Disclosure

In accordance with Financial Accounting Standards Board Statement No. 131, "Disclosure about Segments of an Enterprise and Related Information" (FAS 131), we are required to report operating segments and related disclosures about our products, services, geographic areas and major customers. We have no significant product revenue and have only one segment with facilities solely within the U.S.

Derivative Instruments and Hedging Activities

In accordance with Financial Accounting Standards Board issued Statement No. 133 "Accounting for Derivative Instruments and Hedging Activities" (FAS 133), we are required to recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The Company has reviewed FAS 133 and because we do not use or hold derivatives, the adoption of FAS 133 in 2001 did not affect the results of operations or the financial position of the Company.

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires the use of management's estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. For example, we have a policy of recording expenses for clinical trials based upon pro rating estimated total costs of a clinical trial over the estimated length of the clinical trial and the number of patients anticipated to be enrolled in the trial. Expenses related to each patient are recognized ratably beginning upon entry into the trial and over the course of the trial. In the event of early termination of a clinical trial, management accrues an amount based on its estimate of the remaining non-cancellable obligations associated with the winding down of the clinical trial. Our estimates and assumptions could differ significantly from the amounts that may actually be incurred.

Land, Property and Equipment

Land, property and equipment are stated at cost less accumulated straight-line depreciation and amortization and consist of the following (in thousands):

	December 31,	
	2001	2000
Land	$ 6,790	$ 6,790
Buildings and improvements	22,001	21,793
Leasehold improvements	3,181	4,349
Laboratory and manufacturing equipment	25,776	19,404
Computer and office equipment	4,465	4,086
Furniture and fixtures	1,633	1,379
	63,846	57,801
Less accumulated depreciation and amortization	(21,735)	(20,128)
	$ 42,111	$ 37,673

Depreciation and amortization expense for 2001, 2000 and 1999 were $4.3 million, $3.7 million and $3.3 million, respectively.

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives:

Buildings and improvements 15 to 30 years
Leasehold improvements Term of lease
Laboratory and manufacturing equipment 7 years
Computer and office equipment 3 years
Furniture and fixtures 7 years

Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board (FASB) issued FAS 141, "Business Combinations"(FAS 141). FAS 141 supersedes APB 16, "Business Combinations," and FAS 38, "Accounting for Preacquisition Contingencies of Purchased Enterprises." FAS 141 requires the purchase method of accounting for all business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests method. FAS 141 also includes guidance on the initial recognition and measurement of goodwill and other intangible assets arising from business combinations completed after June 30, 2001.

In July 2001, the FASB issued FAS 142, "Goodwill and Other Intangible Assets" (FAS 142). FAS 142 supersedes APB 17, "Intangible Assets," and requires the discontinuance of goodwill amortization. In addition, FAS 142 includes provisions regarding the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, reclassification of certain intangibles out of previously reported goodwill and the testing for impairment of existing goodwill and other intangibles. FAS 142 is required to be applied for fiscal years beginning after December 15, 2001, with certain early adoption permitted. The Company does not expect the adoption of FAS 142 to have a material effect on its financial condition or results of operations.

In August 2001, the FASB issued FAS 143, "Accounting for Asset Retirement Obligations" (FAS 143). FAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated retirement costs. The Company is in the process of assessing the effect of adopting FAS 143, which will be effective for the Company's fiscal year ending December 31, 2002.

In October 2001, the FASB issued FAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (FAS 144), which supersedes FAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of"(FAS 121). FAS 144 addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be

disposed of. However, FAS 144 retains the fundamental provisions of FAS 121 for: 1) recognition and measurement of the impairment of long-lived assets to be held and used; and 2) measurement of long-lived assets to be disposed of by sale. FAS 144 is effective for fiscal years beginning after December 15, 2001. The Company does not expect the adoption of FAS 144 to have a material effect on its financial condition or results of operations.

2. Collaborative, Humanization and Patent Licensing Arrangements

Collaborative Arrangements

Roche. In 1989, we entered into agreements with Roche to collaborate on the research and development of antibodies which bind to the IL-2 receptor, including Zenapax. Under these agreements, Roche has exclusive, worldwide rights to manufacture, market and sell Zenapax. We began receiving royalties on sales of Zenapax in 1998. Our royalties are subject to offsets for milestones, third party license fees and royalties, and patent expenses paid by Roche.

In October 1999, we agreed with Roche to replace the 1989 agreements with new agreements under which we assumed worldwide responsibility for the clinical development of Zenapax for the potential treatment of autoimmune diseases. Roche retained exclusive worldwide rights to Zenapax for non-autoimmune diseases and is continuing to market Zenapax for the prevention of kidney transplant rejection. In return for undertaking clinical development in autoimmune indications, we will receive a significant share of Zenapax revenues from sales for autoimmune indications, either from our own marketing efforts or from revenue sharing with Roche.

In the U.S. and Canada, we will have the right to market daclizumab in autoimmune indications and will pay for these activities from our share of revenues. In Europe and certain other countries, Roche may choose to market daclizumab in autoimmune indications. In this case, we will receive a substantial portion of daclizumab revenue from these indications. For countries and indications for which Roche elects not to market, we will receive an exclusive license to market daclizumab and pay Roche a small royalty.

Scil Biomedicals GmbH. In March 1999, we entered into an agreement with Scil for rights to develop and market SMART Anti-L-Selectin in Europe. Scil paid us a $3.0 million signing and licensing fee for these rights, and we will be entitled to royalties on any product sales. We agreed to make milestone payments to Scil, at our election, upon the achievement of specified clinical and regulatory goals.

GlaxoSmithKline plc. In September 1999, we signed agreements with SmithKline Beecham, now GlaxoSmithKline, involving two humanized antibodies for the possible treatment of asthma. We obtained a license to GlaxoSmithKline's humanized anti-IL-4 antibody and granted an exclusive license under our antibody humanization patents to GlaxoSmithKline for its humanized anti-IL-5 antibody. We have completed Phase I and Phase I/II clinical trials for the humanized anti-IL-4 antibody and are conducting a Phase II trial in asthma patients. We will be entitled to exclusive, worldwide development, marketing and sales rights to the anti-IL-4 antibody unless GlaxoSmithKline pays a fee to acquire marketing rights at the end of a specified, larger Phase II trial. If GlaxoSmithKline decides to participate in the further development of the antibody, we will share future development costs and profits at a pre-agreed ratio. We also may receive co-promotion rights in the U.S.

Exelixis, Inc. In May 2001, we signed a collaborative agreement with Exelixis to discover and develop humanized antibodies for the diagnosis, prevention and treatment of cancer. We agreed to provide Exelixis with $4.0 million in annual research funding for two or more years, and we purchased a $30.0 million five year note convertible after the first year of the collaboration into Exelixis common stock based on a defined formula. The note receivable is currently recorded at cost in the consolidated balance sheet. We received an exclusive, worldwide license to develop antibodies against certain targets identified by Exelixis that are involved in cell growth, cell death and proliferation. Exelixis has the right to co-fund development of antibodies resulting from the collaboration. For antibody products we develop that Exelixis elects not to co-fund, we have agreed to make specified milestone payments and royalty payments on any product sales.

Humanization and Patent Licensing Arrangements.

Yamanouchi Pharmaceutical Co., Ltd. In February 1991, we entered into an agreement with Yamanouchi to humanize a mouse anti-platelet (anti-gpIIb/IIIa) antibody developed by Yamanouchi for cardiovascular disorders. Yamanouchi is conducting a Phase II clinical trial with the antibody we humanized for them. Yamanouchi has exclusive, worldwide rights to the antibody and is responsible for all development activities. We have received milestone payments and will be entitled to royalties on any sales of the antibody.

Mochida Pharmaceutical Co., Ltd. In December 1995, we entered into an agreement with Mochida to humanize a mouse antibody for use in infectious disease. We received a licensing and signing fee and milestone payments and can earn royalties on any product sales. In addition, we have an option to co-promote the antibody in North America.

Wyeth (formerly known as American Home Products Corporation). In December 1996, we entered into an agreement with Genetics Institute, now a wholly owned subsidiary of Wyeth, to initially humanize three mouse antibodies that regulate an immune system pathway. To date, we have received a $2.5 million licensing and signing fee and three milestone payments. We are entitled to royalties on any product sales. We also received an option to co-promote the products in North America under certain conditions. Two of the three antibodies are in Phase II trials.

Teijin Limited. In March 1997, we entered into an agreement with Teijin to humanize a mouse antibody to a toxin produced by the *E. coli* O157 bacteria that can cause serious illness or death from the consumption of contaminated food. We have received a licensing and signing fee and milestone payment and are entitled to royalties on any product sales.

Ajinomoto Co., Inc. In July 1997, we entered into an agreement with Ajinomoto to humanize a mouse antibody directed at cardiovascular conditions. We have received a licensing and signing fee and milestone payments and are entitled to royalties on any product sales. In addition, we received the right to obtain co-promotion rights to the antibody in North America.

Genentech, Inc. In September 1998, we entered into an agreement covering patent rights under our humanization patents and under Genentech patents relating to antibody engineering. Genentech paid us a $6.0 million fee, and we paid Genentech a $1.0 million fee. Each company can obtain up to six licenses for humanized antibodies upon payment of an additional fee of at least $1.0 million per antibody, as well as royalties on any product sales. The number of licensed antibodies may be increased and the term of the agreement extended upon payment of additional fees. In November 1998, Genentech exercised certain of its rights under the agreement and obtained a nonexclusive license for Herceptin. Genentech paid us a $1.0 million licensing and signing fee and we currently receive royalties on Herceptin sales.

Progenics Pharmaceuticals, Inc. In April 1999, we entered into an agreement to humanize PRO 140, Progenics' novel anti-CCR5 monoclonal antibody that inhibits HIV replication in the laboratory. Progenics paid us a licensing and signing fee, has paid a milestone payment, and has agreed to make additional payments upon the achievement of specified milestones and to pay royalties on any sales of the antibody.

Fujisawa Pharmaceuticals Co. In June 1999, we entered into a research agreement with Fujisawa to engineer certain antibodies targeted to the treatment of inflammatory and immunologically based disorders. The engineering included the use of our patented modification of the constant region of certain types of antibodies. In February 2000, we entered into an agreement to humanize one of these antibodies. Fujisawa paid us a $1.5 million licensing and signing fee. We have received milestone payments and are entitled to receive annual maintenance fees and royalties on any product sales.

Celltech Group plc. In December 1999, we entered into a patent rights agreement with Celltech covering specified patents relating to humanized monoclonal antibodies. Under the agreement, Celltech paid us a $3.0 million fee for the right to obtain worldwide licenses under our antibody humanization patents for up to three Celltech antibodies. We paid Celltech a fee for the right to obtain worldwide licenses under Celltech's antibody humanization patent for up to three of our antibodies. When a license is taken by either company, the other will be entitled to an additional license fee. Each company will pay royalties to the other on any sales of licensed antibodies. In December 2001, Celltech obtained, pursuant to the exercise of certain of its rights under the agreement, a nonexclusive license for antibodies directed to tumor necrosis factor-alpha.

Tanox, Inc. In March 2000, we entered into a patent rights agreement with Tanox under our humanization patents. Tanox paid us a $2.5 million fee, which reflected a $1.5 million credit for a fee Tanox previously paid to us for a patent license for an antibody which was incorporated into this agreement. Tanox can obtain up to four patent licenses for humanized antibodies upon payment of an additional fee of at least $1.0 million per antibody, as well as royalties on any product sales.

Eli Lilly and Company. In August and September 2000, we entered into two agreements to humanize antibodies for Lilly. Lilly paid us signing and licensing fees of $1.7 million and $1.36 million, has made milestone payments and has agreed to pay royalties on any sales of the humanized antibodies.

InterMune Pharmaceuticals, Inc. In November 2000, we entered into an agreement to humanize an antibody targeted to the bacteria *Pseudomonas aeruginosa* for InterMune. InterMune paid us a signing and licensing fee, a milestone payment, and has agreed to make additional payments upon the achievement of specified milestones and to pay royalties on any sales of the humanized antibody.

Millennium Pharmaceuticals, Inc. In March 2001, we entered into a patent rights agreement with Millennium under our humanization patents for which they paid us an upfront fee. Millennium can obtain up to three patent licenses for humanized antibodies upon payment of additional fees, as well as royalties on any product sales. The term of the agreement may be extended upon payment of additional fees.

Other Patent License Agreements. We have entered into patent license agreements with a number of other companies that are independently developing humanized antibodies. In each license agreement, we granted a worldwide, exclusive or nonexclusive license under our patents to the other company for an antibody to a specific target antigen. In general, we received a licensing and signing fee and the right to receive annual maintenance fees and royalties on any product sales. Under some of these agreements, we also may receive milestone payments. In addition to Herceptin, we receive royalties on sales of Synagis, an antibody developed by MedImmune which is currently marketed in the U.S. and Europe, and on Mylotarg, an antibody developed by Wyeth which is currently marketed in the U.S. In addition to Genentech, MedImmune and Wyeth, we have patent license agreements with Sankyo, Biogen, IDEC Pharmaceuticals, Elan Pharmaceuticals, Medarex, GlaxoSmithKline, Merck KGaA, Chugai and Celltech.

3. Accrued Liabilities

At December 31, other accrued liabilities in the consolidated balance sheet consisted of the following (in thousands):

	2001	2000
Employee stock purchase plan	$ 36	$ 698
	2,007	1,994

Other	3,087	1,994
	$ 3,123	$ 2,692

We have a policy of recording expenses for clinical trials based upon pro rating estimated total costs of a clinical trial over the estimated length of the clinical trial and the number of patients anticipated to be enrolled in the trial. Expenses related to each patient are recognized ratably beginning upon entry into the trial and over the course of the trial. In the event of early termination of a clinical trial, management accrues an amount based on our estimate of the remaining non-cancellable obligations associated with the winding down of the clinical trial.

4. Commitments

We occupy leased facilities under agreements that expire in 2004, 2005 and 2009. We also have leased certain office equipment under operating leases. Rental expense under these arrangements totaled approximately $0.9 million, $1.6 million, and $2.7 million for the years ended December 31, 2001, 2000 and 1999, respectively.

At December 31, 2001 the total future minimum non-cancelable payments under these operating lease agreements are approximately as follows (in thousands):

2002	$ 1,184
2003	1,171
2004	1,145
2005	899
2006	811
Thereafter	1,638
Total	$ 6,848

5. Short- and Long-Term Investments

We invest our excess cash balances primarily in short-term and long-term marketable debt securities. These securities are classified as available-for-sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses reported in accumulated other comprehensive income (loss) in stockholders' equity. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is included in interest income. The cost of securities sold is based on the specific identification method, when applicable.

The following is a summary of available-for-sale securities. Estimated fair value is based upon quoted market prices for these or similar instruments.

	Available-for-Sale-Securities			
(In thousands)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2001				
Securities of the U.S. Government and its agencies				
Maturing:				
Within 1 year	$ 10,051	$ 320	$ --	$ 10,371
Between 1-3 years	364,359	4,648	(421)	368,586
U.S. corporate debt securities maturing:				
Within 1 year	5,112	99	--	5,211
Between 1-3 years	141,138	4,741	--	145,879
Total marketable debt securities	$ 520,660	$ 9,808	$ (421)	$ 530,047
December 31, 2000				
Securities of the U.S.				

Government and its agencies				
Maturing:				
Within 1 year	$ 64,568	$ 64	$ (191)	$ 64,441
Between 1-3 years	136,473	568	(250)	136,791
U.S. corporate debt securities maturing:				
Between 1-3 years	38,003	397	--	38,400
Total marketable debt securities	$ 239,044	$ 1,029	$ (441)	$ 239,632

During 2001, 2000 and 1999, there were no realized gains or losses on the sale of available-for-sale securities, as all securities liquidated in each of these years were held to maturity.

6. Stockholders' Equity

Stock Split

In August 2001, we announced that our Board of Directors approved a two-for-one stock split of the outstanding shares of our common stock.

The stock split was effected in the form of a stock dividend. Each stockholder of record at the close of business on September 18, 2001 was entitled to receive one additional share of common stock for every share of common stock held on that date. The stock dividend resulting from the stock split was distributed by our transfer agent on October 9, 2001. The share and per share amounts in the accompanying financial statements and notes reflect the effect of this stock split.

Common Stock Reserved for Future Issuance

Shares of common stock of the Company reserved for future issuance at December 31, 2001 were as follows:

(In thousands)	
All Stock Option Plans	20,926
Employee Stock Purchase Plan	1,347
Convertible Debt	3,974
Total	26,247

1991 Stock Option Plan

In December 1991, the Board of Directors adopted the 1991 Stock Option Plan (1991 Plan). We reserved 16,000,000 shares of common stock for the grant of options under the 1991 Plan.

At the 1999 Annual Meeting of Stockholders, stockholders approved the 1999 Stock Option Plan, including a provision whereby upon termination of the 1991 Plan, any shares remaining available for grant or which subsequently become available upon the termination of options outstanding under the 1991 Plan, if any, will be added automatically to the 1999 Stock Option Plan. As of December 31, 2001, 1,717,694 shares have been transferred to the 1999 Stock Option Plan.

At December 31, 2001, options to purchase 4,187,700 shares were outstanding at prices ranging from $3.41 to $21.02. Options granted under the 1991 Plan generally vest at the rate of 25 percent at the end of the first year, with the remaining balance vesting monthly over the next three years in the case of employees, and ratably over two or five years in the case of advisors and consultants.

Outside Directors' Stock Option Plan

In February 1992 the Board of Directors adopted the Outside Directors' Stock Option Plan (Directors' Plan). We reserved 800,000 shares of common stock for the grant of options under the Directors' Plan. Through December 31, 2001, the Company granted options to purchase 660,000 shares at exercise prices ranging from $1.81 to $11.22 per share, of which 100,000 were canceled. At December 31, 2001, 276,000 were outstanding. Options granted pursuant to the Directors' Plan vest ratably over five years. A total of 284,000 options were exercised through December 31, 2001.

1993 Employee Stock Purchase Plan

In February 1993, the Board of Directors adopted the 1993 Employee Stock Purchase Plan (Employee Purchase Plan). We reserved 2,400,000 shares of common stock for the purchase of shares by employees under the Employee Purchase Plan. At December 31,

2001, 1,346,740 shares remain available for purchase. Eligibility to participate in the Employee Purchase Plan is essentially limited to full time employees who own less than 5% of the outstanding shares. Under the Employee Purchase Plan, eligible employees can purchase shares of our common stock based on a percentage of their compensation, up to certain limits. The purchase price per share must equal at least the lower of 85% of the market value on the date offered or on the date purchased. During 2001, an aggregate of 72,923 shares were purchased by employees under the Employee Purchase Plan at prices of $27.88 or $34.17 per share.

1999 Nonstatutory Stock Option Plan

In August 1999, the Board of Directors adopted the 1999 Nonstatutory Stock Option Plan (the Nonstatutory Option Plan) under which options may be granted to employees, prospective employees and consultants of the Company and any parent or subsidiary corporation. We reserved 4,000,000 shares of common stock for the grant of options under the Nonstatutory Option Plan.

In April 2001, the Board of Directors approved an amendment to increase the shares reserved under the Nonstatutory Option Plan by 4,000,000. The total number of shares reserved under the Nonstatutory Option Plan since its inception is 8,000,000.

As of December 31, 2001, 3,409,149 shares were available for grant.

Options may be granted under the Nonstatutory Option Plan with an exercise price established at the discretion of the Board of Directors, although all options granted to date have exercise prices equal to the market price of the Company's common stock on the date of grant. At December 31, 2001, options to purchase 3,863,892 shares were outstanding at a prices ranging from $6.64 to $56.84. Options granted under the Nonstatutory Option Plan, pursuant to the standard form of option agreement for employees, generally vest at the rate of 25 percent at the end of the first year, with the remaining balance vesting monthly over the next three years. Certain options granted in August 1999 vested over a two year period beginning in September 1999. Options granted under the Nonstatutory Option Plan generally have a term of 10 years, although the Board of Directors may grant options with shorter or longer terms.

1999 Stock Option Plan

In April 1999, the Board of Directors adopted the 1999 Stock Option Plan (the 1999 Option Plan) subject to approval by our stockholders, which approval occurred in June 1999. We reserved 3,700,000 shares of common stock for the grant of options under the 1999 Option Plan.

In April and June 2001, respectively, the Board of Directors and stockholders approved an amendment to the Company's 1999 Option Plan to increase the number of shares reserved for issuance by 4,000,000 shares. Upon termination of the 1991 Plan, any shares remaining available for grant or which subsequently become available upon the termination of options outstanding under the 1991 Plan, if any, will be added automatically to the 1999 Option Plan. As of December 31, 2001, 1,717,694 shares have been transferred to the 1999 Stock Option Plan. The total number of shares reserved under the 1999 Option Plan since inception is 9,417,694.

As of December 31, 2001, 6,748,626 shares were available for grant.

At December 31, 2001, options to purchase 2,200,614 shares were outstanding at a prices ranging from $6.64 to $41.69. Options granted under the 1999 Option Plan, pursuant to the standard form of option agreement for employees, generally vest at the rate of 25 percent at the end of the first year, with the remaining balance vesting monthly over the next three years. Certain options granted in August 1999 vested over a two year period beginning in September 1999.

Accounting for Stock-Based Compensation

We have elected to follow Accounting Principles Board Opinion No. 25, "Accounting of Stock Issued to Employees" (APB 25) and related interpretations, in accounting for stock-based awards to employees, consultants and directors under the 1991 Plan, Directors' Plan, the Nonstatutory Option Plan and the 1999 Option Plan because, as discussed below, the alternative fair value accounting provided for under Financial Accounting Standard 123, "Accounting for Stock-Based Compensation" (FAS 123) requires use of option valuation models that were not developed for use in valuing employee stock-based awards. Under APB 25, when the exercise price of our stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. Pro forma information regarding net income and earnings per share in 2001, 2000 and 1999 has been determined as if we had accounted for our stock-based awards under the fair value method prescribed by FAS 123. The resulting effect on pro forma net income and earnings per share on a pro forma basis disclosed for 2001, 2000 and 1999 is not likely to be representative of the effects on net income and earnings per share on a pro forma basis in future years, because subsequent years will include additional years of vesting.

(In thousands, except per share data)

		2001	2000	1999
Net income (loss)	As reported	$ 2,647	$ 647	$(10,333)
	Pro forma	$ (36,292)	$ (12,653)	$ (17,435)
Net income (loss) per share:				
	As reported - basic	$ 0.03	$ 0.01	$ (0.14)

As reported - diluted	$ 0.03	$ 0.01	$ (0.14)
Pro forma - basic	$ (0.41)	$ (0.16)	$ (0.23)
Pro forma - diluted	$ (0.41)	$ (0.16)	$ (0.23)

The fair value of each option grant is estimated on the date of grant using the Black-Scholes options pricing model with the following weighted-average assumptions used for grants in each of 2001, 2000 and 1999, respectively: (a) no dividends; (b) expected volatility of 98% for 2001, 142% for 2000 and 72% for 1999; (c) weighted-average risk-free interest rates of 4.72%, 6.14% and 5.39%; and (d) expected lives of 5 years.

A summary of the status of our stock option plans at December 31, 2001, 2000 and 1999, and changes during the years ending those dates is presented below.

(In thousands, except exercise price data)

	2001		2000		1999	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	9,575	$13.90	10,712	$ 5.89	9,948	$6.03
Granted	3,142	28.41	3,413	28.14	4,380	5.52
Exercised	(1,274)	8.29	(3,768)	5.69	(2,556)	5.41
Forfeited	(915)	20.18	(782)	11.87	(1,060)	6.19
Outstanding at end of year	10,528	18.40	9,575	13.90	10,712	5.89
Weighted average fair value of						
Options granted during the year		$21.55		$26.63		$3.48

The following information applies to all stock options outstanding under our stock option plans at December 31, 2001:

(In thousands, except exercise prices and remaining contractual life data)

	Outstanding			Exercisable	
		Weighted Average Remaining	Weighted Average		Weighted Average
Range of Exercise Prices	Number Outstanding	Contractual Life (years)	Exercise Price	Number Exercisable	Exercise Price
$ 1.81 - $ 2.22	32	.80	$ 1.81	32	$1.81
$ 2.59 - $ 3.88	5	4.41	3.84	5	3.84
$ 4.00 - $ 5.84	2,257	6.05	4.44	1,471	4.35
$ 6.03 - $ 8.94	1,009	6.02	7.00	790	6.73
$ 9.66 - $ 12.00	1,497	6.21	10.05	604	9.96
$ 18.78 - $ 28.36	4,298	8.90	24.20	637	21.02
$ 29.13 - $ 42.75	1,220	9.03	37.83	195	39.29
$ 45.20 - $ 56.84	210	8.73	54.15	65	55.05
Totals	10,528		$18.40	3,799	$11.18

7. Income Taxes

As of December 31, 2001, we have federal and California state net operating loss carryforwards of approximately $250,000,000 and $50,000,000, respectively. We also have federal and California state research and other tax credit carryforwards of approximately $8,000,000 and $6,000,000, respectively. The federal net operating loss and credit carryforwards will expire at various dates beginning in the year 2002 through 2021, if not utilized. The California state net operating losses will expire at various dates beginning in 2005 through 2011, if not utilized.

Utilization of the federal and California state net operating loss and credit carryforwards may be subject to a substantial annual limitation due to the "change in ownership" provisions of the Internal Revenue Code of 1986. The annual limitation may result in the expiration of net operating losses and credits before utilization.

A reconciliation of income taxes at the statutory federal income tax rate to income taxes included in the accompanying statements of operations is as follows (in thousands):

	Year Ended December 31,		
	2001	2000	1999
U.S. federal taxes (benefit) at statutory rate	$ 900	$ 220	$(3,513)
Unutilized (utilized) net operating losses	(900)	(220)	3,513
Total	$ --	$ --	$ --

Significant components of our deferred tax assets for federal and state income taxes as of December 31 are as follows (in thousands):

	2001	2000
Deferred tax assets:		
Net operating loss carryforwards	$ 86,430	$ 73,000
Research and other credits	11,390	11,800
Deferred revenue	40	600
Capitalized research and development	6,960	4,800
Other	1,760	1,800
Total deferred tax assets	106,580	92,000
Valuation allowance for deferred tax asset	(103,390)	(92,000)
Total deferred tax assets	$ 3,190	$ --
Deferred tax liabilities		
Unrealized gains on investments	$ 3,190	$ --
Total deferred tax liabilities	$ 3,190	$ --
Net deferred tax assets	$ --	$ --

Because of our lack of earnings history, the deferred tax assets have been fully offset by a valuation allowance. The valuation allowance increased by $11,390,000, $56,800,000 and $6,200,000 during 2001, 2000 and 1999, respectively.

Approximately $66,500,000 of the valuation allowance for deferred tax assets at December 31, 2001 relates to benefits of stock option deductions which, when recognized, will be allocated directly to contributed capital.

8. Legal Proceedings

PDL is involved in administrative opposition proceedings being conducted by the European Patent Office with respect to our first European patent relating to humanized antibodies. At an oral hearing in March 2000, the Opposition Division of the European Patent Office decided to revoke the broad claims of our first European patent. We have appealed the Opposition Division's decision to the Technical Board of Appeals at the European Patent Office. The Technical Board of Appeals will consider all issues anew. The appeal suspends the decision of the Opposition Division during the appeals process.

Until our appeal is resolved, we may be limited in our ability to collect royalties or to negotiate future licensing or collaborative research and development arrangements based on this and our other humanization patents. Moreover, if our appeal is unsuccessful, our ability to collect royalties on European sales of antibodies humanized by others would depend on the scope and validity of our second European patent, whether the antibodies are manufactured in a country outside of Europe where they are covered by one of our patents, and in that case the terms of our license agreements with respect to that situation. Also, the Opposition Division's decision could encourage challenges of our related patents in other jurisdictions, including the U.S. This decision may lead some of our licensees to stop making royalty payments or lead potential licensees not to take a license, either of which might result in us initiating formal legal actions to enforce our rights under our humanization patents. In such a situation, a likely defensive strategy to our action would be to challenge our patents in that jurisdiction. During the appeals process with respect to our first European

patent, if we were to commence an infringement action to enforce that patent, such an action would likely be stayed until the appeal is decided by the European Patent Office. We may not be able to successfully enforce our rights under our European or related U.S. and Japanese patents. Eight notices of opposition have been filed with respect to our second European antibody humanization patent and we have filed our response to the European Patent Office. Also, three opposition statements have been filed with the Japanese Patent Office with respect to our humanization patent issued in Japan in late 1998. We received a notice from the Japanese Patent Office supporting one aspect of the position of the opponents to our Japanese humanization patent in the Japanese Patent Office opposition proceeding. Under Japanese Patent Office procedures, until receiving this notice, we had not been afforded an opportunity to respond to arguments made by the opponents to this patent. We have filed a response with the Japanese Patent Office, and we are awaiting a final decision from the Japanese patent examiner.

We intend to vigorously defend the European patents and the Japanese patent in these proceedings; however, we may not prevail in the opposition proceedings or any litigation contesting the validity of these patents. If our appeal with respect to our first European patent is unsuccessful or if the outcome of the other European or Japanese opposition proceedings or any litigation involving our antibody humanization patents were to be unfavorable, our ability to collect royalties on existing licensed products and to license our patents relating to humanized antibodies may be materially harmed. In addition, these proceedings or any other litigation to protect our intellectual property rights or defend against infringement claims by others could result in substantial costs and diversion of management's time and attention, which could harm our business and financial condition.

9. Long-Term Debt

In September 1999, Fremont Holding L.L.C. (a wholly owned subsidiary of Protein Design Labs, Inc.) obtained a $10.2 million term loan to purchase our Fremont, California facilities. The loan bears interest at the rate of 7.64% per year amortized over 15 years with principal and interest payable monthly. The loan is secured by our Fremont, California facilities and is subject to the terms and covenants of the loan agreement.

At December 31, 2001 the maturities of principal payments under this term loan are approximately as follows (in thousands):

2002	$ 432
2003	466
2004	502
2005	543
2006	587
Thereafter	6,794
Total	$ 9,324

The fair value of the loan at December 31, 2001 is approximately $9.5 million. The fair value of the remaining payments under the loan is estimated using discounted cash flow analyses, based on the Company's current incremental borrowing rate for similar types of borrowing arrangements.

10. Convertible Notes

In February 2000, we issued 5.50% Convertible Subordinated Notes due February 15, 2007 with a principal amount of $150 million (the Convertible Notes). The Convertible Notes are convertible at the holders' option into our common stock at a conversion price of $37.75 per share, subject to adjustment as a result of certain events. Interest on the Convertible Notes is payable semiannually in arrears on February 15 and August 15 of each year. The Convertible Notes are unsecured and are subordinated to all our existing and future Senior Indebtedness (as defined in the indenture relating to the Convertible Notes). The Convertible Notes may be redeemed at our option, in whole or in part, beginning on February 15, 2003 at the redemption prices set forth in the Convertible Notes indenture. In June 2000, a shelf registration statement was declared effective covering resales of the Convertible Notes and the common stock issuable upon conversion of the Convertible Notes. Issuance costs associated with the Convertible Notes aggregating $5.1 million are included in other assets and are amortized to interest expense over the term of the debt. The accumulated amortization at December 31, 2001 was $1.3 million and $0.6 million at December 31, 2000. The estimated fair value of the convertible subordinated notes at December 31, 2001 is $170 million based upon publicly available pricing information for the notes.

Report of Ernst & Young LLP, Independent Auditors

Board of Directors and Stockholders
Protein Design Labs, Inc.

We have audited the accompanying consolidated balance sheets of Protein Design Labs, Inc. as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Protein Design Labs, Inc. as of December 31, 2001 and 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

Palo Alto, California

February 1, 2002

QUARTERLY FINANCIAL DATA (UNAUDITED)

	2001 Quarter Ended			
	December 31	September 30	June 30	March 31
Revenues:				
Revenue under agreements with third parties	$ 6,943	$ 8,055	$ 12,667	$ 16,710
Interest and other income	8,103	8,616	8,982	9,460
Total revenues	15,046	16,671	21,649	26,170
Costs and expenses:				
Research and development	13,831	12,463	12,207	13,671
General and administrative	4,318	3,736	4,052	3,620
Interest expense	2,245	2,248	2,250	2,248
Total costs and expenses	20,394	18,447	18,509	19,539
Net income (loss)	$ (5,348)	$ (1,776)	$ 3,140	$ 6,631
Net income (loss) per share:				
Basic	$ (0.06)	$ (0.02)	$ 0.04	$ 0.08
Diluted	$ (0.06)	$ (0.02)	$ 0.03	$ 0.07
Shares used in computation of net				
income (loss) per share:				
Basic	88,103	87,718	87,444	87,230
Diluted	88,103	87,718	93,184	92,564

The sums of the quarters do not equal the annual amounts due to rounding.

	2000 Quarter Ended			
	December 31		June 30	March 31

		September 30		
Revenues:				
Revenue under agreements with third parties	$ 6,862	$ 4,702	$ 15,893	$ 12,450
Interest and other income	10,735	4,892	4,472	3,050
Total revenues	17,597	9,594	20,365	15,500
Costs and expenses:				
Research and development	11,607	9,442	10,216	11,069
General and administrative	3,791	2,991	2,870	2,458
Interest expense	2,250	2,255	2,257	1,203
Total costs and expenses	17,648	14,688	15,343	14,730
Net income (loss)	$ (51)	$ (5,094)	$ 5,022	$ 770
Net income (loss) per share:				
Basic	$ 0.00	$ (0.06)	$ 0.06	$ 0.01
Diluted	$ 0.00	$ (0.06)	$ 0.06	$ 0.01
Shares used in computation of net				
income (loss) per share:				
Basic	86,646	80,100	79,028	77,840
Diluted	86,646	80,100	86,524	86,104

PART II (con't)

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

Not Applicable.

PART III

Certain information required by Part III is omitted from this Report in that the Registrant will file in a definitive proxy statement pursuant to Regulation 14A for the 2002 Annual Meeting of Stockholders (the "Proxy Statement") not later than 120 days after the end of the fiscal year covered by this Report, and certain information included therein is incorporated by reference.

ITEM 10. EXECUTIVE OFFICERS AND DIRECTORS

The information concerning our directors as required by this Item is incorporated by reference to the Section entitled "Nomination of Directors" of the Proxy Statement.

The information concerning our executive officers as required by this Item is incorporated by reference to the Section entitled "Executive Officers of the Registrant" of the Proxy Statement.

The information concerning compliance with requirements regarding reporting of timely filing of statements regarding changes in beneficial ownership of our securities as required by this Item is incorporated by reference to the Section entitled "Section 16(a) Reporting" of the Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the Section entitled "Executive Compensation and Other Matters" of the Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is incorporated by reference to the Section entitled "Security Ownership of Certain Beneficial Owners and Management" of the Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated by reference to the Section entitled "Executive Compensation and Other Matters - Compensation Committee Interlocks and Insider Participation" of the Proxy Statement.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

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

(1) Index to financial statements

Our financial statements and the Report of the Independent Auditors are included in Part II, Item 8.

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

(3) The items listed on the Index to Exhibits are incorporated herein by reference.

(b) Reports on Form 8-K.

None

(c) See (a)(3) above.

(d) See (a)(3) above.

SIGNATURES

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

PROTEIN DESIGN LABS, INC.

By: /s/ LAURENCE JAY KORN

Laurence Jay Korn,

Chief Executive Officer and Chairperson of the Board of Directors

March 14, 2002

Date

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

Signature	**Title**	**Date**
/s/ Robert L. Kirkman (Robert L. Kirkman)	Chief Executive Officer and Chairperson of the Board of Directors (Principal Executive Officer)	March 14, 2002
/s/ Laurence Jay Korn (Laurence Jay Korn)	Vice President, Business Development and Corporate Communications (Principal Accounting Officer)	March 14, 2002
/s/ Jon S. Saxe (Jon S. Saxe)	Director	March 14, 2002
/s/ Cary L. Queen (Cary L. Queen)	Director	March 14, 2002
/s/ George M. Gould (George M. Gould)	Director	March 14, 2002
/s/ Max Link (Max Link)	Director	March 14, 2002
/s/ Jurgen Drews (Jürgen Drews)	Director	March 14, 2002

INDEX TO EXHIBITS

	1993. (Incorporated by reference to Exhibit 10.14 to Annual Report on Form 10-K filed March 31, 1994.)
10.6	License Agreement between the Company and the National Technical Information Service effective as of October 31, 1988 (with certain confidential information deleted and marked by a box surrounding the deleted information). (Incorporated by reference to Exhibit 10.7 to Registration Statement No. 33-44562 effective January 28, 1992, as amended.)
10.7	License Agreement between the Company and the Medical Research Council of the United Kingdom dated July 1, 1989, as amended on January 30, 1990 (with certain confidential information deleted and marked by a box surrounding the deleted information). (Incorporated by reference to Exhibit 10.10 to Registration Statement No. 33-44562 effective January 28, 1992.)
10.8	Software License Agreement among the Company, Molecular Applications Group and Michael Levitt effective September 1, 1990 (with certain confidential information deleted and marked by a box surrounding the deleted information). (Incorporated by reference to Exhibit 10.14 to Registration Statement No. 33- 44562 effective January 28, 1992, as amended.) [Checking Status]
*10.9	Form of Director and Officer Indemnification Agreement. (Incorporated by reference to Exhibit 10.1 to Registration Statement No. 33-44562 effective January 28, 1992, as amended.)
10.10	Amended and Restated Agreement between the Company and Sloan-Kettering Institute for Cancer Research, dated April 1, 1993 (with certain confidential information deleted and marked by a box surrounding the deleted information). (Incorporated by reference to Exhibit 10.32 to Annual Report on Form 10-K filed March 31, 1994.)
10.11	Amendment No. 2 to Lease Agreement between the Company and St. Paul Properties, effective as of October 25, 1994. (Incorporated by reference to Exhibit 10.36 to Annual Report on Form 10-K filed March 31, 1995.)
10.12	Amendment No. 3 to Lease Agreement between the Company and St. Paul Properties, effective as of November 27, 1996. (Incorporated by Reference to Exhibit 10.39 to Annual Report on Form 10-K filed February 13, 1997.)
10.13	Amendment No. 2 to Amended and Restated Agreement between the Company and Sloan-Kettering Institute for Cancer Research dated January 2, 1997. (Incorporated by Reference to Exhibit 10.1 to Quarterly Report on Form 10-Q filed May 14, 1997.)
*10.14	Outside Directors Stock Option Plan together with form of Nonqualified Stock Option Agreement as amended effective February 6, 1997. (Incorporated by Reference to Exhibit 10.2 to Quarterly Report on Form 10-Q filed May 14, 1997.)
*10.15	Outside Directors Stock Option Plan as amended on June 29, 2000 together with form of Nonqualified Stock Option Agreement. (Incorporated by Reference to Exhibit 10.36 to Annual Report on Form 10-K filed March 30, 2001.)
*10.16	Outside Directors Stock Option Plan as amended on October 18, 2001 together with forms of Nonqualified Stock Option Agreement and Amendment of Nonqualified Stock Option Agreement for Outside Director.
10.17	Patent Licensing Master Agreement between the Company and Genentech, Inc., dated as of September 25, 1998 (with certain confidential information deleted and marked by a box surrounding the deleted information). (Incorporated by reference to Exhibit 10.10 to Quarterly Report on Form 10-Q filed November 16, 1998.)
10.18	Agreement of Purchase and Sale between Fremont Holding L.L.C., a Delaware limited liability company, as assignee effective September 13, 1999, and Ardenstone LLC, a Delaware limited liability company, effective June 21, 1999. (Incorporated by reference to Exhibit 10.46 to Quarterly Report on Form 10-Q filed November 15, 1999.)

10.19	Promissory Note between Fremont Holding L.L.C., a Delaware limited liability company and Wells Fargo Bank, National Association, dated September 9, 1999. (Incorporated by reference to Exhibit 10.47 to Quarterly Report on Form 10-Q filed November 15, 1999.)
10.20	Deed of Trust and Absolute Assignment of Rents and Security Agreement (Fixture Filings) between Fremont Holding L.L.C., a Delaware limited liability company and Wells Fargo Bank, National Association, dated September 9, 1999. (Incorporated by reference to Exhibit 10.48 to Quarterly Report on Form 10-Q filed November 15, 1999.)
10.21	Patent Rights Agreement between the Company and Smithkline Beecham Corporation, effective as of September 28, 1999 (with certain confidential portions deleted and marked by notation indicating such deletion). (Incorporated by reference to Exhibit 10.49 to Quarterly Report on Form 10-Q filed November 15, 1999.)
10.22	IL-5 Patent License Agreement between the Company and Smithkline Beecham Corporation, effective as of September 28, 1999 (with certain confidential portions deleted and marked by notation indicating such deletion). (Incorporated by reference to Exhibit 10.50 to Quarterly Report on Form 10-Q filed November 15, 1999.)
10.23	Development and License Agreement between the Company and Smithkline Beecham Corporation, effective as of September 28, 1999 (with certain confidential portions deleted and marked by notation indicating such deletion). (Incorporated by reference to Exhibit 10.51 to Quarterly Report on Form 10-Q filed November 15, 1999.)
10.24	Amended and Restated Agreement between the Company and Hoffmann-La Roche Inc. and F. Hoffmann-La Roche Ltd, dated as of October 20, 1999 (with certain confidential portions deleted and marked by notation indicating such deletion). (Incorporated by reference to Exhibit 10.52 to Quarterly Report on Form 10-Q filed November 15, 1999.)
10.25	Amended and Restated Agreement between the Company and F. Hoffmann-La Roche Ltd, dated as of October 20, 1999 (with certain confidential portions deleted and marked by notation indicating such deletion). (Incorporated by reference to Exhibit 10.53 to Quaterly Report on Form 10-Q filed November 15, 1999.)
*10.26	1999 Stock Option Plan, together with forms of Incentive Stock Option Agreement and Nonstatutory Stock Option Agreement. (Incorporated by reference to Exhibit 10.31 to Registration Statement No. 333-87957 effective September 29, 1999.)
*10.27	1999 Stock Option Plan, as amended on June 14, 2001.
10.28	1999 Nonstatutory Stock Option Plan, together with form Nonstatutory Stock Option Agreement. (Incorporated by reference to Exhibit 10.32 to Registration Statement No. 333-87957 effective September 29, 1999.)
10.29	1999 Nonstatutory Stock Option Plan as amended on December 14, 2000 and on April 25, 2001.
10.30	Indenture Agreement between the Company and Chase Manhattan Bank And Trust Company, National Association, a national banking association, dated February 15, 2000. (Incorporated by Reference to Exhibit 10.33 to Annual Report on Form 10-K filed March 30, 2000.)
10.31	Registration Rights Agreement for the Company's 5.50% Convertible Subordinated Notes due February 15, 2007, dated February 15, 2000. (Incorporated by Reference to Exhibit 10.34 to Annual Report on Form 10-K filed March 30, 2000.)
10.32	Amendment to Amended and Restated Agreement dated as of June 2, 2000 by and among the Company, Hoffmann-La Roche Inc. and F. Hoffmann-La Roche Ltd. (with certain confidential portions deleted and marked by notation indicating such deletion). (Incorporated by reference to Exhibit 10.1 to Quarterly Report on Form 10-Q filed August 14, 2000.)
10.33	Amendment No. 2 to Amended And Restated Agreement dated February 23,

	2001 by and among the Company, Hoffmann-La Roche Inc. and F. Hoffmann-La Roche Ltd. (Incorporated by Reference to Exhibit 10.38 to Annual Report on Form 10-K filed March 30, 2001.)
10.35	Collaboration Agreement between the Company and Exelixis, Inc., a Delaware corporation dated May 22, 2001 (with certain confidential portions deleted and marked by notation indicating such deletion). (Incorporated by reference to Exhibit 10.1 to Quarterly Report on Form 10-Q filed August 14, 2001.)
10.36	Convertible Note between the Company and Exelixis, Inc., a Delaware corporation dated May 22, 2001. (Incorporated by reference to Exhibit 10.2 to Quarterly Report on Form 10-Q filed August 14, 2001.)
10.37	Note Purchase Agreement between the Company and Exelixis, Inc., a Delaware corporation dated May 22, 2001. (Incorporated by reference to Exhibit 10.3 to Quarterly Report on Form 10-Q filed August 14, 2001.)
10.38	Lease Agreement between the Company and St. Paul Properties, Inc., a Delaware corporation, dated May 31, 2001. (Incorporated by reference to Exhibit 10.4 to Quarterly Report on Form 10-Q filed August 14, 2001.)
10.39	Lease Agreement between the Company and John Arrillaga Survivor's Trust and the Richard T. Peery Separate Property Trust, a California general partnership, dated June 28, 2001. (Incorporated by reference to Exhibit 10.5 to Quarterly Report on Form 10-Q filed August 14, 2001.)
*10.40	Executive Retention and Severance Plan adopted by the Company on October 10, 2001, together with forms of Participation Agreement and Release of Claims Agreement.
21.1	Fremont Holding L.L.C., a Delaware limited liability company. Fremont Management, Inc., a Delaware corporation, doing business in California as Delaware Fremont Management. (Incorporated by reference to Exhibit 21.1 to Quarterly Report on Form 10-Q filed November 15, 1999.)
23.1	Consent of Ernst & Young LLP, Independent Auditors.

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* Management contract or compensatory plan or arrangement.

CERTIFICATE OF AMENDMENT

OF

CERTIFICATE OF INCORPORATION

OF

PROTEIN DESIGN LABS, INC.

Protein Design Labs, Inc., a corporation duly organized and existing under the General Corporation Law of the State of Delaware (the "Corporation"), does hereby certify that:

I. The amendment to the Corporation's Certificate of Incorporation set forth below was duly adopted in accordance with the provisions of Section 242 and has been consented to by the stockholders at a meeting called in accordance with Section 222 of the General Corporation Law of the State of Delaware.

II. The first paragraph of Article FOURTH of the Corporation's Certificate of Incorporation is amended to read in its entirety as follows:

> This Corporation is authorized to issue a total of two hundred sixty million (260,000,000) shares of stock in two classes, designated Preferred Stock ("Preferred Stock") and Common Stock ("Common Stock"). The total number of shares of Preferred Stock this Corporation shall have authority to issue is ten million (10,000,000), par value one cent ($0.01) per share, and the total number of shares of Common Stock this Corporation shall have authority to issue is two hundred fifty million (250,000,000), par value one cent ($0.01) per share.

IN WITNESS WHEREOF, Protein Design Labs, Inc. has caused this Certificate to be executed by Douglas O. Ebersole, its authorized officer, on this 17th day of August, 2001.

/s/ Douglas O. Ebersole

Senior Vice President and Secretary

PROTEIN DESIGN LABS, INC.

1993 EMPLOYEE STOCK PURCHASE PLAN

(as amended effective as of June 29, 2000

and as adjusted for 2:1 stock splits effective

in August 2000 and October 2001)

1. Purpose. The Protein Design Labs, Inc. 1993 Employee Stock Purchase Plan (the "Plan") is established to provide eligible employees of Protein Design Labs, Inc., a Delaware corporation, and any successor corporation thereto (collectively, "PDL"), and any current or future parent corporation or subsidiary corporations of PDL which the Board of Directors of PDL (the "Board") determines should be included in the Plan (collectively referred to as the "Company"), with an opportunity to acquire a proprietary interest in the Company by the purchase of common stock of PDL. PDL and any parent or subsidiary corporation designated by the Board as a corporation included in the Plan shall be individually referred to herein as a "Participating Company." The Board shall have the sole and absolute discretion to determine from time to time what parent corporations and/or subsidiary corporations shall be Participating Companies. For purposes of the Plan, a parent corporation and a subsidiary corporation shall be as defined in sections 424(e) and 424(f), respectively, of the Internal Revenue Code of 1986, as amended (the "Code").

   The Company intends that the Plan shall qualify as an "employee stock purchase plan" under section 423 of the Code (including any amendments or replacements of such section), and the Plan shall be so construed. Any term not expressly defined in the Plan but defined for purposes of section 423 of the Code shall have the same definition herein.

   An employee participating in the Plan (a "Participant") may withdraw such Participant's accumulated payroll deductions (if any) and terminate participation in the Plan or any Offering (as defined below) therein at any time during an Offering Period (as defined below). Accordingly, each Participant is, in effect, granted an option pursuant to the Plan (a "Purchase Right") which may or may not be exercised at the end of an Offering Period.

2. Administration. The Plan shall be administered by the Board and/or by a duly appointed committee of the Board having such powers as shall be specified by the Board. Any subsequent references to the Board shall also mean the committee if a committee has been appointed. All questions of interpretation of the Plan or of any Purchase Right shall be determined by the Board and shall be final and binding upon all persons having an interest in the Plan and/or any Purchase Right. Subject to the provisions of the Plan, the Board shall determine all of the relevant terms and conditions of Purchase Rights granted pursuant to the Plan; provided, however, that all Participants granted Purchase Rights pursuant to the Plan shall have the same rights and privileges within the meaning of section 423(b)(5) of the Code. All expenses incurred in connection with the administration of the Plan shall be paid by the Company.
3. Share Reserve. The maximum number of shares which may be issued under the Plan shall be 2,400,000 shares of PDL's authorized but unissued common stock or common stock which is treasury stock (the "Shares"). In the event that any Purchase Right for any reason expires or is canceled or terminated, the Shares allocable to the unexercised portion of such Purchase Right may again be subjected to a Purchase Right.
4. Eligibility. Any employee of a Participating Company is eligible to participate in the Plan except (a) employees whose customary employment is 20 hours or less per week; (b) employees whose customary employment is for not more than 5 months in any calendar year; and (c) employees who own or hold options to purchase or who, as a result of participation in the Plan, would own or hold options to purchase, stock of the Company possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company within the meaning of section 423(b)(3) of the Code. Notwithstanding anything herein to the contrary, any individual performing services for a Participating Company solely through a leasing agency or employment agency shall not be deemed an "employee" of such Participating Company.
5. Offering Dates.
   a. Offering Periods. Except as otherwise set forth below, the Plan shall be implemented by offerings (individually, an "Offering") of six (6) months duration (an "Offering Period"); provided, however, that the first Offering shall have a duration of three (3) months commencing on April 1, 1993 and ending on June 30, 1993 (the "Initial Offering Period"). Subsequent Offerings shall commence on January 1 and July 1 of each year (beginning with July 1, 1993) and end on the first June 30 and December 31, respectively, occurring thereafter. Notwithstanding the foregoing, the Board may establish a different term for one or more Offerings and/or different commencing and/or ending dates for such Offerings. An employee who becomes eligible to participate in the Plan after an Offering Period has commenced shall not be eligible to participate in such Offering but may participate in any subsequent Offering provided such employee is still eligible to participate in the Plan as of the commencement of any such subsequent Offering. Eligible employees may not participate in more than one Offering at a time. The first day of an Offering Period shall be the "Offering Date" for such Offering Period and the last day of an Offering Period shall be the "Purchase Date" for such Offering Period. In the event the first day of an Offering Period is not a business day, the Offering Date shall be the first subsequent business day. In the event the last day of an Offering Period is not a business day, the Purchase Date shall be the first preceding business day.

(b) Governmental Approval; Stockholder Approval. Notwithstanding any other provision of the Plan to the contrary, any Purchase Right granted pursuant to the Plan shall be subject to (i) obtaining all necessary governmental approvals and/or qualifications of the sale and/or issuance of the Purchase Rights and/or the Shares, and (ii) obtaining stockholder approval of the Plan. Notwithstanding the foregoing, stockholder approval shall not be necessary in order to grant any Purchase Right granted in the Plan's Initial Offering Period; provided, however, that the exercise of any such Purchase Right shall be subject to obtaining stockholder approval of the Plan.

6. Participation in the Plan.
    a. Initial Participation. An eligible employee shall become a Participant on the first Offering Date after satisfying the eligibility requirements and delivering to the Company's payroll office not later than the close of business for such payroll office on the last business day before such Offering Date (the "Subscription Date") a subscription agreement indicating the employee's election to participate in the Plan and authorizing payroll deductions. An eligible employee who does not deliver a subscription agreement to the Company's payroll office on or before the Subscription Date shall not participate in the Plan for that Offering Period or for any subsequent Offering Period unless such employee subsequently enrolls in the Plan by filing a subscription agreement with the Company by the Subscription Date for such subsequent Offering Period. PDL may, from time to time, change the Subscription Date as deemed advisable by PDL in its sole discretion for proper administration of the Plan.
    b. Continued Participation. A Participant shall automatically participate in the Offering Period commencing immediately after the Purchase Date of each Offering Period in which the Participant participates until such time as such Participant (i) ceases to be eligible as provided in paragraph 4, (ii) withdraws from the Plan pursuant to paragraph 11(b) or (iii) terminates employment as provided in paragraph 12. If a Participant automatically may participate in a subsequent Offering Period pursuant to this paragraph 6(b), then the Participant is not required to file any additional subscription agreement for such subsequent Offering Period in order to continue participation in the Plan. However, a Participant may file a subscription agreement with respect to a subsequent Offering Period if the Participant desires to change any of the Participant's elections contained in the Participant's then effective subscription agreement.
7. Right to Purchase Shares. Except as set forth below, during an Offering Period each Participant in such Offering Period shall have a Purchase Right consisting of the right to purchase that number of whole Shares arrived at by dividing Twelve Thousand Five Hundred Dollars ($12,500.00) by the fair market value of a share of the common stock of PDL on the Offering Date of such Offering Period. The fair market value of such share shall be determined in accordance with paragraph 8 below.
8. Purchase Price. The purchase price at which Shares may be acquired in a given Offering Period pursuant to the exercise of all or any portion of a Purchase Right granted under the Plan (the "Offering Exercise Price") shall be set by the Board; provided, however, that the Offering Exercise Price shall not be less than eighty-five percent (85%) of the lesser of (a) the fair market value of the Shares on the Offering Date of the Offering Period, or (b) the fair market value of the Shares on the Purchase Date of the same Offering Period. Unless otherwise provided by the Board prior to the commencement of an Offering Period, the Offering Exercise Price for that Offering Period shall be eighty-five percent (85%) of the lesser of (a) the fair market value of the Shares on the Offering Date of such Offering Period or (b) the fair market value of the Shares on the Purchase Date of such Offering Period. The fair market value of the Shares on the applicable dates shall be the closing price quoted on the National Association of Securities Dealers Automated Quotation System (or the average of the closing bid and asked prices if the Shares are so quoted instead and the quoted closing price is not readily available), or as reported on such other stock exchange or market system if the Shares are traded on such other exchange or system instead, or as determined by the Board if the Shares are not so reported.
9. Payment of Purchase Price. Shares which are acquired pursuant to the exercise of all or any portion of a Purchase Right may be paid for only by means of payroll deductions from the Participant's Compensation accumulated during the Offering Period. For purposes of the Plan, a Participant's "Compensation" with respect to an Offering (a) shall include all salaries, before deduction for any contributions to any plan maintained by a Participating Company and described in Section 401(k) or Section 125 of the Code, and (b) shall not include commissions, advances paid against future commissions, overtime, bonuses, annual awards, other incentive payments, shift premiums, long-term disability, worker's compensation or any other payments not specifically referenced in (a). Except as set forth below, the amount of Compensation to be withheld from a Participant's Compensation during each pay period shall be determined by the Participant's subscription agreement.
    a. Election to Change Withholding. During an Offering Period, a Participant may elect to increase or decrease the amount withheld from his or her Compensation by filing an amended subscription agreement with the Company on or before the "Change Notice Date." The "Change Notice Date" shall initially be the seventh (7th) day prior to the end of the first pay period for which such election is to be effective; however, the Company may change such Change Notice Date from time to time.
    b. Limitations on Payroll Withholding. The amount of payroll withholding with respect to the Plan for any Participant during any pay period shall be in one percent (1%) increments not to exceed fifteen percent (15%) of the Participant's Compensation for such pay period. Notwithstanding the foregoing, the Board may change the limits on payroll withholding effective as of a future Offering Date, as determined by the Board. Amounts withheld shall be reduced by any amounts contributed by the Participant and applied to the purchase of Company stock pursuant to any other employee stock purchase plan qualifying under section 423 of the Code.
    c. Payroll Withholding. Payroll deductions shall commence on the first payday following the Offering Date and shall continue to the end of the Offering Period unless sooner altered or terminated as provided in the Plan.
    d. Participant Accounts. Individual accounts shall be maintained for each Participant. All payroll deductions from a Participant's Compensation shall be credited to such account and shall be deposited with the general funds of the

Company. All payroll deductions received or held by the Company may be used by the Company for any corporate purpose.

e. No Interest Paid. Interest shall not be paid on sums withheld from a Participant's Compensation.

f. Exercise of Purchase Right. On the Purchase Date of an Offering Period, each Participant who has not withdrawn from the Offering or whose participation in the Offering has not terminated on or before such Purchase Date shall automatically acquire pursuant to the exercise of the Participant's Purchase Right the number of whole Shares arrived at by dividing the total amount of the Participant's accumulated payroll deductions for the Purchase Period by the Offering Exercise Price; provided, however, in no event shall the number of Shares purchased by the Participant exceed the number of Shares subject to the Participant's Purchase Right as determined under paragraph 7. No Shares shall be purchased on a Purchase Date on behalf of a Participant whose participation in the Offering or the Plan has terminated on or before such Purchase Date.

g. Return of Cash Balance. Any cash balance remaining in the Participant's account shall be refunded to the Participant as soon as practicable after the Purchase Date. In the event the cash to be returned to a Participant pursuant to the preceding sentence is an amount less than the amount necessary to purchase a whole Share, the Company may establish procedures whereby such cash is maintained in the Participant's account and applied toward the purchase of Shares in the subsequent Offering Period.

h. Tax Withholding. At the time the Purchase Right is exercised, in whole or in part, or at the time some or all of the Shares are disposed of, the Participant shall make adequate provision for the foreign, federal and state tax withholding obligations of the Company, if any, which arise upon exercise of the Purchase Right and/or upon disposition of Shares, respectively. The Company may, but shall not be obligated to, withhold from the Participant's Compensation the amount necessary to meet such withholding obligations.

i. Company Established Procedures. The Company may, from time to time, establish (i) a minimum required withholding amount for participation in an Offering, (ii) limitations on the frequency and/or number of changes in the amount withheld during an Offering, (iii) an exchange ratio applicable to amounts withheld in a currency other than U.S. dollars, (iv) payroll withholding in excess of or less than the amount designated by a Participant in order to adjust for delays or mistakes in the Company's processing of subscription agreements, and/or (v) such other limitations or procedures as deemed advisable by the Company in the Company's sole discretion which are consistent with the Plan and in accordance with the requirements of Section 423 of the Code.

j. Expiration of Purchase Right. Any portion of a Participant's Purchase Right remaining unexercised after the end of the Offering Period to which such Purchase Right relates shall expire immediately upon the end of such Offering Period.

10. Limitations on Purchase of Shares; Rights as a Stockholder.

a. Fair Market Value Limitation. Notwithstanding any other provision of the Plan, no Participant shall be entitled to purchase Shares under the Plan (or any other employee stock purchase plan which is intended to meet the requirements of section 423 of the Code sponsored by PDL or a parent or subsidiary corporation of PDL) at a rate which exceeds $25,000 in fair market value, which fair market value is determined for Shares purchased during a given Offering Period as of the Offering Date for such Offering Period (or such other limit as may be imposed by the Code), for each calendar year in which Participant participates in the Plan (or any other employee stock purchase plan described in this sentence).

b. Pro Rata Allocation. In the event the number of Shares which might be purchased by all Participants in the Plan exceeds the number of Shares available in the Plan, the Company shall make a pro rata allocation of the remaining Shares in as uniform a manner as shall be practicable and as the Company shall determine to be equitable.

c. Rights as a Stockholder and Employee. A Participant shall have no rights as a stockholder by virtue of the Participant's participation in the Plan until the date of the issuance of a stock certificate(s) for the Shares being purchased pursuant to the exercise of the Participant's Purchase Right. No adjustment shall be made for cash dividends or distributions or other rights for which the record date is prior to the date such stock certificate(s) are issued. Nothing herein shall confer upon a Participant any right to continue in the employ of the Company or interfere in any way with any right of the Company to terminate the Participant's employment at any time.

11. Withdrawal.

a. Withdrawal From an Offering. A Participant may withdraw from an Offering by signing and delivering to the Company's payroll office, a written notice of withdrawal on a form provided by the Company for such purpose. Such withdrawal may be elected at any time prior to the end of an Offering Period. Unless otherwise indicated, withdrawal from an Offering shall not result in a withdrawal from the Plan or any subsequent Offerings. A Participant is prohibited from again participating in the same Offering at any time after withdrawing from such Offering. The Company may impose, from time to time, a requirement that the notice of withdrawal be on file with the Company's payroll office for a reasonable period prior to the effectiveness of the Participant's withdrawal from an Offering.

b. Withdrawal from the Plan. A Participant may withdraw from the Plan by signing a written notice of withdrawal on a form provided by the Company for such purpose and delivering such notice to the Company's payroll office. Withdrawals made after a Purchase Date for an Offering Period shall not affect Shares acquired by the Participant on such Purchase Date. In the event a Participant voluntarily elects to withdraw from the Plan, the Participant may not resume participation in the Plan during the same Offering Period, but may participate in any subsequent Offering under the Plan by again satisfying the requirements of paragraphs 4 and 6(a) above. The Company may impose, from time to time, a requirement that the notice of withdrawal be on file with the Company's payroll office for a reasonable period prior to the effectiveness of the Participant's withdrawal from the Plan.

c. Return of Payroll Deductions. Upon withdrawal from an Offering or the Plan, the Participant's accumulated payroll deductions which have not been applied toward the purchase of Shares shall be returned as soon as practicable after the withdrawal, without the payment of any interest, to the Participant, and the Participant's interest in the Offering and/or the Plan, as applicable, shall terminate. Such accumulated payroll deductions may not be applied to any other Offering under the Plan.

12. Termination of Employment. Termination of a Participant's employment with the Company for any reason, including retirement, disability or death, or the failure of a Participant to remain an employee eligible to participate in the Plan, shall terminate the Participant's participation in the Plan immediately. In such event, the payroll deductions credited to the Participant's account since the last Purchase Date shall, as soon as practicable, be returned to the Participant or, in the case of the Participant's death, to the Participant's legal representative, and all of the Participant's rights under the Plan shall terminate. Interest shall not be paid on sums returned to a Participant pursuant to this paragraph 12. A Participant whose participation has been so terminated may again become eligible to participate in the Plan by again satisfying the requirements of paragraphs 4 and 6(a) above.
13. Transfer of Control. A "Transfer of Control" shall be deemed to have occurred in the event any of the following occurs with respect to PDL.
    a. any acquisition of PDL's stock or any reorganization as defined in section 368(a)(1) of the Code to which PDL is a party as defined in section 368(b) of the Code and in which PDL is not the surviving corporation or is not immediately after the reorganization engaged in the active conduct of a trade or business or in which the stockholders of PDL will own less than fifty percent (50%) of the voting securities of the surviving corporation; or

    (b) any sale or conveyance of substantially all of the net assets of PDL, unless immediately after such sale PDL is engaged in the active conduct of a trade or business.

    In the event of a Transfer of Control, the surviving, continuing, successor, or purchasing corporation, as the case may be (the "Acquiring Corporation"), shall either assume PDL's rights and obligations under the Plan or substitute options for the Acquiring Corporation's stock for outstanding Purchase Rights, unless PDL's Board otherwise agrees. In the event that, with the Board's consent, the Acquiring Corporation elects not to assume or substitute for such outstanding Purchase Rights in connection with a merger in which PDL is not the surviving corporation or a reverse triangular merger in which PDL is the surviving corporation where the stockholders of PDL before such merger do not retain, directly or indirectly, at least a majority of the beneficial interest in the voting stock of PDL after such merger, the Board may, but shall not be obligated to, provide that any outstanding Purchase Rights shall be exercised as of the date of the Transfer of Control, as the Board so determines. The exercise of any Purchase Right that was permissible solely by reason of this paragraph 13 shall be conditioned upon the consummation of the Transfer of Control. Any Purchase Rights which are neither assumed or substituted for by the Acquiring Corporation nor exercised as of the date of the Transfer of Control shall terminate effective as of the date of the Transfer of Control.

14. Capital Changes. In the event of changes in the common stock of the Company due to a stock split, reverse stock split, stock dividend, recapitalization, combination, reclassification, or like change in the Company's capitalization, or in the event of any merger (including a merger effected for the purpose of changing PDL's domicile), sale or other reorganization, appropriate adjustments shall be made by the Company in the securities subject to purchase under a Purchase Right, the Plan's share reserve, the number of shares subject to a Purchase Right, and in the purchase price per share.
15. Non-Transferability. A Purchase Right may not be transferred in any manner otherwise than by will or the laws of descent and distribution and shall be exercisable during the lifetime of the Participant only by the Participant. The Company, in its absolute discretion, may impose such restrictions on the transferability of the Shares purchasable upon the exercise of a Purchase Right as it deems appropriate and any such restriction shall be set forth in the respective subscription agreement and may be referred to on the certificates evidencing such Shares.
16. Reports. Each Participant who exercised all or part of his or her Purchase Right for an Offering Period shall receive, as soon as practicable after the Purchase Date of such Offering Period, a report of such Participant's account setting forth the total payroll deductions accumulated, the number of Shares purchased, the fair market value of such Shares, the date of purchase and the remaining cash balance to be refunded or retained in the Participant's account pursuant to paragraph 9(g) above, if any.
17. Plan Term. This Plan shall continue until terminated by the Board or until all of the Shares reserved for issuance under the Plan have been issued, whichever shall first occur.
18. Restriction on Issuance of Shares. The issuance of shares under the Plan shall be subject to compliance with all applicable requirements of federal, state or foreign law with respect to such securities. A Purchase Right may not be exercised if the issuance of shares upon such exercise would constitute a violation of any applicable federal, state or foreign securities laws or other law or regulations. In addition, no Purchase Right may be exercised unless (i) a registration statement under the Securities Act of 1933, as amended, shall at the time of exercise of the Purchase Right be in effect with respect to the shares issuable upon exercise of the Purchase Right, or (ii) in the opinion of legal counsel to the Company, the shares issuable upon exercise of the Purchase Right may be issued in accordance with the terms of an applicable exemption from the registration requirements of said Act. As a condition to the exercise of a Purchase Right, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation, and to make any representation or warranty with respect thereto as may be requested by the Company.
19. Legends. The Company may at any time place legends or other identifying symbols referencing any applicable federal, state and/or foreign securities restrictions or any provision convenient in the administration of the Plan on some or all

of the certificates representing shares of stock issued under the Plan. The Participant shall, at the request of the Company, promptly present to the Company any and all certificates representing shares acquired pursuant to a Purchase Right in the possession of the Participant in order to carry out the provisions of this paragraph.

20. Notification of Sale of Shares. The Company may require the Participant to give the Company prompt notice of any disposition of Shares acquired by exercise of a Purchase Right within two years from the date of granting such Purchase Right or one year from the date of exercise of such Purchase Right. The Company may direct that the certificates evidencing Shares acquired by exercise of a Purchase Right refer to such requirement to give prompt notice of disposition.
21. Amendment or Termination of the Plan. The Board may at any time amend or terminate the Plan, except that such termination shall not affect Purchase Rights previously granted under the Plan, nor may any amendment make any change in a Purchase Right previously granted under the Plan which would adversely affect the right of any Participant (except as may be necessary to qualify the Plan as an employee stock purchase plan pursuant to section 423 of the Code or to obtain qualification or registration of the Shares under applicable federal, state or foreign securities laws). In addition, an amendment to the Plan must be approved by the stockholders of the Company within twelve (12) months of the adoption of such amendment if such amendment would authorize the sale of more shares than are authorized for issuance under the Plan or would change the definition of the corporations that may be designated by the Board as Participating Companies.

IN WITNESS WHEREOF, the undersigned Secretary of Protein Design Labs, Inc. certifies that the foregoing Protein Design Labs, Inc. 1993 Employee Stock Purchase Plan, as amended was duly adopted by the Board of Directors of Protein Design Labs, Inc.

_____

Secretary

PROTEIN DESIGN LABS, INC.

OUTSIDE DIRECTORS STOCK OPTION PLAN

(As amended October 18, 2001)

1. Purpose. The Protein Design Labs, Inc. Outside Directors Stock Option Plan (the "Plan") is established to create additional incentive for the non-employee directors of Protein Design Labs, Inc. and any successor corporation thereto (collectively referred to as the "Company"), to promote the financial success and progress of the Company and any present or future parent and/or subsidiary corporations of the Company (all of whom along with the Company being individually referred to as a "Participating Company" and collectively referred to as the "Participating Company Group"). The Plan is effective as of October 20, 1992, the date on which it was first approved by the stockholders of the Company (the "Effective Date"). For purposes of the Plan, a parent corporation and a subsidiary corporation shall be as defined in sections 424(e) and 424(f) of the Internal Revenue Code of 1986, as amended (the "Code").

2. Administration. The Plan shall be administered by the Board of Directors of the Company (the "Board") and/or by a duly appointed committee of the Board having such powers as shall be specified by the Board. Any subsequent references herein to the Board shall also mean the committee if such committee has been appointed and, unless the powers of the committee have been specifically limited, the committee shall have all of the powers of the Board granted herein, including, without limitation, the power to terminate or amend the Plan at any time, subject to the terms of the Plan and any applicable limitations imposed by law. The Board shall have no authority, discretion, or power to select which non-employee directors of the Company will receive options under the Plan, to set the exercise price of the options granted under the Plan, to determine the number of shares of common stock to be granted under an option or the time at which any options are to be granted, to establish the duration of option grants, or alter any other terms or conditions specified in the Plan, except in the sense of administering or amending the Plan subject to the provisions of the Plan. All questions of interpretation of the Plan or of any options granted under the Plan (an "Option") shall be determined by the Board, and such determinations shall be final and binding upon all persons having an interest in the Plan and/or any Option. The Chief Executive Officer, President or General Counsel of the Company shall have the authority to act on behalf of the Company with respect to any matter, right, obligation, or election which is the responsibility of or which is allocated to the Company herein.

3. Eligibility and Type of Option. Options may be granted only to directors of the Company who are not employees of the Company or any present parent and/or subsidiary corporations of the Company ("Outside Directors"). Options granted to Outside Directors shall be nonqualified stock options; that is, options which are not treated as having been granted under section 422(b) of the Code.

4. Shares Subject to Option. Options shall be for the purchase of shares of the authorized but unissued common stock or treasury shares of common stock of the Company (the "Stock"), subject to adjustment as provided in paragraph 8 below. The maximum number of shares of Stock which may be issued under the Plan shall be two hundred thousand (200,000) shares. In the event that any outstanding Option for any reason expires or is terminated and/or shares of Stock subject to repurchase are repurchased by the Company, the shares allocable to the unexercised portion of such Option, or such repurchased shares, may again be subject to an Option grant.

5. Time for Granting Options. All Options shall be granted, if at all, within ten (10) years from the Effective Date.

6. Terms, Conditions and Form of Options. Each Option granted pursuant to the Plan shall be evidenced by a written agreement between the Company and the Outside Director granted such Option (the "Optionee") specifying the number of shares of Stock covered thereby, in substantially the form attached hereto as Exhibit A (the "Option Agreement"), which written agreement may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

(a) Automatic Grant of Options. Subject to execution by each Outside Director of an Option Agreement, options shall be granted automatically and without further action of the Board, as follows:

(i) Each person who is newly appointed or elected as an Outside Director after February 6, 1997 or who becomes an Outside Director as a result of ceasing to be an employee of the Company or any parent or subsidiary corporation of the Company after June 29, 2000 (a "Future Outside Director") shall be granted an Option for thirty thousand (30,000) shares of Stock upon the date such person becomes an Outside Director.

(ii) Each Outside Director shall be granted an Option for thirty thousand (30,000) shares of Stock upon the fifth Anniversary Date (as defined below) and each subsequent five year Anniversary Date thereafter (e.g., 10^{th}, 15^{th}, etc.) of such Outside Director.

(iii) The Anniversary Date of each Outside Director shall be the date the Outside Director became an Outside Director except that if he or she elected not to receive an option at that time under paragraph 6(a)(iv) then his or her Anniversary Date shall be the date upon which he or she was first granted an Option under the Plan. If an Outside Director subsequently elects not to receive an Option and later revokes that election, his or her Anniversary Date may be adjusted as provided in paragraph 6(a)(iv).

(iv) Notwithstanding the foregoing, any Outside Director may elect not to receive an Option granted pursuant to this paragraph 6(a) by delivering written notice of such election to the Board no later than the day prior to the date such Option would otherwise be granted. A person so declining an Option shall receive no payment or other consideration in lieu of such declined Option. An Outside Director who has declined an Option may revoke such election by delivering written notice of such revocation to the Board no later than the date on which the Option would otherwise have been granted to such Outside Director, in which event such Outside Director shall be automatically granted such Option on the date on which it would otherwise have been granted.

(v) Notwithstanding any other provision of the Plan, no Option shall be granted to any individual on his or her Anniversary Date when he or she is no longer serving as an Outside Director of the Company on such Anniversary Date.

(b) Option Exercise Price. The Option exercise price per share of Stock for an Option shall be the fair market value of a share of the common stock of the Company on the date of the granting of the Option. Where there is a public market for the common stock of the Company, the fair market value per share of Stock shall be the mean of the bid and asked prices of the common stock of the Company on the date of the granting of the Option, as reported in the Wall Street Journal (or, if not so reported, as otherwise reported by the National Association of Securities Dealers Automated Quotation ("NASDAQ") System) or, in the event the common stock of the Company is listed on the NASDAQ National Market System or a national or regional securities exchange, the fair market value per share of Stock shall be the closing price on such National Market System or exchange on the date of the granting of the Option, as reported in the Wall Street Journal. If the date of the granting of an Option does not fall on a day on which the common stock of the Company is trading on the NASDAQ National Market System or other national or regional securities exchange, the date on which the Option exercise price per share shall be established shall be the last day on which the common stock of the Company was so traded prior to the date of the granting of the Option.

(c) Exercise Period and Exercisability of Options. An Option granted pursuant to the Plan shall be exercisable for a term of ten (10) years. Options granted pursuant to the Plan shall become exercisable over a sixty (60) month period commencing one (1) month after the date of grant as provided in the form of Option Agreement.

(d) Payment of Option Exercise Price. Payment of the Option exercise price for the number of shares of Stock being purchased pursuant to any Option shall be made (i) in cash, by check, or in cash equivalent, (ii) by the assignment of the proceeds of a sale of some or all of the shares being acquired upon the exercise of an Option (including, without limitation, through an exercise complying with the provisions of Regulation T as promulgated from time to time by the Board of Governors of the Federal Reserve System), or (iii) by any combination thereof. The Company reserves, at any and all times, the right, in the Company's sole and absolute discretion, to establish, decline to approve and/or terminate any program and/or procedure for the exercise of Options by means of an assignment of the proceeds of a sale of some or all of the shares of Stock to be acquired upon such exercise.

(e) Transfer of Control. A "Transfer of Control" shall be deemed to have occurred in the event any of the following occurs with respect to the Company:

(i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), other than a trustee or other fiduciary holding securities of the Company under an employee benefit plan of the Company, becomes the "beneficial owner" (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of the Company representing forty percent (40%) or more of (1) the outstanding shares of common stock of the Company or (2) the total combined voting power of the Company's then-outstanding securities entitled to vote generally in the election of directors;

(ii) the Company is party to a merger or consolidation which results in the holders of the voting securities of the Company outstanding immediately prior thereto failing to retain immediately after such merger or consolidation direct or indirect beneficial ownership of more than fifty percent (50%) of the total combined voting power of the securities entitled to vote generally in the election of directors of the Company or the surviving entity outstanding immediately after such merger or consolidation; or

(iii) the sale or disposition of all or substantially all of the Company's assets or consummation of any transaction having similar effect (other than a sale or disposition to one or more subsidiaries of the Company).

In the event of a Transfer of Control, each Optionee serving as a member of the Board immediately prior to such Transfer of Control shall be credited, effective immediately prior to the consummation of such Transfer of Control, with an additional twelve (12) months of continuous service as a director of the Company for the purpose of determining the vesting and exercisability of each outstanding Option then held by such Optionee. Furthermore, the surviving, continuing, successor, or purchasing corporation or parent thereof, as the case may be (the "Acquiring Corporation"), shall either assume the Company's rights and obligations under outstanding stock option agreements or substitute options for the Acquiring Corporation's stock for such outstanding Options unless the Company's Board otherwise agrees. In the event that, with the Board's consent, the Acquiring Corporation elects not to assume or substitute for such outstanding Options in connection with a Transfer of Control, the Board may, but shall not be obligated to, provide that any unexercisable and/or unvested portion of the outstanding Options shall be immediately exercisable and vested in full as of a date prior to the Transfer of Control, as the Board so determines. The exercise and/or vesting of any Option that was permissible solely by reason of this paragraph 6(e) shall be conditioned upon the consummation of the Transfer of Control. Any Options which are neither assumed or substituted for by the Acquiring Corporation nor exercised as of the consummation of the Transfer of Control shall terminate effective as of such consummation.

7. Authority to Vary Terms. The Board shall have the authority from time to time to vary the terms of the Option Agreement either in connection with the grant of an individual Option or in connection with the authorization of a new standard form or forms; provided, however, that the terms and conditions of such revised or amended standard form or forms of Option Agreement shall be

in accordance with the terms of the Plan. Such authority shall include, but not by way of limitation, the authority to grant Options which are immediately exercisable subject to the Company's right to repurchase any unvested shares of Stock acquired by the Optionee on exercise of an Option in the event such Optionee's service as a director of the Company is terminated for any reason.

8. Effect of Change in Stock Subject to Plan. Appropriate adjustments shall be made in the number and class of shares of Stock subject to the Plan and to any outstanding Options and in the Option exercise price of any outstanding Options in the event of a stock dividend, stock split, reverse stock split, combination, reclassification, or like change in the capital structure of the Company.

9. Options Non-Transferable. Except as may be permitted by the Board and expressly provided in an Option agreement granted by the Board, Options may not be assigned or transferred by an Optionee except by will or by the laws of descent and distribution.

10. Termination or Amendment of Plan. The Board, including any duly appointed committee of the Board, may terminate or amend the Plan at any time; provided, however, that without the approval of the stockholders of the Company, there shall be (a) no increase in the total number of shares of Stock covered by the Plan (except by operation of the provisions of paragraph 8 above), and (b) no expansion in the class of persons eligible to receive Options. In any event, no amendment may adversely affect any then outstanding Option, or any unexercised portion thereof, without the consent of the Optionee.

IN WITNESS WHEREOF, the undersigned Secretary of the Company certifies that the foregoing sets forth the Protein Design Labs, Inc. Outside Directors Stock Option Plan as approved by the stockholders at the Annual Meeting Stockholders on October 20, 1992 and subsequently amended by the Board on October 17, 1996, February 6, 1997, June 29, 2000 and October 18, 2001.

Date:

By:

Douglas O. Ebersole

Secretary

EXHIBIT A

PROTEIN DESIGN LABS, INC.

NONQUALIFIED STOCK OPTION AGREEMENT

FOR OUTSIDE DIRECTORS

Protein Design Labs, Inc., a Delaware corporation (the "Company"), hereby grants to _____;_____   (the "Optionee") an option to purchase a total of thirty thousand (30,000) shares of the common stock of the Company (the "Number of Option Shares") under the Protein Design Labs, Inc. Outside Directors Stock Option Plan (the "Plan"), at an exercise price of $____ per share and in the manner and subject to the provisions of this Option Agreement (the "Option"). The grant, in all respects, is subject to the terms and conditions of this Option Agreement and the Plan, the provisions of which are incorporated by reference herein. Unless otherwise provided in this Option Agreement, defined terms shall have the meaning given to such terms in the Plan.

1. Grant of the Option. The Option is granted effective as of _____;____ (the "Date of Option Grant"). The Number of Option Shares and the exercise price per share of the Option are subject to adjustment from time to time as provided in the Plan.

2. Status of the Option. The Option is intended to be a nonqualified stock option and shall not be treated as an incentive stock option as described in section 422 of the Internal Revenue Code of 1986, as amended.

3. Term of the Option. The Option shall terminate and may no longer be exercised on the first to occur of (i) the date ten (10) years after the Date of Option Grant (the "Option Term Date"), (ii) the last date for exercising the Option following termination of the Optionee's service as a director of the Company as described in paragraph 6 below, or (iii) upon a Transfer of Control of the Company as described in the Plan.

4. Exercise of the Option.

(a) Right to Exercise. The Option shall first become exercisable on the date occurring one (1) month after the Date of Option Grant (the "Initial Exercise Date"). The Option shall be exercisable on and after the Initial Exercise Date and prior to the termination of the Option in the amount equal to the Number of Option Shares multiplied by the Vested Ratio as set forth below less the number of shares previously acquired upon exercise of the Option:

	Vested Ratio
Prior to Initial Exercise Date	0
On Initial Exercise Date, provided the Optionee has continuously served as a director of Company from the Date of Option Grant until the Initial Exercise Date	1/60
Plus	
For each full month of the Optionee's continuous service as a director of the Company from the Initial Exercise Date	1/60

In no event shall the Vested Ratio exceed 1/1.

In no event shall the Option be exercisable for more shares than the Number of Option Shares. Notwithstanding the foregoing, the Option may not be exercised more frequently than twice in any continuous twelve (12) month period; provided, however, that the foregoing restriction shall not apply so as to prevent an exercise (i) following termination of the Optionee's service as a director of the Company as described in paragraph 6 below or (ii) during the thirty (30) day period immediately preceding a Transfer of Control of the Company as described in the Plan.

(b) Method of Exercise. The Option may be exercised by written notice to the Company which must state the election to exercise the Option, the number of shares of stock for which the Option is being exercised and such other representations and agreements as to the Optionee's investment intent with respect to such shares as may be required pursuant to the provisions of this Option

Agreement and the Plan. The written notice must be signed by the Optionee and must be delivered in person, by facsimile or by certified or registered mail, return receipt requested, to the President of the Company, or other authorized representative of the Participating Company Group, prior to the termination of the Option as set forth in paragraph 3 above, accompanied by full payment of the exercise price for the number of shares of stock being purchased in a form permitted under the terms of the Plan.

(c) Withholding. At the time the Option is exercised, in whole or in part, or at any time thereafter as requested by the Company, the Optionee shall make adequate provision for the foreign, federal and state tax withholding obligations of the Company, if any, which arise in connection with the Option including, without limitation, obligations arising upon (i) the exercise, in whole or in part, of the Option, (ii) the transfer, in whole or in part, of any shares of stock acquired on exercise of the Option, or (iii) the lapsing of any restriction with respect to any shares acquired on exercise of the Option.

(d) Certificate Registration. The certificate or certificates for the shares of stock as to which the Option shall be exercised shall be registered in the name of the Optionee, or, if applicable, the heirs of the Optionee.

(e) Restriction on Grant of the Option and Issuance of Shares. The grant of the Option and the issuance of shares of stock on exercise of the Option shall be subject to compliance with all of the applicable requirements of federal or state law with respect to such securities. The Option may not be exercised if the issuance of shares of stock upon such exercise would constitute a violation of any applicable federal or state securities laws or other law or regulation. In addition, no Option may be exercised unless (i) a registration statement under the Securities Act of 1933, as amended (the "Securities Act"), shall at the time of exercise of the Option be in effect with respect to the shares of stock issuable upon exercise of the Option, or (ii) in the opinion of legal counsel to the Company, the shares issuable upon exercise of the Option may be issued in accordance with the terms of an applicable exemption from the registration requirements of the Securities Act. As a condition to the exercise of the Option, the Company may require the Optionee to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company.

(f) Fractional Shares. The Company shall not be required to issue fractional shares of stock upon the exercise of the Option.

5. Non-Transferability of the Option. The Option may be exercised during the lifetime of the Optionee only by the Optionee and may not be assigned or transferred in any manner except by will or by the laws of descent and distribution.

6. Termination of Service as a Director.

(a) Termination of Director Status. If the Optionee ceases to be a director of the Company for any reason except death or disability within the meaning of section 22(e)(3) of the Code, the Option, to the extent unexercised and exercisable by the Optionee on the date on which the Optionee ceased to be a director, may be exercised by the Optionee at any time prior to the expiration of three (3) months from the date on which the Optionee's service as a director of the Company terminated, but in any event no later than the Option Term Date. If the Optionee ceases to be a director of the Company because of the death or disability of the Optionee within the meaning of section 22(e)(3) of the Code, the Option, to the extent unexercised and exercisable by the Optionee on the date on which the Optionee ceased to be a director, may be exercised by the Optionee (or the Optionee's legal representative) at any time prior to the expiration of twelve (12) months from the date on which the Optionee's service as a director of the Company terminated, but in any event no later than the Option Term Date. The Optionee's service as a director of the Company shall be deemed to have terminated on account of death if the Optionee dies within three (3) months after the Optionee's termination of service as a director of the Company. Except as provided in this paragraph 6, an Option shall terminate and may not be exercised after the Optionee ceases to be a director of the Company.

(b) Extension of Exercise Prevented by Law. Notwithstanding the foregoing, if the exercise of the Option within the applicable time periods set forth above is prevented because the issuance of shares of stock upon such exercise would constitute a violation of any applicable federal or state securities law or other law or regulation, the Option shall remain exercisable until three (3) months after the date the Optionee is notified by the Company that the Option is exercisable, but in any event no later than the Option Term Date.

(c) Extension if Optionee Subject to Section 16(b). Notwithstanding the foregoing, if the exercise of the Option within the applicable time periods set forth above would subject the Optionee to suit under Section 16(b) of the Exchange Act, the Option shall remain exercisable until the earliest to occur of (i) the tenth (10th) day following the date on which the Optionee would no longer be subject to such suit, (ii) the one hundred and ninetieth (190th) day after the Optionee's termination of service as a director of the Company and (iii) the Option Term Date.

7. Rights as a Stockholder. The Optionee shall have no rights as a stockholder with respect to any shares of stock covered by the Option until the date of the issuance of a certificate or certificates for the shares for which the Option has been exercised. No adjustment shall be made for dividends or distributions or other rights for which the record date is prior to the date such stock certificate or certificates are issued, except as provided in the Plan.

8. Legends. The Company may at any time place legends referencing any applicable federal or state securities law restrictions on all certificates representing shares of stock subject to the provisions of this Option Agreement. The Optionee shall, at the request of the Company, promptly present to the Company any and all certificates representing shares of stock acquired pursuant to the Option in the possession of the Optionee in order to effectuate the provisions of this paragraph.

9. Binding Effect. This Option Agreement shall inure to the benefit of the successors and assigns of the Company and be binding upon the Company and the Optionee and the Optionee's heirs, executors, administrators, successors and assigns.

10. Termination or Amendment. The Board, including any duly appointed committee of the Board, may terminate or amend the Plan and/or the Option at any time subject to any limitations described in the Plan; provided, however, that no such termination or amendment may adversely affect the Option or any unexercised portion hereof without the consent of the Optionee.

11. Integrated Agreement. This Option Agreement and the Plan constitute the entire understanding and agreement of the Optionee and the Company with respect to the subject matter contained herein and therein, and there are no agreements, understandings, restrictions, representations, or warranties among the Optionee and the Company other than those as set forth or provided for herein or therein. To the extent contemplated herein and therein, the provisions of this Option Agreement and the Plan shall survive any exercise of the Option and shall remain in full force and effect.

12. Applicable Law. This Option Agreement shall be governed by the laws of the State of California as such laws are applied to agreements between California residents entered into and to be performed entirely within the State of California.

13. Arbitration. In the event a dispute between the parties to this Option Agreement arises out of, in connection with, or with respect to this Option Agreement, or any breach of this Option Agreement, such dispute will, on the written request of one (1) party delivered to the other party, be submitted and settled by arbitration in Palo Alto, California in accordance with the rules of the American Arbitration Association then in effect and will comply with the California Arbitration Act, except as otherwise specifically stated in this paragraph 13. Judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction. The parties submit to the in personam jurisdiction of the Supreme Court of the State of California for the purpose of confirming any such award and entering judgment upon the award. Notwithstanding anything to the contrary that may now or in the future be contained in the rules of the American Arbitration Association, the parties agree as follows:

(a) Each party will appoint one person approved by the American Arbitration Association to hear and determine the dispute within twenty (20) days after receipt of notice of arbitration from the noticing party. The two (2) persons so chosen will select a third impartial arbitrator. The majority decision of the arbitrators will be final and conclusive upon the parties to the arbitration. If either party fails to designate its arbitrator within twenty (20) days after delivery of the notice provided for in this paragraph 13(a), then the arbitrator designated by the one (1) party will act as the sole arbitrator and will be considered the single, mutually approved arbitrator to resolve the controversy. In the event the parties are unable to agree upon a rate of compensation for the arbitrators, they will be compensated for their services at a rate to be determined by the American Arbitration Association.

(b) The parties will enjoy, but are not limited to, the same rights to discovery as they would have in the United States District Court for the Northern District of California.

(c) The arbitrators will, upon the request of either party, issue a written opinion of their findings of fact and conclusions of law.

(d) Upon receipt by the requesting party of said written opinion, said party will have the right within ten (10) days to file with the arbitrators a motion to reconsider, and upon receipt of a timely request the arbitrators will reconsider the issues raised by said motion and either confirm or change their majority decision which will then be final and conclusive upon the parties to the arbitration.

(e) The arbitrators will award to the prevailing party in any such arbitration reasonable expenses, including attorneys' fees and costs, incurred in connection with the dispute.

PROTEIN DESIGN LABS, INC.

By: _____

Title: _____

The Optionee represents that the Optionee is familiar with the terms and provisions of this Option Agreement and the Plan and hereby accepts the Option subject to all of the terms and provisions thereof.

The undersigned acknowledges receipt of a copy of the Plan.

Date: _____

Signature:

PROTEIN DESIGN LABS, INC.

AMENDMENT OF NONQUALIFIED STOCK OPTION AGREEMENT

FOR OUTSIDE DIRECTOR

Protein Design Labs, Inc. (the "Company") hereby amends, effective October 18, 2001, the Nonqualified Stock Option Agreement (the "Agreement") evidencing an option (the "Option") granted by the Company on _____ to _____ (the "Optionee") to purchase shares of the Company's common stock. This Amendment is made pursuant to paragraph 10 of the Agreement which provides that the Board of Directors of the Company or a duly appointed committee thereof (the "Board") may amend the Agreement at any time so long as the amendment does not adversely affect the Option without the consent of the Optionee. The Board approved this Amendment at its meeting on October 18, 2001.

1. The Agreement is amended by adding thereto the following provisions, which shall supersede any contrary provisions set forth in the stock option plan pursuant to which the Option was granted:

> A "Transfer of Control" shall be deemed to have occurred in the event any of the following occurs with respect to the Company:
>
> (i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), other than a trustee or other fiduciary holding securities of the Company under an employee benefit plan of the Company, becomes the "beneficial owner" (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of the Company representing forty percent (40%) or more of (1) the outstanding shares of common stock of the Company or (2) the total combined voting power of the Company's then-outstanding securities entitled to vote generally in the election of directors;
>
> (ii) the Company is party to a merger or consolidation which results in the holders of the voting securities of the Company outstanding immediately prior thereto failing to retain immediately after such merger or consolidation direct or indirect beneficial ownership of more than fifty percent (50%) of the total combined voting power of the securities entitled to vote generally in the election of directors of the Company or the surviving entity outstanding immediately after such merger or consolidation; or
>
> (iii) the sale or disposition of all or substantially all of the Company's assets or consummation of any transaction having similar effect (other than a sale or disposition to one or more subsidiaries of the Company).
>
> In the event of a Transfer of Control, provided that the Optionee is serving as a member of the Board immediately prior to such Transfer of Control, the Optionee shall be credited, effective immediately prior to the consummation of such Transfer of Control, with an additional twelve (12) months of continuous service as a director of the Company for the purpose of determining the vesting and exercisability of the Option, provided that it is then outstanding. Furthermore, the surviving, continuing, successor, or purchasing corporation or parent thereof, as the case may be (the "Acquiring Corporation"), shall either assume the Company's rights and obligations under the Agreement or substitute an option for the Acquiring Corporation's stock for such outstanding Option unless the Board otherwise agrees. In the event that, with the Board's consent, the Acquiring Corporation elects not to assume or substitute for such outstanding Option in connection with a Transfer of Control, the Board may, but shall not be obligated to, provide that any unexercisable and/or unvested portion of the outstanding Option shall be immediately exercisable and vested in full as of a date prior to the Transfer of Control, as the Board so determines. The exercise and/or vesting of the Option that was permissible solely by reason of this paragraph shall be conditioned upon the consummation of the Transfer of Control. To the extent that the Option is neither assumed or substituted for by the Acquiring Corporation nor exercised as of the consummation of the Transfer of Control, it shall terminate effective as of such consummation.

2. Except as set forth herein, all other terms and conditions of the Agreement shall remain in full force and effect.

This Amendment is executed by a duly authorized officer on behalf of the Company.

PROTEIN DESIGN LABS, INC.

By:_____

Douglas O. Ebersole, Secretary

Date:_____

PROTEIN DESIGN LABS, INC.
1999 Stock OPTION PLAN

(as amended effective as of June 14, 2001
and as adjusted for 2:1 stock splits effective
in August 2000 and October 2001)

1. **Establishment, Purpose and Term of Plan**.
    1. **Establishment**. The Protein Design Labs, Inc. 1999 Stock Option Plan (the *"**Plan**"*) is hereby established effective as of the date on which it is approved by the stockholders of the Company (the *"**Effective Date**"***).**
    2. **Purpose**. The purpose of the Plan is to advance the interests of the Participating Company Group and its stockholders by providing an incentive to attract, retain and reward Persons performing services for the Participating Company Group and by motivating such Persons to contribute to the goals of the Participating Company Group.
    3. **Term of Plan**. The Plan shall continue in effect until the earlier of its termination by the Board or the date on which all of the shares of Stock available for issuance under the Plan have been issued and all restrictions on such shares under the terms of the Plan and the agreements evidencing Options granted under the Plan have lapsed. However, all Incentive Stock Options shall be granted, if at all, within ten (10) years from the Effective Date.
2. **Definitions and Construction**.
    1. **Definitions**. Whenever used herein, the following terms shall have their respective meanings set forth below:
        a. *"**Board**"* means the Board of Directors of the Company.
        b. *"**Code**"* means the Internal Revenue Code of 1986, as amended, and any applicable regulations promulgated thereunder.
        c. *"**Company**"* means Protein Design Labs, Inc., a Delaware corporation, or any successor corporation thereto.
        d. *"**Consultant**"* means any Person, including an advisor, engaged by a Participating Company to render services other than as an Employee or a Director.
        e. *"**Director**"* means a member of the Board.
        f. *"**Disability**"* means the permanent and total disability of the Optionee within the meaning of Section 22(e)(3) of the Code.
        g. *"**Employee**"* means any Person treated as an employee in the records of a Participating Company and, with respect to any Incentive Stock Option granted to such Person, who is an employee for purposes of Section 422 of the Code; provided, however, that neither service as a Director nor payment of a director's fee shall be sufficient to constitute employment for purposes of the Plan.
        h. *"**Exchange Act**"* means the Securities Exchange Act of 1934, as amended.
        i. *"**Fair Market Value**"* means, as of any date, the value of a share of Stock or other property as determined by the Board, in its discretion, subject to the following:
            i. If, on such date, the Stock is listed on a national or regional securities exchange or market system, the Fair Market Value of a share of Stock shall be the closing sale price of a share of Stock (or the mean of the closing bid and asked prices of a share of Stock if the Stock is so quoted instead) as quoted on the Nasdaq National Market, The Nasdaq SmallCap Market or such other national or regional securities exchange or market system constituting the primary market for the Stock, as reported in the Wall Street Journal or such other source as the Board deems reliable. If the relevant date does not fall on a day on which the Stock has traded on such securities exchange or market system, the date on which the Fair Market Value shall be established shall be the last day on which the Stock was so traded prior to the relevant date, or such other appropriate day as shall be determined by the Board, in its discretion.
            ii. If, on such date, the Stock is not listed on a national or regional securities exchange or market system, the Fair Market Value of a share of Stock shall be as determined by the Board without regard to any restriction other than a restriction which, by its terms, will never lapse.
        j. *"**Incentive Stock Option**"* means an Option intended to be (as set forth in the Option Agreement) and which qualifies as an incentive stock option within the meaning of Section 422(b) of the Code.
        k. *"**Insider**"* means an officer or a Director of the Company or any other Person whose transactions in Stock are subject to Section 16 of the Exchange Act.
        l. *"**Nonstatutory Stock Option**"* means an Option not intended to be (as set forth in the Option Agreement) or which does not qualify as an Incentive Stock Option.
        m. *"**Option**"* means a right to purchase Stock (subject to adjustment as provided in Section 4.2) pursuant to the terms and conditions of the Plan. An Option may be either an Incentive Stock Option or a Nonstatutory Stock Option.
        n. *"**Option Agreement**"* means a written agreement between the Company and an Optionee setting forth the terms, conditions and restrictions of the Option granted to the Optionee and any shares of Stock acquired upon the exercise thereof.
        o. *"**Optionee**"* means a Person who has been granted one or more Options.
        p. *"**Parent Corporation**"* means any present or future "parent corporation" of the Company, as defined in Section 424(e) of the Code.
        q. *"**Participating Company**"* means the Company or any Parent Corporation or Subsidiary Corporation.
        r. *"**Participating Company Group**"* means, at any point in time, all corporations collectively which are then Participating Companies.

s. "***Person***" means a natural person.

t. *"**Predecessor Plan**"* means the Protein Design Labs, Inc. 1991 Stock Option Plan as in effect immediately prior to the Predecessor Plan Termination Date.

u. *"**Predecessor Plan Termination Date**"* means the earlier of December 11, 2001 or the date on which the Predecessor Plan is terminated in accordance with its terms.

v. *"**Section 162(m)**"* means Section 162(m) of the Code.

w. *"**Securities Act**"* means the Securities Act of 1933, as amended.

x. *"**Service**"* means an Optionee's employment or service with the Participating Company Group, whether in the capacity of an Employee, a Director or a Consultant. Unless otherwise provided by the Board, an Optionee's Service shall not be deemed to have terminated merely because of a change in the capacity in which the Optionee renders Service to the Participating Company Group or a change in the Participating Company for which the Optionee renders such Service, provided that there is no interruption or termination of the Optionee's Service. Furthermore, an Optionee's Service with the Participating Company Group shall not be deemed to have terminated if the Optionee takes any bona fide leave of absence approved by the Company; provided, however, that if any such leave exceeds ninety (90) days, on the one hundred eighty-first (181st) day following the commencement of such leave any Incentive Stock Option held by the Optionee shall cease to be treated as an Incentive Stock Option and instead shall be treated thereafter as a Nonstatutory Stock Option unless the Optionee's right to return to Service with the Participating Company Group is guaranteed by statute or contract. Notwithstanding the foregoing, unless otherwise required by law, the Company may provide that an approved leave of absence shall not be treated as Service for purposes of determining vesting under the Optionee's Option Agreement. An Optionee's Service shall be deemed to have terminated either upon an actual termination of Service or upon the corporation for which the Optionee performs Service ceasing to be a Participating Company. Subject to the foregoing, the Company, in its discretion, shall determine whether an Optionee's Service has terminated and the effective date of such termination.

y. *"**Stock**"* means the common stock of the Company, as adjusted from time to time in accordance with Section 4.2.

z. *"**Subsidiary Corporation**"* means any present or future "subsidiary corporation" of the Company, as defined in Section 424(f) of the Code.

aa. *"**Ten Percent Owner Optionee**"* means an Optionee who, at the time an Option is granted to the Optionee, owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of a Participating Company within the meaning of Section 422(b)(6) of the Code.

2. **Construction**. Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of the Plan. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term "or" is not intended to be exclusive, unless the context clearly requires otherwise.

3. <u>Administration</u>.

1. **Administration by the Board.** The Plan shall be administered by the Board. All questions of interpretation of the Plan or of any Option shall be determined by the Board, and such determinations shall be final and binding upon all Persons having an interest in the Plan or such Option.
2. **Authority of Officers.** The Chief Executive Officer shall have the authority to act on behalf of the Company with respect to any matter, right, obligation, determination or election which is the responsibility of or which is allocated to the Company herein.
3. **Administration with Respect to Insiders.** With respect to participation by Insiders in the Plan, at any time that any class of equity security of the Company is registered pursuant to Section 12 of the Exchange Act, the Plan shall be administered in compliance with the requirements, if any, of Rule 16b-3 promulgated under the Exchange Act.
4. **Committee Complying with Section 162(m).** If a Participating Company is a "publicly held corporation" within the meaning of Section 162(m), the Board may establish a committee of "outside directors" within the meaning of Section 162(m) to approve the grant of any Option which might reasonably be anticipated to result in the payment of employee remuneration that would otherwise exceed the limit on employee remuneration deductible for income tax purposes pursuant to Section 162(m).
5. **Powers of the Board.** In addition to any other powers set forth in the Plan and subject to the provisions of the Plan, the Board shall have the full power and authority, in its discretion:
    a. to determine the Persons to whom, and the time or times at which, Options shall be granted and the number of shares of Stock to be subject to each Option;
    b. to designate Options as Incentive Stock Options or Nonstatutory Stock Options;
    c. to determine the Fair Market Value of shares of Stock or other property in the event such property is proposed as consideration for, or as collateral for any promissory note given as, payment for the exercise of an Option;
    d. to determine the terms, conditions and restrictions applicable to each Option (which need not be identical) and any shares of Stock acquired upon the exercise thereof, including, without limitation, (i) the exercise price of the Option, (ii) the method of payment for shares of Stock purchased upon the exercise of the Option, (iii) the method for satisfaction of any tax withholding obligation arising in connection with the Option or such shares of Stock, including by the withholding or delivery of shares of Stock, (iv) the timing, terms and conditions of the exercisability of the Option or the vesting of any shares of Stock acquired upon the exercise thereof, (v) the time of the expiration of the Option, (vi) the effect of the Optionee's termination of Service with the Participating Company Group on any of the foregoing, and (vii) all other terms, conditions and restrictions applicable to the Option or such shares of Stock not inconsistent with the terms of the Plan;
    e. to approve one or more forms of Option Agreement;
    f. to amend, modify, extend, cancel, renew, or grant a new Option in substitution for, any Option or to waive any restrictions or conditions applicable to any Option or any shares acquired upon the exercise thereof;

g. to accelerate, continue, extend or defer the exercisability of any Option or the vesting of any shares acquired upon the exercise thereof, including with respect to the period following an Optionee's termination of Service with the Participating Company Group;

h. to prescribe, amend or rescind rules, guidelines and policies relating to the Plan, or to adopt supplements to, or alternative versions of, the Plan, including, without limitation, as the Board deems necessary or desirable to comply with the laws of, or to accommodate the tax policy or custom of, foreign jurisdictions whose citizens may be granted Options; and

i. to correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Option Agreement and to make all other determinations and take such other actions with respect to the Plan or any Option as the Board may deem advisable to the extent consistent with the Plan and applicable law.

4. Shares Subject to Plan.

1. **Maximum Number of Shares Issuable.** Subject to adjustment as provided in Section 4.2, the maximum aggregate number of shares of Stock that may be issued under the Plan shall be the sum of (a) seven million and seven hundred and seventy thousand (7,700,000), (b) the number of shares that remained available for grant pursuant to the Predecessor Plan on the Predecessor Plan Termination Date and (c) the number of unissued shares subject to each option outstanding under the Predecessor Plan on the Predecessor Plan Termination Date which for any reason expires or is terminated or canceled. Such shares shall consist of authorized but unissued or reacquired shares of Stock or any combination thereof. Notwithstanding the foregoing, except as adjusted pursuant to Section 4.2, in no event shall more than seven million and seven hundred and seventy thousand (7,700,000) shares of Stock be cumulatively available for issuance pursuant to the exercise of Incentive Stock Options (the *"**ISO Share Limit**"*). If an outstanding Option for any reason expires or is terminated or canceled or if unvested shares of Stock are acquired upon the exercise of an Option subject to a Company repurchase option and are repurchased by the Company, the shares of Stock allocable to the unexercised portion of such Option or such unvested repurchased shares of Stock shall again be available for issuance under the Plan.
2. **Adjustments for Changes in Capital Structure.** In the event of any stock dividend, stock split, reverse stock split, recapitalization, combination, reclassification or similar change in the capital structure of the Company, appropriate adjustments shall be made in the number and class of shares subject to the Plan and to any outstanding Options, in the ISO Share Limit set forth in Section 4.1, in the Section 162(m) Grant Limit set forth in Section 5.4, and in the exercise price per share of any outstanding Options. If a majority of the shares which are of the same class as the shares that are subject to outstanding Options are exchanged for, converted into, or otherwise become (whether or not pursuant to an Ownership Change Event, as defined in Section 8.1) shares of another corporation (the *"**New Shares**"*), the Board may unilaterally amend the outstanding Options to provide that such Options are exercisable for New Shares. In the event of any such amendment, the number of shares subject to, and the exercise price per share of, the outstanding Options shall be adjusted in a fair and equitable manner as determined by the Board, in its discretion. Notwithstanding the foregoing, any fractional share resulting from an adjustment pursuant to this Section 4.2 shall be rounded down to the nearest whole number, and in no event may the exercise price of any Option be decreased to an amount less than the par value, if any, of the stock subject to the Option. The adjustments determined by the Board pursuant to this Section 4.2 shall be final and binding.

5. **Eligibility and Option Limitations**.

1. **Persons Eligible for Options.** Options may be granted only to Employees, Consultants and Directors. For purposes of the foregoing sentence, "Employees," "Consultants" and "Directors" shall include prospective Employees, prospective Consultants and prospective Directors to whom Options are granted in connection with written offers of employment or other service relationship with the Participating Company Group. Eligible Persons may be granted more than one (1) Option.
2. **Option Grant Restrictions.** Any Person who is not an Employee on the effective date of the grant of an Option to such Person may be granted only a Nonstatutory Stock Option. An Incentive Stock Option granted to a prospective Employee upon the condition that such Person become an Employee shall be deemed granted effective on the date such Person commences service as an Employee with a Participating Company, with an exercise price determined as of such date in accordance with Section 6.1.
3. **Fair Market Value Limitation.** To the extent that options designated as Incentive Stock Options (granted under all stock option plans of the Participating Company Group, including the Plan) become exercisable by an Optionee for the first time during any calendar year for stock having an aggregate Fair Market Value greater than One Hundred Thousand Dollars ($100,000), the portion of such options which exceeds such amount shall be treated as Nonstatutory Stock Options. For purposes of this Section 5.3, options designated as Incentive Stock Options shall be taken into account in the order in which they were granted, and the Fair Market Value of stock shall be determined as of the time the option with respect to such stock is granted. If the Code is amended to provide for a different limitation from that set forth in this Section 5.3, such different limitation shall be deemed incorporated herein effective as of the date and with respect to such Options as required or permitted by such amendment to the Code. If an Option is treated as an Incentive Stock Option in part and as a Nonstatutory Stock Option in part by reason of the limitation set forth in this Section 5.3, the Optionee may designate which portion of such Option the Optionee is exercising. In the absence of such designation, the Optionee shall be deemed to have exercised the Incentive Stock Option portion of the Option first. Separate certificates representing each such portion shall be issued upon the exercise of the Option.
4. **Section 162(m) Grant Limit.** Subject to adjustment as provided in Section 4.2, no Employee or prospective Employee shall be granted one or more Options within any fiscal year of the Company which in the aggregate are for the purchase of more than four hundred thousand (400,000) shares (the *"**Section 162(m) Grant Limit**"*). An Option which is canceled in the same fiscal year in which it was granted shall continue to be counted against the Section 162(m) Grant Limit for such period.

6. **Terms and Conditions of Options**.

Options shall be evidenced by Option Agreements specifying the number of shares of Stock covered thereby, in such form as the Board shall from time to time establish. No Option or purported Option shall be a valid and binding obligation of the Company unless evidenced by a fully executed Option Agreement. Option Agreements may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

1. **Exercise Price.** The exercise price for each Option shall be established in the discretion of the Board; provided, however, that (a) the exercise price per share for an Incentive Stock Option shall be not less than the Fair Market Value of a share of Stock on the effective date of grant of the Option and (b) no Incentive Stock Option granted to a Ten Percent Owner Optionee shall have an exercise price per share less than one hundred ten percent (110%) of the Fair Market Value of a share of Stock on the effective date of grant of the Option. Notwithstanding the foregoing, an Incentive Stock Option may be granted with an exercise price lower than the minimum exercise price set forth above if such Option is granted pursuant to an assumption or substitution for another option in a manner qualifying under the provisions of Section 424(a) of the Code.
2. **Exercise Period.** Options shall be exercisable at such time or times, or upon such event or events, and subject to such terms, conditions, performance criteria, and restrictions as shall be determined by the Board and set forth in the Option Agreement evidencing such Option; provided, however, that (a) no Incentive Stock Option shall be exercisable after the expiration of ten (10) years after the effective date of grant of such Option, (b) no Incentive Stock Option granted to a Ten Percent Owner Optionee shall be exercisable after the expiration of five (5) years after the effective date of grant of such Option, and (c) no Option granted to a prospective Employee, prospective Consultant or prospective Director may become exercisable prior to the date on which such Person commences Service with a Participating Company. Subject to the foregoing, unless otherwise specified by the Board in the grant of an Option, any Option granted hereunder shall have a term of ten (10) years from the effective date of grant of the Option.
3. **Payment of Exercise Price.**
    a. ***Forms of Consideration Authorized.*** Except as otherwise provided below, payment of the exercise price for the number of shares of Stock being purchased pursuant to any Option shall be made (i) in cash, by check or cash equivalent, (ii) by tender to the Company, or attestation to the ownership, of shares of Stock owned by the Optionee having a Fair Market Value not less than the exercise price, (iii) by the assignment of the proceeds of a sale or loan with respect to some or all of the shares being acquired upon the exercise of the Option (including, without limitation, through an exercise complying with the provisions of Regulation T as promulgated from time to time by the Board of Governors of the Federal Reserve System) (a ***"Cashless Exercise"***), (iv) provided that the Optionee is an Employee and in the Board's sole discretion at the time the Option is exercised, by cash for a portion of the aggregate exercise price not less than the par value of the shares being acquired and the Optionee's promissory note in a form approved by the Board for the balance of the aggregate exercise price, (v) by such other consideration as may be approved by the Board from time to time to the extent permitted by applicable law, or (vi) by any combination thereof. The Board may at any time or from time to time, by approval of or by amendment to the standard forms of Option Agreement described in Section 7, or by other means, grant Options which do not permit all of the foregoing forms of consideration to be used in payment of the exercise price or which otherwise restrict one or more forms of consideration.
    b. Limitations on Forms of Consideration.
        i. **Tender of Stock**. Notwithstanding the foregoing, an Option may not be exercised by tender to the Company, or attestation to the ownership, of shares of Stock to the extent such tender or attestation would constitute a violation of the provisions of any law, regulation or agreement restricting the redemption of the shares of Stock. Unless otherwise provided by the Board, an Option may not be exercised by tender to the Company, or attestation to the ownership, of shares of Stock unless such shares either have been owned by the Optionee for more than six (6) months or were not acquired, directly or indirectly, from the Company.
        ii. **Cashless Exercise.** The Company reserves, at any and all times, the right, in the Company's sole and absolute discretion, to establish, decline to approve or terminate any program or procedures for the exercise of Options by means of a Cashless Exercise.
        iii. **Payment by Promissory Note.** No promissory note shall be permitted if the exercise of an Option using a promissory note would be a violation of any law. Any permitted promissory note shall be on such terms as the Board shall determine. The Board shall have the authority to permit or require the Optionee to secure any promissory note used to exercise an Option with the shares of Stock acquired upon the exercise of the Option or with other collateral acceptable to the Board. Unless otherwise provided by the Board, if the Company at any time is subject to the regulations promulgated by the Board of Governors of the Federal Reserve System or any other governmental entity affecting the extension of credit in connection with the Company's securities, any promissory note shall comply with such applicable regulations, and the Optionee shall pay the unpaid principal and accrued interest, if any, to the extent necessary to comply with such applicable regulations.
4. **Tax Withholding.** The Company shall have the right, but not the obligation, to deduct from the shares of Stock issuable upon the exercise of an Option, or to accept from the Optionee the tender of, a number of whole shares of Stock having a Fair Market Value equal to all or any part of the federal, state, local and foreign taxes, if any, required by law to be withheld by the Participating Company Group with respect to such Option or the shares of Stock acquired upon the exercise thereof. Alternatively or in addition, in its discretion, the Company shall have the right to require the Optionee, through payroll withholding, cash payment or otherwise, including by means of a Cashless Exercise, to make adequate provision for any such tax withholding obligations of the Participating Company Group arising in connection with the Option or the shares of Stock acquired upon the exercise thereof. The Company shall have no

obligation to deliver shares of Stock until the Participating Company Group's tax withholding obligations have been satisfied by the Optionee.

5. Effect of Termination of Service.

a. ***Option Exercisability*.** Subject to earlier termination of the Option as otherwise provided herein and unless otherwise provided by the Board in the grant of an Option and set forth in the Option Agreement, an Option shall be exercisable after an Optionee's termination of Service as follows:

i. **Disability.** If the Optionee's Service with the Participating Company Group is terminated because of the Disability of the Optionee, the Option, to the extent unexercised and exercisable on the date on which the Optionee's Service terminated, may be exercised by the Optionee (or the Optionee's guardian or legal representative) at any time prior to the expiration of twelve (12) months after the date on which the Optionee's Service terminated, but in any event no later than the date of expiration of the Option's term as set forth in the Option Agreement evidencing such Option (the *"**Option Expiration Date**"*).

ii. **Death.** If the Optionee's Service with the Participating Company Group is terminated because of the death of the Optionee, the Option, to the extent unexercised and exercisable on the date on which the Optionee's Service terminated, may be exercised by the Optionee's legal representative or other Person who acquired the right to exercise the Option by reason of the Optionee's death at any time prior to the expiration of twelve (12) months after the date on which the Optionee's Service terminated, but in any event no later than the Option Expiration Date. The Optionee's Service shall be deemed to have terminated on account of death if the Optionee dies within three (3) months after the Optionee's termination of Service.

iii. **Termination After Change in Control.** If the Optionee's Service with the Participating Company Group ceases as a result of Termination After Change in Control (as defined below), then (1) the Option, to the extent unexercised on the date on which the Optionee's Service terminated, may be exercised by the Optionee (or the Optionee's guardian or legal representative) at any time prior to the expiration of six (6) months after the date on which the Optionee's Service terminated, but in any event no later than the Option Expiration Date, and (2) the exercisability and vesting of the Option shall be accelerated effective as of the date on which the Optionee's Service terminated to such extent, if any, as shall have been determined by the Board, in its discretion, and set forth in the Option Agreement. Notwithstanding the foregoing, if it is determined that the provisions or operation of this Section 6.5(a)(iii) would preclude treatment of a Change in Control as a "pooling-of-interests" for accounting purposes and provided further that in the absence of the preceding sentence such Change in Control would be treated as a "pooling- of-interests" for accounting purposes, then this Section 6.5(a)(iii) shall be void *ab initio,* and the vesting and exercisability of the Option shall be determined under any other applicable provision of the Plan or the Option Agreement evidencing such Option.

iv. **Other Termination of Service.** If the Optionee's Service with the Participating Company Group terminates for any reason, except Disability, death, or Termination After Change in Control, the Option, to the extent unexercised and exercisable by the Optionee on the date on which the Optionee's Service terminated, may be exercised by the Optionee within three (3) months (or such longer period of time as determined by the Board, in its discretion) after the date on which the Optionee's Service terminated, but in any event no later than the Option Expiration Date.

b. ***Extension if Exercise Prevented by Law*.** Notwithstanding the foregoing, if the exercise of an Option within the applicable time periods set forth in Section 6.5(a) is prevented by the provisions of Section 11 below, the Option shall remain exercisable until ninety (90) days after the date the Optionee is notified by the Company that the Option is exercisable, but in any event no later than the Option Expiration Date.

c. ***Extension if Optionee Subject to Section 16(b).*** Notwithstanding the foregoing, if a sale within the applicable time periods set forth in Section 6.5(a) of shares acquired upon the exercise of the Option would subject the Optionee to suit under Section 16(b) of the Exchange Act, the Option shall remain exercisable until the earliest to occur of (i) the thirtieth (30th) day following the date on which a sale of such shares by the Optionee would no longer be subject to such suit, (ii) the two hundred tenth (210th) day after the Optionee's termination of Service, or (iii) the Option Expiration Date.

d. ***Certain Definitions.*** The following terms shall have their respective meanings set forth below:

i. *"**Termination After Change in Control**"* shall mean either of the following events occurring within twelve (12) months after a Change in Control:

1. termination by the Participating Company Group of the Optionee's Service with the Participating Company Group for any reason other than for Cause (as defined below); or
2. the Optionee's resignation from all capacities in which the Optionee is then rendering Service to the Participating Company Group within a reasonable period of time following an event constituting a Constructive Termination (as defined below).

Notwithstanding any provision herein to the contrary, Termination After Change in Control shall not include any termination of the Optionee's Service with the Participating Company Group which (1) is for Cause (as defined below); (2) is a result of the Optionee's death or disability; (3) is a result of the Optionee's voluntary termination of Service other than upon a Constructive Termination; or (4) occurs prior to the effectiveness of a Change in Control.

ii. *"**Cause**"* shall mean any of the following: (1) the Optionee's theft, dishonesty, or falsification of any Participating Company documents or records; (2) the Optionee's improper use or disclosure of a Participating Company's confidential or proprietary information; (3) any action by the Optionee which has a detrimental effect on a Participating Company's reputation or business; (4) the Optionee's failure or inability to perform any reasonable assigned duties after written notice from the Participating Company Group of, and a reasonable opportunity to cure, such failure or inability; (5) any material breach by the Optionee of any employment agreement between the Optionee and the Participating Company Group, which breach is not cured pursuant to the terms of such agreement; or (6) the Optionee's conviction (including any plea of guilty or nolo contendere) of any criminal act which impairs the Optionee's ability to perform his or her duties with the Participating Company Group.

iii. *"**Constructive Termination**"* shall mean any one or more of the following:

1. without the Optionee's express written consent, any assignment to the Optionee of any duties, or any limitation of the Optionee's responsibilities, substantially inconsistent with the Optionee's positions, duties, responsibilities and status with a Participating Company immediately prior to the date of the Change in Control;
2. without the Optionee's express written consent, the relocation of the principal place of the Optionee's Service to a location that is more than fifty (50) miles from the Optionee's principal place of Service immediately prior to the date of the Change in Control, or the imposition of travel requirements substantially more demanding of the Optionee than such travel requirements existing immediately prior to the date of the Change in Control;
3. any failure by a Participating Company to pay, or any material reduction by a Participating Company of, (A) the Optionee's base salary in effect immediately prior to the date of the Change in Control, or (B) the Optionee's bonus compensation, if any, in effect immediately prior to the date of the Change in Control (subject to applicable performance requirements with respect to the actual amount of bonus compensation earned by the Optionee); or
4. any failure by a Participating Company to (A) continue to provide the Optionee with the opportunity to participate, on terms not materially less favorable than those in effect for the benefit of any employee group which customarily includes a Person holding the employment position or a comparable position with the Participating Company then held by the Optionee, in any benefit or compensation plans and programs, including, but not limited to, the Participating Company's life, disability, health, dental, medical, savings, profit sharing, stock purchase and retirement plans, if any, in which the Optionee was participating immediately prior to the date of the Change in Control, or their equivalent, or (B) provide the Optionee with all other fringe benefits (or their equivalent) from time to time in effect for the benefit of any employee group which customarily includes a Person holding the employment position or a comparable position with the Participating Company then held by the Optionee.

7. **Standard Forms of Option Agreement**.

1. **Incentive Stock Options.** Unless otherwise provided by the Board at the time the Option is granted, an Option designated as an "Incentive Stock Option" shall comply with and be subject to the terms and conditions set forth in the appropriate form of Incentive Stock Option Agreement approved by the Board concurrently with its adoption of the Plan and as amended from time to time.
2. **Nonstatutory Stock Option Agreement.** Unless otherwise provided by the Board at the time the Option is granted, an Option designated as a "Nonstatutory Stock Option" shall comply with and be subject to the terms and conditions set forth in the appropriate form of Nonstatutory Stock Option Agreement approved by the Board concurrently with its adoption of the Plan and as amended from time to time.
3. **Authority to Vary Terms.** The Board shall have the authority from time to time to vary the terms of any of the standard forms of Option Agreement described in this Section 7 either in connection with the grant or amendment of an individual Option or in connection with the authorization of a new standard form or forms; provided, however, that the terms and conditions of any such new, revised or amended standard form or forms of Option Agreement are not inconsistent with the terms of the Plan.

8. Change in Control.

1. **Definitions.** The following terms shall have their respective meanings set forth below:
   a. An *"**Ownership Change Event**"* shall be deemed to have occurred if any of the following occurs with respect to the Company: (i) the direct or indirect sale or exchange in a single or series of related transactions by the stockholders of the Company of more than fifty percent (50%) of the voting stock of the Company; (ii) a merger or consolidation in which the Company is a party; (iii) the sale, exchange, or transfer of all or substantially all of the assets of the Company; or (iv) a liquidation or dissolution of the Company.
   b. A *"**Change in Control**"* shall mean an Ownership Change Event or a series of related Ownership Change Events (collectively, the *"**Transaction**"*) wherein the stockholders of the Company immediately before the Transaction do not retain immediately after the Transaction, in substantially the same proportions as their ownership of shares of the Company's voting stock immediately before the Transaction, direct or indirect beneficial ownership of more than fifty percent (50%) of the total combined voting power of the outstanding voting stock of the Company or the corporation or corporations to which the assets of the Company were transferred (the *"**Transferee Corporation(s)**"*), as the case may be. For purposes of the preceding sentence, indirect beneficial ownership shall include, without limitation, an interest resulting from ownership of the voting stock of one or more corporations which, as a result of the Transaction, own the Company or the Transferee Corporation(s), as the case may be, either directly or through one or more subsidiary corporations. The Board shall have the right to

determine whether multiple sales or exchanges of the voting stock of the Company or multiple Ownership Change Events are related, and its determination shall be final, binding and conclusive.

2. **Effect of Change in Control on Options.** In the event of a Change in Control, the surviving, continuing, successor, or purchasing corporation or parent corporation thereof, as the case may be (the *"**Acquiring Corporation**"*), may either assume the Company's rights and obligations under outstanding Options or substitute for outstanding Options substantially equivalent options for the Acquiring Corporation's stock. In the event the Acquiring Corporation elects not to assume or substitute for outstanding Options in connection with a Change in Control, the exercisability and vesting of each such outstanding Option held by an Optionee whose Service has not terminated prior to such date shall be accelerated effective as of the date ten (10) days prior to the date of the Change in Control to such extent, if any, as shall have been determined by the Board, in its discretion, and set forth in the Option Agreement evidencing such Option. The exercise or vesting of any Option that was permissible solely by reason of this Section 8.2 and the provisions of such Option Agreement shall be conditioned upon the consummation of the Change in Control. Any Options which are neither assumed or substituted for by the Acquiring Corporation in connection with the Change in Control nor exercised as of the date of the Change in Control shall terminate and cease to be outstanding effective as of the date of the Change in Control. Notwithstanding the foregoing, if the corporation the stock of which is subject to the outstanding Options immediately prior to an Ownership Change Event described in Section 8.1(a)(i) constituting a Change in Control is the surviving or continuing corporation and immediately after such Ownership Change Event less than fifty percent (50%) of the total combined voting power of its voting stock is held by another corporation or by other corporations that are members of an affiliated group within the meaning of Section 1504(a) of the Code without regard to the provisions of Section 1504(b) of the Code, the outstanding Options shall not terminate unless the Board otherwise provides in its discretion.

9. **Provision of Information.**

Each Optionee shall be given access to information concerning the Company equivalent to that information generally made available to the Company's common stockholders.

10. **Transferability of Options.**

During the lifetime of the Optionee, an Option shall be exercisable only by the Optionee or the Optionee's guardian or legal representative. No Option shall be assignable or transferable by the Optionee, except by will or by the laws of descent and distribution. Notwithstanding the foregoing, a Nonstatutory Stock Option shall be assignable or transferable to the extent permitted by the Board and set forth in the Option Agreement evidencing such Option.

11. **Compliance with Securities Law.**

The grant of Options and the issuance of shares of Stock upon exercise of Options shall be subject to compliance with all applicable requirements of federal, state or foreign law with respect to such securities. Options may not be exercised if the issuance of shares of Stock upon exercise would constitute a violation of any applicable federal, state or foreign securities laws or other law or regulations or the requirements of any stock exchange or market system upon which the Stock may then be listed. In addition, no Option may be exercised unless (a) a registration statement under the Securities Act shall at the time of exercise of the Option be in effect with respect to the shares of Stock issuable upon exercise of the Option or (b) in the opinion of legal counsel to the Company, the shares of Stock issuable upon exercise of the Option may be issued in accordance with the terms of an applicable exemption from the registration requirements of the Securities Act. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance and sale of any shares of Stock hereunder shall relieve the Company of any liability in respect of the failure to issue or sell such shares of Stock as to which such requisite authority shall not have been obtained. As a condition to the exercise of any Option, the Company may require the Optionee to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company.

12. **Termination or Amendment of Plan.**

The Board may terminate or amend the Plan at any time. However, subject to changes in applicable law, regulations or rules that would permit otherwise, without the approval of the Company's stockholders, there shall be (a) no increase in the maximum aggregate number of shares of Stock that may be issued under the Plan (except by operation of the provisions of Section 4.2), (b) no change in the class of Persons eligible to receive Incentive Stock Options, and (c) no other amendment of the Plan that would require approval of the Company's shareholders under any applicable law, regulation or rule. No termination or amendment of the Plan shall affect any then outstanding Option unless expressly provided by the Board. In any event, no termination or amendment of the Plan may adversely affect any then outstanding Option without the consent of the Optionee, unless such termination or amendment is required to enable an Option designated as an Incentive Stock Option to qualify as an Incentive Stock Option or is necessary to comply with any applicable law, regulation or rule.

IN WITNESS WHEREOF, the undersigned Secretary of the Company certifies that the foregoing sets forth the Protein Design Labs, Inc. 1999 Stock Option Plan as adopted by the Board on April 29, 1999.

_____

Douglas O. Ebersole
Secretary

PROTEIN DESIGN LABS, INC.
1999 NONSTATUTORY STOCK OPTION PLAN

(As amended on April 25, 2001 and as adjusted for 2:1 stock splits effective in August 2000 and in October 2001)

1. **Establishment, Purpose and Term of Plan**.
    1. **Establishment**. The Protein Design Labs, Inc. 1999 Nonstatutory Stock Option Plan (the *"**Plan**"*) is hereby established effective as of August 19, 1999 (the *"**Effective Date**"*).
    2. **Purpose**. The purpose of the Plan is to advance the interests of the Participating Company Group and its stockholders by providing an incentive to attract, retain and reward persons performing services for the Participating Company Group and by motivating such persons to contribute to the growth and profitability of the Participating Company Group.
    3. **Term of Plan**. The Plan shall continue in effect until the earlier of its termination by the Board or the date on which all of the shares of Stock available for issuance under the Plan have been issued and all restrictions on such shares under the terms of the Plan and the agreements evidencing Options granted under the Plan have lapsed.
2. **Definitions and Construction**.
    1. **Definitions**. Whenever used herein, the following terms shall have their respective meanings set forth below:
        a. *"**Board**"* means the Board of Directors of the Company. If one or more Committees have been appointed by the Board to administer the Plan, *"**Board**"* also means such Committee(s).
        b. *"**Code**"* means the Internal Revenue Code of 1986, as amended, and any applicable regulations promulgated thereunder.
        c. *"**Committee**"* means the Compensation Committee, Stock Option Committee or other committee of the Board duly appointed to administer the Plan and having such powers as shall be specified by the Board. Unless the powers of the Committee have been specifically limited, the Committee shall have all of the powers of the Board granted herein, including, without limitation, the power to amend or terminate the Plan at any time, subject to the terms of the Plan and any applicable limitations imposed by law.
        d. *"**Company**"* means Protein Design Labs, Inc., a Delaware corporation, or any successor corporation thereto.
        e. *"**Consultant**"* means any person, including an advisor, engaged by a Participating Company to render services other than as an Employee or a Director.
        f. *"**Director**"* means a member of the Board.
        g. *"**Disability**"* means the permanent and total disability of the Optionee within the meaning of Section 22(e)(3) of the Code.
        h. *"**Employee**"* means any person treated as an employee in the records of a Participating Company.
        i. *"**Exchange Act**"* means the Securities Exchange Act of 1934, as amended.
        j. *"**Fair Market Value**"* means, as of any date, the value of a share of Stock or other property as determined by the Board, in its discretion, or by the Company, in its discretion, if such determination is expressly allocated to the Company herein, subject to the following:
            i. If, on such date, the Stock is listed on a national or regional securities exchange or market system, the Fair Market Value of a share of Stock shall be the closing sale price of a share of Stock (or the mean of the closing bid and asked prices of a share of Stock if the Stock is so quoted instead) as quoted on the Nasdaq National Market, The Nasdaq SmallCap Market or such other national or regional securities exchange or market system constituting the primary market for the Stock, as reported in the Wall Street Journal or such other source as the Company deems reliable. If the relevant date does not fall on a day on which the Stock has traded on such securities exchange or market system, the date on which the Fair Market Value shall be established shall be the last day on which the Stock was so traded prior to the relevant date, or such other appropriate day as shall be determined by the Board, in its discretion.
            ii. If, on such date, there is no public market for the Stock, the Fair Market Value of a share of Stock shall be as determined by the Board without regard to any restriction other than a restriction which, by its terms, will never lapse.
        k. *"**Nonstatutory Stock Option**"* means an Option not intended to be an incentive stock option within the meaning of Section 422(b) of the Code.
        l. *"**Option**"* means a right to purchase Stock (subject to adjustment as provided in Section 4.2) pursuant to the terms and conditions of the Plan. All Options shall be Nonstatutory Stock Options.
        m. *"**Option Agreement**"* means a written agreement between the Company and an Optionee setting forth the terms, conditions and restrictions of the Option granted to the Optionee and any shares acquired upon the exercise thereof.
        n. *"**Optionee**"* means a person who has been granted one or more Options.
        o. *"**Parent Corporation**"* means any present or future "parent corporation" of the Company, as defined in Section 424(e) of the Code.
        p. *"**Participating Company**"* means the Company or any Parent Corporation or Subsidiary Corporation.
        q. *"**Participating Company Group**"* means, at any point in time, all corporations collectively which are then Participating Companies.
        r. *"**Securities Act**"* means the Securities Act of 1933, as amended.

s. *"**Service**"* means an Optionee's employment or service with the Participating Company Group, whether in the capacity of an Employee, a Director or a Consultant. An Optionee's Service shall not be deemed to have terminated merely because of a change in the capacity in which the Optionee renders Service to the Participating Company Group or a change in the Participating Company for which the Optionee renders such Service, provided that there is no interruption or termination of the Optionee's Service. An Optionee's Service with the Participating Company Group shall not be deemed to have terminated if the Optionee takes any military leave, sick leave, or other bona fide leave of absence approved by the Company; provided, however, that unless otherwise designated by the Company or required by law, a leave of absence shall not be treated as Service for purposes of determining vesting under the Optionee's Option Agreement. An Optionee's Service shall be deemed to have terminated either upon an actual termination of Service or upon the corporation for which the Optionee performs Service ceasing to be a Participating Company. Subject to the foregoing, the Company, in its discretion, shall determine whether an Optionee's Service has terminated and the effective date of such termination.

t. *"**Stock**"* means the common stock of the Company, as adjusted from time to time in accordance with Section 4.2.

u. *"**Subsidiary Corporation**"* means any present or future "subsidiary corporation" of the Company, as defined in Section 424(f) of the Code.

2. **Construction**. Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of the Plan. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term "or" is not intended to be exclusive, unless the context clearly requires otherwise.

3. **Administration**.

1. **Administration by the Board**. The Plan shall be administered by the Board. All questions of interpretation of the Plan or of any Option shall be determined by the Board, and such determinations shall be final and binding upon all persons having an interest in the Plan or such Option.
2. **Authority of Officers**. The Chief Executive Officer, President, Senior Vice President, Corporate Affairs or General Counsel of the Company shall have the authority to act on behalf of the Company with respect to any matter, right, obligation, determination or election which is the responsibility of or which is allocated to the Company herein, provided the officer has apparent authority with respect to such matter, right, obligation, determination or election.
3. **Powers of the Board**. In addition to any other powers set forth in the Plan and subject to the provisions of the Plan, the Board shall have the full and final power and authority, in its discretion:
   a. to determine the persons to whom, and the time or times at which, Options shall be granted and the number of shares of Stock to be subject to each Option;
   b. to determine the Fair Market Value of shares of Stock or other property;
   c. to determine the terms, conditions and restrictions applicable to each Option (which need not be identical) and any shares acquired upon the exercise thereof, including, without limitation, (i) the exercise price of the Option, (ii) the method of payment for shares purchased upon the exercise of the Option, (iii) the method for satisfaction of any tax withholding obligation arising in connection with the Option or such shares, including by the withholding or delivery of shares of stock, (iv) the timing, terms and conditions of the exercisability of the Option or the vesting of any shares acquired upon the exercise thereof, (v) the time of the expiration of the Option, (vi) the effect of the Optionee's termination of Service with the Participating Company Group on any of the foregoing, and (vii) all other terms, conditions and restrictions applicable to the Option or such shares not inconsistent with the terms of the Plan;
   d. to approve one or more forms of Option Agreement;
   e. to amend, modify, extend, cancel, renew, or grant a new Option in substitution for, any Option or to waive any restrictions or conditions applicable to any Option or any shares acquired upon the exercise thereof;
   f. to accelerate, continue, extend or defer the exercisability of any Option or the vesting of any shares acquired upon the exercise thereof, including with respect to the period following an Optionee's termination of Service with the Participating Company Group;
   g. to prescribe, amend or rescind rules, guidelines and policies relating to the Plan, or to adopt supplements to, or alternative versions of, the Plan, including, without limitation, as the Board deems necessary or desirable to comply with the laws of, or to accommodate the tax policy or custom of, foreign jurisdictions whose citizens may be granted Options; and
   h. to correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Option Agreement and to make all other determinations and take such other actions with respect to the Plan or any Option as the Board may deem advisable to the extent consistent with the Plan and applicable law.

4. **Shares Subject to Plan**.

1. **Maximum Number of Shares Issuable**. Subject to adjustment as provided in Section 4.2, the maximum aggregate number of shares of Stock that may be issued under the Plan shall be eight million (8,000,000) and shall consist of authorized but unissued or reacquired shares of Stock or any combination thereof. If an outstanding Option for any reason expires or is terminated or canceled or if shares of Stock are acquired upon the exercise of an Option subject to a Company repurchase option and are repurchased by the Company at the Optionee's exercise price, the shares of Stock allocable to the unexercised portion of such Option or such repurchased shares of Stock shall again be available for issuance under the Plan.
2. **Adjustments for Changes in Capital Structure**. In the event of any stock dividend, stock split, reverse stock split, recapitalization, combination, reclassification or similar change in the capital structure of the Company, appropriate adjustments shall be made in the number and class of shares subject to the Plan and to any

outstanding Options and in the exercise price per share of any outstanding Options. If a majority of the shares which are of the same class as the shares that are subject to outstanding Options are exchanged for, converted into, or otherwise become (whether or not pursuant to an Ownership Change Event, as defined in Section 8.1) shares of another corporation (the *"**New Shares**"*), the Board may unilaterally amend the outstanding Options to provide that such Options are exercisable for New Shares. In the event of any such amendment, the number of shares subject to, and the exercise price per share of, the outstanding Options shall be adjusted in a fair and equitable manner as determined by the Board, in its discretion. Notwithstanding the foregoing, any fractional share resulting from an adjustment pursuant to this Section 4.2 shall be rounded down to the nearest whole number, and in no event may the exercise price of any Option be decreased to an amount less than the par value, if any, of the stock subject to the Option. The adjustments determined by the Board pursuant to this Section 4.2 shall be final, binding and conclusive.

5. **Eligibility and Option Limitations**.
    1. **Persons Eligible for Options**. Options may be granted only to Employees and Consultants. For purposes of the foregoing sentence, "Employees" and "Consultants" shall include prospective Employees and prospective Consultants to whom Options are granted in connection with written offers of employment or other service relationship with the Participating Company Group. However, notwithstanding any other provision herein to the contrary, no person shall be eligible to be granted an Option under the Plan whose eligibility would require approval of the Plan by the Stockholders of the Company under any law or regulation or the rules of any stock exchange or market system upon which the Stock may then be listed. If not inconsistent with any such law, regulation or rule, an Option may be granted to a person, not previously employed by the Company, as an inducement essential to entering into an employment contract with the Company. Eligible persons may be granted more than one (1) Option.
    2. **Options Authorized**. Options granted under the Plan may only be Nonstatutory Stock Options.
6. **Terms and Conditions of Options**.

Options shall be evidenced by Option Agreements specifying the number of shares of Stock covered thereby, in such form as the Board shall from time to time establish. No Option or purported Option shall be a valid and binding obligation of the Company unless evidenced by a fully executed Option Agreement. Option Agreements may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

1. **Exercise Price**. The exercise price for each Option shall be established in the discretion of the Board; provided, however, that the exercise price per share shall be not less than eighty-five percent (85%) of the Fair Market Value of a share of Stock on the effective date of grant of the Option. Notwithstanding the foregoing, an Option may be granted with an exercise price lower than the minimum exercise price set forth above if such Option is granted pursuant to an assumption or substitution for another option in the manner described in Section 424(a) of the Code.
2. **Exercise Period**. Options shall be exercisable at such time or times, or upon such event or events, and subject to such terms, conditions, performance criteria, and restrictions as shall be determined by the Board and set forth in the Option Agreement evidencing such Option; provided, however, that no Option granted to a prospective Employee or prospective Consultant may become exercisable prior to the date on which such person commences Service with a Participating Company. Subject to the foregoing, unless otherwise specified by the Board in the grant of an Option, any Option granted hereunder shall have a term of ten (10) years from the effective date of grant of the Option.
3. **Payment of Exercise Price**.
    a. ***Forms of Consideration Authorized*.** Except as otherwise provided below, payment of the exercise price for the number of shares of Stock being purchased pursuant to any Option shall be made (i) in cash, by check or cash equivalent, (ii) by tender to the Company, or attestation to the ownership, of shares of Stock owned by the Optionee having a Fair Market Value (as determined by the Company without regard to any restrictions on transferability applicable to such stock by reason of federal or state securities laws or agreements with an underwriter for the Company) not less than the exercise price, (iii) by the assignment of the proceeds of a sale or loan with respect to some or all of the shares being acquired upon the exercise of the Option (including, without limitation, through an exercise complying with the provisions of Regulation T as promulgated from time to time by the Board of Governors of the Federal Reserve System) (a *"**Cashless Exercise**"*), (iv) provided that the Optionee is an Employee and in the Company's sole discretion at the time the Option is exercised, by cash for a portion of the aggregate exercise price not less than the par value of the shares being acquired and the Optionee's promissory note in a form approved by the Company for the balance of the aggregate exercise price, (v) by such other consideration as may be approved by the Board from time to time to the extent permitted by applicable law, or (vi) by any combination thereof. The Board may at any time or from time to time, by adoption of or by amendment to the standard forms of Option Agreement described in Section 7, or by other means, grant Options which do not permit all of the foregoing forms of consideration to be used in payment of the exercise price or which otherwise restrict one or more forms of consideration.
    b. ***Limitations on Forms of Consideration***.
        i. **Tender of Stock**. Notwithstanding the foregoing, an Option may not be exercised by tender to the Company, or attestation to the ownership, of shares of Stock to the extent such tender or attestation would constitute a violation of the provisions of any law, regulation or agreement restricting the redemption of the Company's stock. Unless otherwise provided by the Board, an Option may not be

exercised by tender to the Company, or attestation to the ownership, of shares of Stock unless such shares either have been owned by the Optionee for more than six (6) months or were not acquired, directly or indirectly, from the Company.

ii. **Cashless Exercise**. The Company reserves, at any and all times, the right, in the Company's sole and absolute discretion, to establish, decline to approve or terminate any program or procedures for the exercise of Options by means of a Cashless Exercise.

iii. **Payment by Promissory Note**. No promissory note shall be permitted if the exercise of an Option using a promissory note would be a violation of any law. Any permitted promissory note shall be on such terms as the Board shall determine at the time the Option is granted. The Board shall have the authority to permit or require the Optionee to secure any promissory note used to exercise an Option with the shares of Stock acquired upon the exercise of the Option or with other collateral acceptable to the Company. Unless otherwise provided by the Board, if the Company at any time is subject to the regulations promulgated by the Board of Governors of the Federal Reserve System or any other governmental entity affecting the extension of credit in connection with the Company's securities, any promissory note shall comply with such applicable regulations, and the Optionee shall pay the unpaid principal and accrued interest, if any, to the extent necessary to comply with such applicable regulations.

4. **Tax Withholding**. The Company shall have the right, but not the obligation, to deduct from the shares of Stock issuable upon the exercise of an Option, or to accept from the Optionee the tender of, a number of whole shares of Stock having a Fair Market Value, as determined by the Company, equal to all or any part of the federal, state, local and foreign taxes, if any, required by law to be withheld by the Participating Company Group with respect to such Option or the shares acquired upon the exercise thereof. Alternatively or in addition, in its discretion, the Company shall have the right to require the Optionee, through payroll withholding, cash payment or otherwise, including by means of a Cashless Exercise, to make adequate provision for any such tax withholding obligations of the Participating Company Group arising in connection with the Option or the shares acquired upon the exercise thereof. The Company shall have no obligation to deliver shares of Stock until the Participating Company Group's tax withholding obligations have been satisfied by the Optionee.

5. **Effect of Termination of Service**.

a. ***Option Exercisability***. Subject to earlier termination of the Option as otherwise provided herein and unless otherwise provided by the Board in the grant of an Option and set forth in the Option Agreement, an Option shall be exercisable after an Optionee's termination of Service as follows:

i. **Disability**. If the Optionee's Service with the Participating Company Group is terminated because of the Disability of the Optionee, the Option, to the extent unexercised and exercisable on the date on which the Optionee's Service terminated, may be exercised by the Optionee (or the Optionee's guardian or legal representative) at any time prior to the expiration of twelve (12) months after the date on which the Optionee's Service terminated, but in any event no later than the date of expiration of the Option's term as set forth in the Option Agreement evidencing such Option (the *"**Option Expiration Date**"*).

ii. **Death**. If the Optionee's Service with the Participating Company Group is terminated because of the death of the Optionee, the Option, to the extent unexercised and exercisable on the date on which the Optionee's Service terminated, may be exercised by the Optionee's legal representative or other person who acquired the right to exercise the Option by reason of the Optionee's death at any time prior to the expiration of twelve (12) months after the date on which the Optionee's Service terminated, but in any event no later than the Option Expiration Date. The Optionee's Service shall be deemed to have terminated on account of death if the Optionee dies within three (3) months after the Optionee's termination of Service.

iii. **Normal Retirement**. If the Optionee's Service with the Participating Company Group terminates by reason of the normal retirement at or after the normal retirement age of the Optionee within the meaning of the Protein Design Labs, Inc. 401(k) Plan ("Normal Retirement"), the Option, to the extent unexercised and exercisable on the date on which the Optionee's Service terminated, may be exercised by the Optionee at any time prior to the Option Expiration Date

iv. **Termination After Change in Control**. If the Optionee's Service with the Participating Company Group ceases as a result of Termination After Change in Control (as defined below), then (1) the Option, to the extent unexercised on the date on which the Optionee's Service terminated, may be exercised by the Optionee (or the Optionee's guardian or legal representative) at any time prior to the expiration of six (6) months after the date on which the Optionee's Service terminated, but in any event no later than the Option Expiration Date, and (2) the exercisability and vesting of the Option shall be accelerated effective as of the date on which the Optionee's Service terminated to such extent, if any, as shall have been determined by the Board, in its discretion, and set forth in the Option Agreement. Notwithstanding the foregoing, if it is determined that the provisions or operation of this Section 6.5(a)(iv) would preclude treatment of a Change in Control as a "pooling-of-interests" for accounting purposes and provided further that in the absence of the preceding sentence such Change in Control would be treated as a "pooling-of-interests" for accounting purposes, then this Section 6.5(a)(iv) shall be void *ab initio*, and the vesting and exercisability of the Option shall be determined under any other applicable provision of the Plan or the Option Agreement evidencing such Option.

v. **Other Termination of Service**. If the Optionee's Service with the Participating Company Group terminates for any reason, except Disability, death, Normal Retirement or Termination After Change

in Control, the Option, to the extent unexercised and exercisable by the Optionee on the date on which the Optionee's Service terminated, may be exercised by the Optionee within three (3) months (or such longer period of time as determined by the Board, in its discretion) after the date on which the Optionee's Service terminated, but in any event no later than the Option Expiration Date.

b. ***Extension if Exercise Prevented by Law***. Notwithstanding the foregoing, if the exercise of an Option within the applicable time periods set forth in Section 6.5(a) is prevented by the provisions of Section 11 below, the Option shall remain exercisable until ninety (90) days after the date the Optionee is notified by the Company that the Option is exercisable, but in any event no later than the Option Expiration Date.

c. ***Extension if Optionee Subject to Section 16(b)***. Notwithstanding the foregoing, if a sale within the applicable time periods set forth in Section 6.5(a) of shares acquired upon the exercise of the Option would subject the Optionee to suit under Section 16(b) of the Exchange Act, the Option shall remain exercisable until the earliest to occur of (i) the tenth (10th) day following the date on which a sale of such shares by the Optionee would no longer be subject to such suit, (ii) the one hundred and ninetieth (190th) day after the Optionee's termination of Service, or (iii) the Option Expiration Date.

d. ***Certain Definitions***. The following terms shall have their respective meanings set forth below:

i. *"**Termination After Change in Control**"* shall mean either of the following events occurring within twelve (12) months after a Change in Control:

(1) termination by the Participating Company Group of the Optionee's Service with the Participating Company Group for any reason other than for Cause (as defined below); or

(2) the Optionee's resignation from all capacities in which the Optionee is then rendering Service to the Participating Company Group within a reasonable period of time following an event constituting a Constructive Termination (as defined below).

Notwithstanding any provision herein to the contrary, Termination After Change in Control shall not include any termination of the Optionee's Service with the Participating Company Group which (1) is for Cause (as defined below); (2) is a result of the Optionee's death or disability; (3) is a result of the Optionee's voluntary termination of Service other than upon a Constructive Termination; or (4) occurs prior to the effectiveness of a Change in Control.

ii. *"**Cause**"* shall mean any of the following: (1) the Optionee's theft, dishonesty, or falsification of any Participating Company documents or records; (2) the Optionee's improper use or disclosure of a Participating Company's confidential or proprietary information; (3) any action by the Optionee which has a detrimental effect on a Participating Company's reputation or business; (4) the Optionee's failure or inability to perform any reasonable assigned duties after written notice from the Participating Company Group of, and a reasonable opportunity to cure, such failure or inability; (5) any material breach by the Optionee of any employment agreement between the Optionee and the Participating Company Group, which breach is not cured pursuant to the terms of such agreement; or (6) the Optionee's conviction (including any plea of guilty or nolo contendere) of any criminal act which impairs the Optionee's ability to perform his or her duties with the Participating Company Group.

iii. *"**Constructive Termination**"* shall mean any one or more of the following:

(1) without the Optionee's consent, any limitations of the Optionee's responsibilities, substantially inconsistent with the Optionee's positions, duties, responsibilities and status with the Participating Company Group immediately prior to the date of the Change in Control;

(2) without the Optionee's consent, the relocation of the principal place of the Optionee's employment to a location that is more than fifty (50) miles from the Optionee's principal place of employment immediately prior to the date of the Change in Control, or the imposition of travel requirements substantially more demanding of the Optionee than such travel requirements existing immediately prior to the date of the Change in Control;

(3) any failure by the Participating Company Group to pay, or any material reduction by the Participating Company Group of, (A) the Optionee's base salary in effect immediately prior to the date of the Change in Control, or (B) the Optionee's bonus compensation, if any, in effect immediately prior to the date of the Change in Control (subject to applicable performance requirements with respect to the actual amount of bonus compensation earned by the Optionee); or

(4) any failure by the Participating Company Group to (A) continue to provide the Optionee with the opportunity to participate, on terms not materially less favorable than those in effect for the benefit of any employee group which customarily includes a person holding the employment position or a comparable position with the Participating Company Group then held by the Optionee, in any benefit or compensation plans and programs, including, but not limited to, the Participating Company Group's life, disability, health, dental, medical, savings, profit sharing, stock purchase and retirement plans, if any, in which the Optionee was participating immediately prior to the date of the Change in Control, or their equivalent, or (B) provide the Optionee with all other fringe benefits (or their equivalent) from time to time in effect for the benefit of any employee group which customarily includes a person holding the employment position or a comparable position with the Participating Company Group then held by the Optionee.

7. **Standard Forms of Option Agreement**.
    1. **Nonstatutory Stock Option Agreement**. Unless otherwise provided by the Board at the time the Option is granted, each Option shall comply with and be subject to the terms and conditions set forth in the appropriate form of Nonstatutory Stock Option Agreement adopted by the Board concurrently with its adoption of the Plan and as amended from time to time.
    2. **Authority to Vary Terms**. The Board shall have the authority from time to time to vary the terms of the standard form of Option Agreement described in this Section 7 either in connection with the grant or amendment of an individual Option or in connection with the authorization of a new standard form or forms; provided, however, that the terms and conditions of any such new, revised or amended standard form or forms of Option Agreement are not inconsistent with the terms of the Plan.
8. **Change in Control**.
    1. **Definitions**. The following terms shall have their respective meanings set forth below:
        a. An *"**Ownership Change Event**"* shall be deemed to have occurred if any of the following occurs with respect to the Company: (i) the direct or indirect sale or exchange in a single or series of related transactions by the stockholders of the Company of more than fifty percent (50%) of the voting stock of the Company; (ii) a merger or consolidation in which the Company is a party; (iii) the sale, exchange, or transfer of all or substantially all of the assets of the Company; or (iv) a liquidation or dissolution of the Company.
        b. A *"**Change in Control**"* shall mean an Ownership Change Event or a series of related Ownership Change Events (collectively, the *"**Transaction**"*) wherein the stockholders of the Company immediately before the Transaction do not retain immediately after the Transaction, in substantially the same proportions as their ownership of shares of the Company's voting stock immediately before the Transaction, direct or indirect beneficial ownership of more than fifty percent (50%) of the total combined voting power of the outstanding voting stock of the Company or the corporation or corporations to which the assets of the Company were transferred (the *"**Transferee Corporation(s)**"*), as the case may be. For purposes of the preceding sentence, indirect beneficial ownership shall include, without limitation, an interest resulting from ownership of the voting stock of one or more corporations which, as a result of the Transaction, own the Company or the Transferee Corporation(s), as the case may be, either directly or through one or more subsidiary corporations. The Board shall have the right to determine whether multiple sales or exchanges of the voting stock of the Company or multiple Ownership Change Events are related, and its determination shall be final, binding and conclusive.
    2. **Effect of Change in Control on Options**. In the event of a Change in Control, the surviving, continuing, successor, or purchasing corporation or parent corporation thereof, as the case may be (the *"**Acquiring Corporation**"*), may either assume the Company's rights and obligations under outstanding Options or substitute for outstanding Options substantially equivalent options for the Acquiring Corporation's stock. In the event the Acquiring Corporation elects not to assume or substitute for outstanding Options in connection with a Change in Control, the unexercisability and vesting of each such outstanding Option held by an Optionee whose Service has not terminated prior to such date shall be accelerated effective as of the date ten (10) days prior to the date of the Change in Control to such extent, if any, as shall have been determined by the Board, in its discretion, and set forth in the Option Agreement evidencing such Option. The exercise or vesting of any Option that was permissible solely by reason of this Section 8.2 and the provisions of such Option Agreement shall be conditioned upon the consummation of the Change in Control. Any Options which are neither assumed or substituted for by the Acquiring Corporation in connection with the Change in Control nor exercised as of the date of the Change in Control shall terminate and cease to be outstanding effective as of the date of the Change in Control. Notwithstanding the foregoing, if the corporation the stock of which is subject to the outstanding Options immediately prior to an Ownership Change Event described in Section 8.1(a)(i) constituting a Change in Control is the surviving or continuing corporation and immediately after such Ownership Change Event less than fifty percent (50%) of the total combined voting power of its voting stock is held by another corporation or by other corporations that are members of an affiliated group within the meaning of Section 1504(a) of the Code without regard to the provisions of Section 1504(b) of the Code, the outstanding Options shall not terminate unless the Board otherwise provides in its discretion.
9. **Provision of Information**.

    Each Optionee shall be given access to information concerning the Company equivalent to that information generally made available to the Company's common stockholders.

10. **Transferability of Options**.

    During the lifetime of the Optionee, an Option shall be exercisable only by the Optionee or the Optionee's guardian or legal representative. An Option shall be assignable or transferable to the extent permitted by the Board and set forth in the Option Agreement evidencing such Option.

11. **Compliance with Securities Law**.

    The grant of Options and the issuance of shares of Stock upon exercise of Options shall be subject to compliance with all applicable requirements of federal, state or foreign law with respect to such securities. Options may not be exercised if the issuance of shares of Stock upon exercise would constitute a violation of any applicable federal, state or foreign securities laws or other law or regulations or the requirements of any stock exchange or market system upon

which the Stock may then be listed. In addition, no Option may be exercised unless (a) a registration statement under the Securities Act shall at the time of exercise of the Option be in effect with respect to the shares issuable upon exercise of the Option or (b) in the opinion of legal counsel to the Company, the shares issuable upon exercise of the Option may be issued in accordance with the terms of an applicable exemption from the registration requirements of the Securities Act. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance and sale of any shares hereunder shall relieve the Company of any liability in respect of the failure to issue or sell such shares as to which such requisite authority shall not have been obtained. As a condition to the exercise of any Option, the Company may require the Optionee to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company.

12. **Indemnification**.

In addition to such other rights of indemnification as they may have as members of the Board or officers or employees of the Participating Company Group, members of the Board and any officers or employees of the Participating Company Group to whom authority to act for the Board or the Company is delegated shall be indemnified by the Company against all reasonable expenses, including attorneys' fees, actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan, or any right granted hereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved by independent legal counsel selected by the Company) or paid by them in satisfaction of a judgment in any such action, suit or proceeding, except in relation to matters as to which it shall be adjudged in such action, suit or proceeding that such person is liable for gross negligence, bad faith or intentional misconduct in duties; provided, however, that within sixty (60) days after the institution of such action, suit or proceeding, such person shall offer to the Company, in writing, the opportunity at its own expense to handle and defend the same.

13. **Termination or Amendment of Plan**.

The Board may terminate or amend the Plan at any time. However, no termination or amendment of the Plan shall affect any then outstanding Option unless expressly provided by the Board. In any event, no termination or amendment of the Plan may adversely affect any then outstanding Option without the consent of the Optionee, unless such termination or amendment is necessary to comply with any applicable law, regulation or rule.

Protein Design Labs, Inc.

Executive Retention and Severance Plan

Adopted October 10, 2001

1. Establishment and Purpose

1. **Establishment.** The Protein Design Labs, Inc. Executive Retention and Severance Plan (the *"**Plan**"*) is hereby established by the Compensation Committee of the Board of Directors of Protein Design Labs, Inc. effective October 10, 2001 (the *"**Effective Date**"*).
2. **Purpose.** The Company draws upon the knowledge, experience and advice of its Officers and Key Employees in order to manage its business for the benefit of the Company's stockholders. Due to the widespread awareness of the possibility of mergers, acquisitions and other strategic alliances in the Company's industry, the topic of compensation and other employee benefits in the event of a Change in Control is an issue in competitive recruitment and retention efforts. The Committee recognizes that the possibility or pending occurrence of a Change in Control could lead to uncertainty regarding the consequences of such an event and could adversely affect the Company's ability to attract, retain and motivate its Officers and Key Employees. The Committee has therefore determined that it is in the best interests of the Company and its stockholders to provide for the continued dedication of its Officers and Key Employees notwithstanding the possibility or occurrence of a Change in Control by establishing this Plan to provide designated Officers and Key Employees with enhanced financial security in the event of a Change in Control. The purpose of this Plan is to provide its Participants with specified compensation and benefits in the event of a Change in Control or termination of employment under circumstances specified herein upon or following a Change in Control.

2. Definitions and Construction

1. **Definitions.** Whenever used in this Plan, the following terms shall have the meanings set forth below:
    a. *"**Annual Base Salary**"* means an amount equal to a Participant's aggregate base salary for a period of twelve (12) months determined at the greater of (1) the Participant's base salary rate in effect immediately prior to the Participant's Termination Upon a Change in Control or (2) the Participant's base salary rate in effect immediately prior to the applicable Change in Control. Annual Base Salary does not include any bonuses, commissions, fringe benefits, car allowances, other irregular payments or any other compensation except base salary.
    b. *"**Annual Bonus**"* means an amount equal to the greatest of (1) the aggregate of all bonuses earned by the Participant (whether or not actually paid) under the terms of the programs, plans or agreements providing for such bonuses for the fiscal year of the Company immediately preceding the fiscal year of the Change in Control, (2) the aggregate of all bonuses earned by the Participant (whether or not actually paid) under the terms of the programs, plans or agreements providing for such bonuses for the fiscal year of the Company immediately preceding the fiscal year of the Participant's Termination Upon a Change in Control, or (3) the aggregate of all annual bonuses that would be earned by the Participant at the targeted annual rate (assuming attainment of 100% of all applicable performance goals) under the terms of the programs, plans or agreements providing for such bonuses in which the Participant was participating for the fiscal year of the Participant's Termination Upon a Change in Control.
    c. *"**Benefit Period**"* means (1) with respect to a Participant who is the Chief Executive Officer, a period of three (3) years, (2) with respect to a Participant who is an Executive Committee Member (other than the Chief Executive Officer), a period of two (2) years, and (3) with respect to a Participant who is a Key Employee or an Officer who is not an Executive Committee Member, a period of one (1) year.
    d. *"**Board**"* means the Board of Directors of the Company.
    e. *"**Cause**"* means the occurrence of any of the following, as determined in good faith by a vote of not less than two-thirds of the entire membership of the Board at a meeting of the Board called and held for such purpose (after reasonable notice to the Participant and an opportunity for the Participant, together with the Participant's counsel, to be heard before the Board):
        1. the Participant's theft of property of the Company Group, act of dishonesty or fraud against the Company Group, or intentional falsification of any employment or other record of the Company Group;
        2. the Participant's improper use or disclosure of confidential or proprietary information of the Company Group;
        3. the Participant's gross negligence or willful misconduct in the performance of the Participant's assigned duties (but not mere unsatisfactory performance); provided, however, that (i) the conduct described in this subparagraph (3) shall not constitute "Cause" unless such conduct has not been cured within ten (10) days following the Participant's receipt of written notice from the Board identifying the conduct which the Board believes in good faith will constitute "Cause" if not cured and (ii) no act or failure to act on the part of the Participant shall be deemed "willful" unless done,

or omitted to be done, by the Participant not in good faith and without reasonable belief that the Participant's act, or failure to act, was in the best interests of the Company Group; or

4. the Participant's conviction (including any plea of guilty or nolo contendere) of a felony which materially impairs the Participant's ability to perform his or her duties with the Company Group.

f. *"**Change in Control**"* means, except as otherwise provided in the Participation Agreement applicable to a given Participant, the occurrence of any of the following:
   1. any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the *"**Exchange Act**"*)), other than a trustee or other fiduciary holding securities of the Company under an employee benefit plan of the Company, becomes the "beneficial owner" (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of the Company representing forty percent (40%) or more of (i) the outstanding shares of common stock of the Company or (ii) the total combined voting power of the Company's then-outstanding securities entitled to vote generally in the election of directors;
   2. the Company is party to a merger or consolidation which results in the holders of the voting securities of the Company outstanding immediately prior thereto failing to retain immediately after such merger or consolidation direct or indirect beneficial ownership of more than fifty percent (50%) of the total combined voting power of the securities entitled to vote generally in the election of directors of the Company or the surviving entity outstanding immediately after such merger or consolidation;
   3. the sale or disposition of all or substantially all of the Company's assets or consummation of any transaction having similar effect (other than a sale or disposition to one or more subsidiaries of the Company); or
   4. a change in the composition of the Board within any consecutive two-year period as a result of which fewer than a majority of the directors are Incumbent Directors.

g. *"**Change in Control Period**"* means a period commencing upon the consummation of a Change in Control and ending on (1) the third anniversary of the date of such consummation in the case of a Participant who is the Chief Executive Officer, (2) the second anniversary of the date of such consummation in the case of a Participant who is an Officer other than the Chief Executive Officer or (3) the first anniversary of the date of such consummation in the case of a Participant who is a Key Employee.

h. *"**Chief Executive Officer**"* means the individual who, immediately prior to the consummation of a Change in Control, serves as the Company's Chief Executive Officer as appointed by the Board.

i. *"**Code**"* means the Internal Revenue Code of 1986, as amended, or any successor thereto and any applicable regulations promulgated thereunder.

j. *"**Committee**"* means the Compensation Committee of the Board.

k. *"**Company**"* means Protein Design Labs, Inc., a Delaware corporation, and, following a Change in Control, a Successor that agrees to assume all of the terms and provisions of this Plan or a Successor which otherwise becomes bound by operation of law to this Plan.

l. *"**Company Group**"* means the group consisting of the Company and each present or future parent and subsidiary corporation or other business entity thereof.

m. *"**Disability**"* means a Participant's incapacity due to physical or mental injury or illness as a result of which the Participant has been absent from the full-time performance of the Participant's duties with the Company Group for a period of six (6) consecutive months, or for shorter periods aggregating to eight (8) months within any twelve-month period; provided that the Company shall have given the Participant notice of a possible termination of employment for Disability and the Participant shall not have returned to the full-time performance of the Participant's duties within thirty (30) days after such notice is given.

n. *"**Executive Committee Member**"* means an Officer who, immediately prior to the consummation of a Change in Control, serves as a member of the Company's Executive Committee.

o. *"**Good Reason**"* means the occurrence of any of the following conditions upon or following a Change in Control, without the Participant's informed written consent, which condition(s) remain(s) in effect ten (10) days after written notice to the Company from the Participant of such condition(s):
   1. assignment of the Participant to a position that is not a Substantive Functional Equivalent of the position which the Participant occupied immediately prior to the Change in Control;
   2. a decrease in the Participant's Annual Base Salary or target bonus amount (subject to applicable performance requirements with respect to the actual amount of bonus compensation earned by the Participant);
   3. any failure by the Company to pay to the Participant any material portion of the Participant's compensation within seven (7) days of the date on which such compensation is due to be paid;
   4. any failure by the Company to (i) continue to provide the Participant with the opportunity to participate, on terms no less favorable than those in effect for the benefit of any employee group which customarily includes a person holding the employment position or a comparable position with the Company Group then held by the Participant, in any benefit or compensation plans and programs, including, but not limited to, the Company Group's life, disability, health, dental, medical, savings, profit sharing, stock purchase and retirement plans, if any, in which the Participant was participating immediately prior to the date of the Change in Control, or their equivalent, or (ii) provide the Participant with all other fringe benefits (or their equivalent) from time to time in effect for the benefit of any employee group which customarily includes a person holding the employment position or a comparable position with the Company Group then held by the Participant;

5. the relocation of the Participant's work place for the Company Group to a location that increases the regular commute distance between the Participant's residence and work place by more than fifteen (15) miles (one-way), or the imposition of travel requirements substantially more demanding of the Participant than such travel requirements existing immediately prior to the Change in Control; or
6. any material breach of this Plan by the Company with respect to the Participant.

The existence of Good Reason shall not be affected by the Participant's temporary incapacity due to physical or mental illness not constituting a Disability. The Participant's continued employment shall not constitute consent to, or a waiver of rights with respect to, any condition constituting Good Reason hereunder. For the purposes of any determination regarding the existence of Good Reason hereunder, any claim by the Participant that Good Reason exists shall be presumed to be correct unless the Company establishes to the Board that Good Reason does not exist, and the Board, acting in good faith, affirms such determination by a vote of not less than two-thirds of its entire membership.

p. *"**Incumbent Director**"* means a director who either (1) is a member of the Board as of the Effective Date, or (2) is elected, or nominated for election, to the Board with the affirmative votes of at least a majority of the Incumbent Directors at the time of such election or nomination, but (3) was not elected or nominated in connection with an actual or threatened proxy contest relating to the election of directors of the Company.
q. *"**Key Employee**"* means an individual, other than an Officer, who, immediately prior to the consummation of a Change in Control, is employed by the Company Group and has been designated by the Board or the Committee as eligible to participate in the Plan.
r. *"**Officer**"* means an individual who, immediately prior to the consummation of a Change in Control, serves as an officer of the Company as appointed by the Board.
s. *"**Option**"* means any option to purchase shares of the capital stock of the Company or of any other member of the Company Group granted to a Participant by the Company or any other Company Group member, whether granted before or after a Change in Control.
t. *"**Participant**"* means each Officer and each Key Employee designated by the Committee to participate in the Plan, provided such individual has executed a Participation Agreement.
u. *"**Participation Agreement**"* means an Agreement to Participate in the Protein Design Labs, Inc. Executive Retention and Severance Plan in the form attached hereto as Exhibit A or in such other form as the Committee may approve from time to time; provided, however, that, after a Participation Agreement has been entered into between a Participant and the Company, it may be modified only by a supplemental written agreement executed by both the Participant and the Company. The terms of such forms of Participation Agreement need not be identical with respect to each Participant. For example, a Participation Agreement may limit the duration of a Participant's participation in the Plan or may modify the definition of "Change in Control" with respect to a Participant.
v. *"**Release**"* means a general release of all known and unknown claims against the Company and its affiliates and their stockholders, directors, officers, employees, agents, successors and assigns in substantially the form attached hereto as Exhibit B, with any modifications thereto determined by legal counsel to the Company to be necessary or advisable to comply with applicable law or to accomplish the intent of Section 8 hereof.
w. *"**Restricted Stock**"* means any shares of the capital stock of the Company or of any other member of the Company Group granted to a Participant by the Company or any other Company Group member or acquired upon the exercise of an Option, whether such shares are granted or acquired before or after a Change in Control, including any shares issued in exchange for any such shares by a Successor or any other member of the Company Group.
x. *"**Retiree Medical Plan**"* means any medical and/or dental insurance benefit plan established by the Company for the benefit of any group of employees (including covered dependents) who retire from employment with the Company under the terms and conditions specified by such plan.
y. *"**Substantive Functional Equivalent**"* means an employment position occupied by a Participant after a Change in Control that:
    1. is in a substantive area of competence (such as, accounting, executive management, finance, human resources, marketing, sales and service, or operations, etc.) that is consistent with the Participant's experience and not materially different from the position occupied by the Participant immediately prior to the Change in Control;
    2. allows the Participant to serve in a role and perform duties that are functionally equivalent to those performed immediately prior to the Change in Control (such as, business unit executive with profit and loss responsibility, product line manager, marketing strategist, geographic sales manager, executive officer, etc.);
    3. with respect to a Participant who is an Executive Committee Member, carries a title in the Company or an equivalent business unit of its parent that does not connote a lesser rank or corporate role than the title held by such Participant immediately prior to the Change in Control;
    4. with respect to a Participant who is an Executive Committee Member, reports directly to an executive officer or the board of directors of the Company, its parent or an equivalent business unit of its parent that is no less senior than the executive officer or board of directors, as the case may be, to whom the Participant reported at the Company immediately prior to the Change in Control; and

5. does not otherwise constitute a material, adverse change in the Participant's responsibilities or duties, as measured against the Participant's responsibilities or duties prior to the Change in Control, causing it to be of materially lesser rank or responsibility within the Company or an equivalent business unit of its parent.

z. *"**Successor**"* means any successor in interest to substantially all of the business and/or assets of the Company.

aa. *"**Termination Upon a Change in Control**"* means the occurrence of any of the following events:

1. termination by the Company Group of the Participant's employment for any reason other than Cause during the applicable Change in Control Period; or
2. the Participant's resignation for Good Reason during the applicable Change in Control Period from all capacities in which the Participant is then rendering service to the Company Group; or
3. in the case of a Participant who is the Chief Executive Officer, the Participant's resignation for any reason or no reason during the applicable Change in Control Period from all capacities in which the Participant is then rendering service to the Company Group;

provided, however, that Termination Upon a Change in Control shall not include any termination of the Participant's employment which is (i) for Cause, (ii) a result of the Participant's death or Disability, or (iii) a result of the Participant's voluntary termination of employment other than for Good Reason (except with respect to a Participant who is the Chief Executive Officer as provided in subsection (3) above).

2. **Construction.** Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of the Plan. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term "or" is not intended to be exclusive, unless the context clearly requires otherwise.

3. <u>Eligibility</u>

The Board or Committee shall designate those Officers and Key Employees who shall be eligible to become Participants in the Plan.

4. <u>Treatment of Options and Restricted Stock Upon a Change in Control</u>

1. **In General.** Notwithstanding any provision to the contrary contained in any agreement evidencing an Option or shares of Restricted Stock granted to a Participant, in the event of a Change in Control, the vesting and exercisability of each outstanding Option and the vesting of shares of Restricted Stock held, in either case, by those Participants designated below shall be accelerated to the extent set forth below, effective immediately prior to but conditioned upon the consummation of the Change in Control.
   a. **Chief Executive Officer.** If the Participant is the Chief Executive Officer, such vesting and exercisability shall be accelerated in full so that each Option and share of Restricted Stock held by such Participant shall be immediately exercisable and fully vested.
   b. **Executive Committee Member.** If the Participant is an Executive Committee Member (other than the Chief Executive Officer), such vesting and exercisability shall be accelerated to the extent of fifty percent (50%) of the number of shares subject to each future vesting installment called for under the agreement(s) evidencing Options and/or shares of Restricted Stock held by such Participant, and the balance of the shares subject to each such future vesting installment shall remain subject to vesting at the same time or times called for under such agreement(s). For example, assuming an Option under which 100 shares would otherwise vest and become exercisable on the first day of each of the 24 calendar months following the consummation of a Change in Control, the application of this Section 4.1(b) would result in the acceleration of vesting of 1,200 shares effective immediately prior to the consummation of such Change in Control. The remaining 50 shares subject to each future vesting installment would vest on the first day of each of the subsequent 24 calendar months in accordance with the terms of the agreement evidencing such Option.
2. **Acceleration of Vesting Upon Non-Assumption of Options.** Notwithstanding any provision to the contrary contained in any agreement evidencing an Option granted to a Participant, in the event of a Change in Control in which the surviving, continuing, successor, or purchasing corporation or other business entity or parent thereof, as the case may be (the *"**Acquiring Corporation**"*), fails either to assume the Company's rights and obligations under any then-outstanding Options held by the Participant or to substitute for such Options substantially equivalent options for the Acquiring Corporation's stock, the vesting and exercisability of each such Option shall be accelerated to the extent set forth below, effective immediately prior to but conditioned upon the consummation of the Change in Control. Notwithstanding the foregoing, the provisions of Section 4.1 and not this Section 4.2 shall apply to Options held by any Participant designated in Section 4.1 if that Section's provisions would confer a greater benefit with respect to such Options than this Section 4.2. In no event shall the vesting or exercisability of any Option exceed one hundred percent (100%) of the number of shares initially subject to the Option (as the same may be adjusted from time to time in connection with changes in the capital structure of the issuer pursuant to the provisions of such agreement).
   a. **If Employed Less Than Two Years.** If, on the date of the consummation of a Change in Control, a Participant has been employed by the Company Group for a period of less than two (2) years, then, to the extent that this Section 4.2 is applicable to any Options held by the Participant, the vesting and exercisability of such Options shall be determined by crediting the Participant with two (2) years of employment in addition to the Participant's actual term of employment with the Company Group.

b. **If Employed Two or More Years.** If, on the date of the consummation of a Change in Control, a Participant has been employed by the Company Group for a period of two (2) or more years, then, to the extent that this Section 4.2 is applicable to any Options held by the Participant, the vesting and exercisability of such Options shall be accelerated in full so that each such Option shall be immediately exercisable and fully vested.

5. Severance Benefits

In the event of a Participant's Termination Upon a Change in Control and provided that the Participant has executed and not revoked a Release at the time of such Termination Upon a Change in Control, the Participant shall be entitled to receive, in addition to all compensation and benefits earned by the Participant through the date of the Participant's termination of employment, the following severance payments and benefits:

1. **Salary and Bonus.** Within thirty (30) days following the later of the Participant's termination of employment or the last day following the Participant's execution of the Release that the Participant may, by its terms, revoke such Release, the Company shall pay to the Participant in a lump sum cash payment an amount equal to (a) the sum of the Participant's Annual Base Salary and Annual Bonus multiplied by (b) the number of years in the Benefit Period applicable to the Participant.
2. **Health and Life Insurance Benefits.** For the period commencing immediately following the Participant's termination of employment and continuing for the duration of the Benefit Period applicable to the Participant, the Company shall arrange to provide the Participant and his or her dependents with health (including medical and dental) and life insurance benefits substantially similar to those provided to the Participant and his or her dependents immediately prior to the date of such termination of employment (without giving effect to any reduction in such benefits constituting Good Reason). Such benefits shall be provided to the Participant at the same premium cost to the Participant and at the same coverage level as in effect as of the Participant's termination of employment (without giving effect to any reduction in such benefits constituting Good Reason); provided, however, that the Participant shall be subject to any change in the premium cost and/or level of coverage applicable generally to all employees holding the position or comparable position with the Company which the Participant held immediately prior to the Change in Control. The Company may satisfy its obligation to provide a continuation of health insurance benefits by paying that portion of the Participant's premiums required under the Consolidated Omnibus Budget Reconciliation Act (***"COBRA"***) that exceed the amount of premiums that the Participant would have been required to pay for continuing coverage had he or she continued in employment. If the Company is not reasonably able to continue such coverage under the Company's benefit plans, the Company shall provide substantially equivalent coverage under other sources or will reimburse the Participant for premiums (in excess of the Participant's premium cost described above) incurred by the Participant to obtain his or her own such coverage. If the Participant becomes eligible to receive such coverage under another employer's benefit plans during the applicable Benefit Period, the Participant shall report such eligibility to the Company, and the Company's obligations under this Section 5.2 shall be secondary to the coverage provided by such other employer's plans. For the balance of any period in excess of the applicable Benefit Period during which the Participant is entitled to continuation coverage under COBRA, the Participant shall be entitled to maintain coverage for himself or herself and the Participant's eligible dependents at the Participant's own expense. Notwithstanding the foregoing, a Participant may elect to receive benefits under any Retiree Medical Plan for which he or she is qualified as of the time of such Participant's termination of employment in lieu of receiving the corresponding health benefits (i.e., medical and/or dental) to which such Participant would be entitled pursuant to this Section 5.2, provided that such election shall not terminate the Participant's right to receive benefits pursuant to this Section 5.2 which are of a different class (i.e., medical, dental or life insurance) than those provided under the Retiree Medical Plan.
3. **Acceleration of Vesting of Options and Restricted Stock; Extension of Option Exercise Period.** Notwithstanding any provision to the contrary contained in any agreement evidencing an Option or shares of Restricted Stock granted to a Participant, the vesting and exercisability of each of the Participant's outstanding Options and the vesting of the Participant's shares of Restricted Stock shall be accelerated in full effective as of the date of the Participant's termination of employment so that each Option and share of Restricted Stock held by the Participant shall be immediately exercisable and fully vested. Furthermore, notwithstanding any provision to the contrary contained in the agreement evidencing any such Option, the Option, to the extent unexercised on the date on which the Participant's employment terminated, may be exercised by the Participant (or the Participant's guardian or legal representative) at any time prior to the expiration of six (6) months (subject to extension to the extent provided by Section 13.3) after the date on which the Participant's employment terminated, but in any event no later than the date of expiration of the Option's term as set forth in the agreement evidencing such Option.
4. **Indemnification; Insurance.**
    a. In addition to any rights a Participant may have under any indemnification agreement previously entered into between the Company and such Participant (a ***"Prior Indemnity Agreement"***), from and after the date of the Participant's termination of employment, the Company shall indemnify and hold harmless the Participant against any costs or expenses (including attorneys' fees), judgments, fines, losses, claims, damages or liabilities incurred in connection with any claim, action, suit, proceeding or investigation, whether civil, criminal, administrative or investigative, by reason of the fact that the Participant is or was a director, officer, employee or agent of the Company Group, or is or was serving at the request of the Company Group as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, whether asserted or claimed prior to, at or after the date of the Participant's

termination of employment, to the fullest extent permitted under applicable law, and the Company shall also advance fees and expenses (including attorneys' fees) as incurred by the Participant to the fullest extent permitted under applicable law. In the event of a conflict between the provisions of a Prior Indemnity Agreement and the provisions of this Plan, the Participant may elect which provisions shall govern.

b. For a period of six (6) years from and after the date of termination of employment of a Participant who was an officer and/or director of the Company at any time prior to such termination of employment, the Company shall maintain a policy of directors' and officers' liability insurance for the benefit of such Participant which provides him or her with coverage no less favorable than that provided for the Company's continuing officers and directors but in any event no less favorable than that in effect immediately prior to the Change in Control.

6. Federal Excise Tax Under Section 4999 of the Code

1. **Additional Payment.** In the event that any payment or benefit received or to be received by the Participant pursuant to this Plan or otherwise payable to the Participant (collectively, the *"**Payments**"*) would be subject to the excise tax imposed by Section 4999 of the Code, or any similar or successor provision (the *"**Excise Tax**"*), the Company shall pay to the Participant within ninety (90) days of the date the Participant becomes subject to the Excise Tax (i.e., at the time such Payment is made), an additional amount (the *"**Gross- Up Payment**"*) such that the net amount retained by the Participant from the Payments and the Gross-Up Payment, after deduction of (a) any Excise Tax on the Payments, (b) any federal, state and local income or employment tax and Excise Tax on the Gross-Up Payment and (c) any interest, penalties or additions to tax payable by the Participant with respect thereto, shall be equal to the Payments. Notwithstanding the foregoing, if the Payments would otherwise be subject to the Excise Tax but do not exceed the greatest amount of Payments that could be paid to the Participant without giving rise to the Excise Tax (the *"**Reduced Amount**"*) by more than an amount equal to the lesser of $100,000 or five percent of the Payments, then no Gross-Up Payment shall be paid to the Participant and the Payments, in the aggregate, shall be reduced to the Reduced Amount.

2. Determination of Amounts.

a. **Determination by Accountants.** All computations and determinations called for by this Section 6 shall be promptly determined and reported in writing to the Company and the Participant by independent public accountants selected by the Company and reasonably acceptable to the Participant (the *"**Accountants**"*). For the purposes of such determinations, the Accountants may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. The Company and the Participant shall furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make their required determinations. The Company shall bear all fees and expenses charged by the Accountants in connection with such services.

b. **Determination of Excise Tax.** For purposes of determining whether any of the Payments will be subject to the Excise Tax and the amount of such Excise Tax:

1. Any payments or benefits received or to be received by the Participant in connection with transactions contemplated by a Change in Control event or the Participant's termination of employment (whether pursuant to the terms of this Plan or any other plan, arrangement or agreement with the Company), shall be treated as "parachute payments" within the meaning of Section 280G of the Code or any similar or successor provision (*"**Section 280G**"*), and all "excess parachute payments" within the meaning of Section 280G shall be treated as subject to the Excise Tax, unless in the opinion of the Accountants such payments or benefits (in whole or in part) do not constitute parachute payments, or such excess parachute payments (in whole or in part) represent reasonable compensation for services actually rendered within the meaning of Section 280G in excess of the base amount within the meaning of Section 280G, or are otherwise not subject to the Excise Tax.
2. The amount of the Payments which shall be treated as subject to the Excise Tax shall be equal to the lesser of (i) the total amount of the Payments or (ii) the amount of the excess parachute payments within the meaning of Section 280G (after applying Section 6.2(b)(1) above).
3. The value of any non-cash benefits or any deferred payment or benefit shall be determined by the Accountants in accordance with the principles of Section 280G.

c. **Determination of Gross-Up Payment.** For purposes of determining the amount of the Gross-Up Payment, the Participant shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the Gross-Up Payment is to be made and state and local income taxes at the highest marginal rate of taxation in the state and locality of the Participant's residence on the date the Gross-Up Payment is to be made, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes.

3. Notice and Contest of Claim.

a. The Participant shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of a Gross-Up Payment. Such notification shall be given as soon as practicable but no later than sixty (60) calendar days after the Participant is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Participant shall not pay such claim prior to the expiration of the thirty (30) day period following the date on which the Participant gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Participant in writing prior to the expiration of such period that it desires to contest such claim, the Participant shall:

1. give the Company any information reasonably requested by the Company relating to such claim;
2. take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company and reasonably satisfactory to the Participant;
3. cooperate with the Company in good faith in order to effectively contest such claim; and
4. permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including, but not limited to, additional interest and penalties and related legal, consulting or other similar fees) incurred in connection with such contest and shall indemnify and hold the Participant harmless, on an after- tax basis, for any Excise Tax or other tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses.

b. The Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Participant to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Participant agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Participant to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Participant on an interest-free basis, and shall indemnify and hold the Participant harmless, on an after-tax basis, from any Excise Tax or other tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and provided, further, that if the Participant is required to extend the statute of limitations to enable the Company to contest such claim, the Participant may limit this extension solely to such contested amount. The Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Participant shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority. In addition, no position may be taken nor any final resolution be agreed to by the Company without the Participant's consent if such position or resolution could reasonably be expected to adversely affect the Participant (including any other tax position of the Participant unrelated to the matters covered hereby).

4. Adjustments.

a. In the event that the Excise Tax is subsequently determined to be less than the amount taken into account hereunder, the Participant shall repay to the Company, at the time that the amount of such reduction in Excise Tax is finally determined, the portion of the Gross-Up Payment attributable to such reduction (plus the portion of the Gross-Up Payment attributable to the Excise Tax and federal, state and local income and employment taxes imposed on the Gross-Up Payment being repaid by the Participant to the extent that such repayment results in a reduction in Excise Tax and/or a federal, state or local income or employment tax deduction) plus interest on the amount of such repayment at the rate provided in Section 1274(b)(2)(B) of the Code.

b. In the event that the Excise Tax is subsequently determined to exceed the amount taken into account hereunder (including by reason of any payment the existence or amount of which cannot be determined at the time of the Gross-Up Payment), the Company shall make an additional Gross-Up Payment in respect of such excess (plus any interest, penalties or additions to tax payable by the Participant with respect to such excess) at the time that the amount of such excess is finally determined.

c. In the event that it is subsequently determined that, notwithstanding the Accountants' good faith determination of the Reduced Amount pursuant to Section 6.1, if applicable, the aggregate "parachute payments" within the meaning of Section 280G paid to the Participant are in an amount that would result in any portion of such parachute payments not being deductible by reason of Section 280G, then the Participant shall pay to the Company an amount equal to the sum of (1) the excess of the aggregate parachute payments paid to the Participant over the aggregate parachute payments that could have been paid to the Participant without any portion of such parachute payments not being deductible by reason of Section 280G; and (2) interest on the amount determined pursuant to clause (1) of this sentence at the rate provided in Section 1274(b)(2)(B) of the Code from the date of the Participant's receipt of such excess until the date of such payment. Notwithstanding the foregoing, if the aggregate reduction in Payments resulting from the initial application of Section 6.1 and the subsequent application of this Section 6.4(c) would exceed the lesser of $100,000 or five percent of the Payments, then this Section 6.4(c) shall not apply, and the Company shall direct the Accountants to compute and shall pay the Gross-Up Payment in accordance with the provisions of Section 6.1.

7. <u>Conflict in Benefits; Noncumulation of Benefits</u>

1. **Effect of Plan.** The terms of this Plan, when accepted by a Participant pursuant to an executed Participation Agreement, shall supersede all prior arrangements, whether written or oral, and understandings regarding the subject matter of this Plan and shall be the exclusive agreement for the determination of any payments and benefits due to the Participant upon the events described in Sections 4, 5 and 6.
2. **Noncumulation of Benefits.** Except as expressly provided in a written agreement between a Participant and the Company entered into after the date of such Participant's Participation Agreement and which expressly disclaims

this Section 7.2 and is approved by the Board or the Committee, the total amount of payments and benefits that may be received by the Participant as a result of the events described in Sections 4, 5 and 6 pursuant to (a) the Plan, (b) any agreement between the Participant and the Company or (c) any other plan, practice or statutory obligation of the Company, shall not exceed the amount of payments and benefits provided by this Plan upon such events (plus any payments and benefits provided pursuant to a Retiree Medical Plan or a Prior Indemnity Agreement), and the aggregate amounts payable under this Plan shall be reduced to the extent of any excess (but not below zero).

8. **Exclusive Remedy**

The payments and benefits provided by Section 5 and Section 6 (plus any payments and benefits provided pursuant to a Retiree Medical Plan or a Prior Indemnity Agreement), if applicable, shall constitute the Participant's sole and exclusive remedy for any alleged injury or other damages arising out of the cessation of the employment relationship between the Participant and the Company in the event of the Participant's Termination Upon a Change in Control. The Participant shall be entitled to no other compensation, benefits, or other payments from the Company as a result of any Termination Upon a Change in Control with respect to which the payments and benefits described in Section 5 and Section 6, if applicable, have been provided to the Participant, except as expressly set forth in this Plan or, subject to the provisions of Sections 7.2, in a duly executed employment agreement between Company and the Participant.

9. **Proprietary and Confidential Information**

The Participant agrees to continue to abide by the terms and conditions of the confidentiality and/or proprietary rights agreement between the Participant and the Company.

10. **Nonsolicitation**

If the Company performs its obligations to deliver the payments and benefits set forth in Section 5 and Section 6, then for a period equal to the Benefit Period applicable to a Participant following the Participant's Termination Upon a Change in Control, the Participant shall not, directly or indirectly, recruit, solicit or invite the solicitation of any employees of the Company to terminate their employment relationship with the Company.

11. **No Contract of Employment**

Neither the establishment of the Plan, nor any amendment thereto, nor the payment of any benefits shall be construed as giving any person the right to be retained by the Company, a Successor or any other member of the Company Group. Except as otherwise established in an employment agreement between the Company and a Participant, the employment relationship between the Participant and the Company is an "at-will" relationship. Accordingly, either the Participant or the Company may terminate the relationship at any time, with or without cause, and with or without notice except as otherwise provided by Section 14. In addition, nothing in this Plan shall in any manner obligate any Successor or other member of the Company Group to offer employment to any Participant or to continue the employment of any Participant which it does hire for any specific duration of time.

12. **Arbitration**
    1. **Disputes Subject to Arbitration.** Any claim, dispute or controversy arising out of this Plan, the interpretation, validity or enforceability of this Plan or the alleged breach thereof shall be submitted by the parties to binding arbitration by the American Arbitration Association; provided, however, that (a) the arbitrator shall have no authority to make any ruling or judgment that would confer any rights with respect to trade secrets, confidential and proprietary information or other intellectual property; and (b) this arbitration provision shall not preclude the parties from seeking legal and equitable relief from any court having jurisdiction with respect to any disputes or claims relating to or arising out of the misuse or misappropriation of intellectual property. Judgment may be entered on the award of the arbitrator in any court having jurisdiction.
    2. **Site of Arbitration.** The site of the arbitration proceeding shall be in Palo Alto, California or any other site mutually agreed to by the Company and the Participant.
    3. **Costs and Expenses Borne by Company.** All costs and expenses of arbitration, including but not limited to reasonable attorneys' fees and other costs reasonably incurred by the Participant in connection with an arbitration in accordance with this Section 12, shall be paid by the Company. Notwithstanding the foregoing, if the Participant initiates the arbitration, and the arbitrator finds that the Participant's claims were totally without merit or frivolous, then the Participant shall be responsible for the Participant's own attorneys' fees and costs.
13. **Successors and Assigns**
    1. **Successors of the Company.** The Company shall require any successor or assign (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, expressly, absolutely and unconditionally to assume and agree to perform this Plan in the same manner and to the same extent that the Company would be required to perform it if no such succession or assignment had taken place. Failure of the Company to obtain such agreement shall be a material breach of this Plan and shall entitle the Participant to resign for Good Reason and to receive the benefits provided under this Plan in the event of Termination Upon a Change in Control.
    2. **Acknowledgment by Company.** If, after a Change in Control, the Company fails to reasonably confirm that it has performed the obligation described in Section 13.1 within thirty (30) days after written notice from the Participant, such failure shall be a material breach of this Plan and shall entitle the Participant to resign for Good

Reason and to receive the benefits provided under this Plan in the event of Termination Upon a Change in Control.

3. **Heirs and Representatives of Participant.** This Plan shall inure to the benefit of and be enforceable by the Participant's personal or legal representatives, executors, administrators, successors, heirs, distributees, devises, legatees or other beneficiaries. If the Participant should die while any amount would still be payable to the Participant hereunder (other than amounts which, by their terms, terminate upon the death of the Participant) if the Participant had continued to live, then (a) all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Plan to the executors, personal representatives or administrators of the Participant's estate and (b) notwithstanding any provision to the contrary contained in any agreement evidencing an Option granted to the Participant, the period of time during which such Option may be exercised in accordance with such agreement or this Plan following the Participant's termination of employment shall be extended by the number of days between the date of the Participant's death and the date on which the executors, personal representatives or administrators of the Participant's estate determine the person who acquired the right to exercise such Option by reason of the Participant's death, but in any event the Option shall cease to be exercisable no later than the date of expiration of the Option's term as set forth in the agreement evidencing such Option.

14. Notices

1. **General.** For purposes of this Plan, notices and all other communications provided for herein shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by United States certified mail, return receipt requested, or by overnight courier, postage prepaid, as follows:
   a. if to the Company:

      Protein Design Labs, Inc.

      34801 Campus Drive

      Fremont, California 94555

      Attention: General Counsel

   b. if to the Participant, at the home address which the Participant most recently communicated to the Company in writing.

   Either party may provide the other with notices of change of address, which shall be effective upon receipt.

2. **Notice of Termination.** Any termination by the Company of the Participant's employment during the Change in Control Period or any resignation by the Participant during the Change in Control Period shall be communicated by a notice of termination or resignation to the other party hereto given in accordance with Section 14.1. Such notice shall indicate the specific termination provision in this Plan relied upon, shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination under the provision so indicated, and shall specify the termination date.

15. Termination and Amendment of Plan

This Plan and/or any Participation Agreement executed by a Participant may not be terminated with respect to such Participant without the written consent of the Participant. This Plan and/or any Participation Agreement executed by a Participant may be modified, amended or superseded with respect to such Participant only by a supplemental written agreement between the Participant and the Company.

16. Miscellaneous Provisions

1. **Unfunded Obligation.** Any amounts payable to Participants pursuant to the Plan are unfunded obligations. The Company shall not be required to segregate any monies from its general funds, or to create any trusts, or establish any special accounts with respect to such obligations. The Company shall retain at all times beneficial ownership of any investments, including trust investments, which the Company may make to fulfill its payment obligations hereunder. Any investments or the creation or maintenance of any trust or any Participant account shall not create or constitute a trust or fiduciary relationship between the Board or the Company and a Participant, or otherwise create any vested or beneficial interest in any Participant or the Participant's creditors in any assets of the Company.
2. **No Duty to Mitigate; Obligations of Company.** A Participant shall not be required to mitigate the amount of any payment or benefit contemplated by this Plan by seeking employment with a new employer or otherwise, nor shall any such payment or benefit (except for benefits to the extent described in Section 5.2) be reduced by any compensation or benefits that the Participant may receive from employment by another employer. Except as otherwise provided by this Plan, the obligations of the Company to make payments to the Participant and to make the arrangements provided for herein are absolute and unconditional and may not be reduced by any circumstances, including without limitation any set-off, counterclaim, recoupment, defense or other right which the Company may have against the Participant or any third party at any time.
3. **No Representations.** By executing a Participation Agreement, the Participant acknowledges that in becoming a Participant in the Plan, the Participant is not relying and has not relied on any promise, representation or statement made by or on behalf of the Company which is not set forth in this Plan.

4. **Waiver.** No waiver by the Participant or the Company of any breach of, or of any lack of compliance with, any condition or provision of this Plan by the other party shall be considered a waiver of any other condition or provision or of the same condition or provision at another time.
5. **Choice of Law.** The validity, interpretation, construction and performance of this Plan shall be governed by the substantive laws of the State of California, without regard to its conflict of law provisions.
6. **Validity.** The invalidity or unenforceability of any provision of this Plan shall not affect the validity or enforceability of any other provision of this Plan, which shall remain in full force and effect.
7. **Benefits Not Assignable.** Except as otherwise provided herein or by law, no right or interest of any Participant under the Plan shall be assignable or transferable, in whole or in part, either directly or by operation of law or otherwise, including, without limitation, by execution, levy, garnishment, attachment, pledge or in any other manner, and no attempted transfer or assignment thereof shall be effective. No right or interest of any Participant under the Plan shall be liable for, or subject to, any obligation or liability of such Participant.
8. **Tax Withholding.** All payments made pursuant to this Plan will be subject to withholding of applicable income and employment taxes.
9. **Consultation with Legal and Financial Advisors.** By executing a Participation Agreement, the Participant acknowledges that this Plan confers significant legal rights, and may also involve the waiver of rights under other agreements; that the Company has encouraged the Participant to consult with the Participant's personal legal and financial advisers; and that the Participant has had adequate time to consult with the Participant's advisers before executing the Participation Agreement.

17. Agreement

By executing a Participation Agreement, the Participant acknowledges that the Participant has received a copy of this Plan and has read, understands and is familiar with the terms and provisions of this Plan. This Plan shall constitute an agreement between the Company and the Participant executing a Participation Agreement.

IN WITNESS WHEREOF, the undersigned Secretary of the Company certifies that the foregoing Plan was duly adopted by the Committee on October 10, 2001.

Douglas O. Ebersole, Secretary

legal/common/generalcorp/execsevplan/ExecRetSevPlan011010final

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EXHIBIT A

FORM OF

AGREEMENT TO PARTICIPATE IN THE

PROTEIN DESIGN LABS, INC.

EXECUTIVE RETENTION AND SEVERANCE PLAN

Agreement to Participate in the

Protein Design Labs, Inc.

Executive Retention and Severance Plan

Adopted October 10, 2001

In consideration of the benefits provided by the Protein Design Labs, Inc. Executive Retention and Severance Plan (the *"**Plan**"*), the undersigned employee of Protein Design Labs, Inc. (the *"**Company**"*) and the Company agree that, as of the date written below, the undersigned shall become a Participant in the Plan and shall be fully bound by and subject to all of its provisions. All references to a "Participant" in the Plan shall be deemed to refer to the undersigned.

The undersigned employee acknowledges that the Plan confers significant legal rights and may also constitute a waiver of rights under other agreements with the Company; that Company has encouraged the undersigned to consult with the undersigned's

personal legal and financial advisers; and that the undersigned has had adequate time to consult with the undersigned's advisers before executing this agreement.

The undersigned employee acknowledges that he or she has received a copy of the Plan and has read, understands and is familiar with the terms and provisions of the Plan. The undersigned employee further acknowledges that (1) by accepting the arbitration provision set forth in Section 12 of the Plan, the undersigned is waiving any right to a jury trial in the event of any dispute covered by such provision and (2) except as otherwise established in an employment agreement between the Company and the undersigned, the employment relationship between the undersigned and the Company is an "at-will" relationship.

Executed on _____.

PARTICIPANT

_____

Signature

_____

Name Printed

_____

Address

_____

PROTEIN DESIGN LABS, INC.

By:_____

Title: _____

EXHIBIT B

FORM OF

GENERAL RELEASE OF CLAIMS

RELEASE OF CLAIMS

This Agreement is by and between [name of employee] ("Employee") and [Protein Design Labs, Inc. or successor that agrees to assume all of the terms and provisions of the Executive Retention and Severance Plan following a Change in Control] (the "Company"). This Agreement is effective on the day it is signed by Employee (the "Effective Date").

RECITALS

A. Employee was employed by the Company as of _____.
B. Employee and the Company entered into an Agreement to Participate in the Protein Design Labs, Inc. Executive Retention and Severance Plan (such agreement and plan being referred to herein as the "ERS Plan") effective as of _____ wherein Employee is entitled to receive certain benefits upon a termination due to a change in control, provided Employee signs a Release.
C. [briefly describe change in control]

D. Employee's employment is being terminated upon a change in control, as defined in the ERS Plan. Employee's last day of work and termination is effective as of _____ (the "Termination Date"). Employee desires to receive the benefits provided in the ERS Plan by executing this Release.

NOW, THEREFORE, the parties agree as follows:

1. Commencing on the Effective Date, the Company shall provide Employee with the applicable payments and benefits set forth in the ERS Plan in accordance with the terms of the ERS Plan.

   Employee acknowledges that the payments and benefits made pursuant to this paragraph are made in full satisfaction of the Company's obligations under the ERS Plan. Employee further acknowledges that s/he has been paid all wages and accrued, unused vacation that Employee earned during his/her employment with the Company.

2. Employee and his/her successors release the Company, its respective subsidiaries, stockholders, investors, directors, officers, employees, agents, attorneys, insurers, legal successors and assigns of and from any and all claims, actions and causes of action, whether now known or unknown, which Employee now has, or at any other time had, or shall or may have against those released parties based upon or arising out of any matter, cause, fact, thing, act or omission whatsoever directly related to Employee's employment by the Company or the termination of such employment and occurring or existing at any time up to and including the Termination Date, including, but not limited to, any claims of breach of written contract, wrongful termination, retaliation, fraud, defamation, infliction of emotional distress, or national origin, race, age, sex, sexual orientation, disability or other discrimination or harassment under the Civil Rights Act of 1964, the Age Discrimination In Employment Act of 1967, the Americans with Disabilities Act, the Fair Employment and Housing Act or any other applicable law. Notwithstanding the foregoing, this release shall not apply to any right of the Employee pursuant to Sections 5.4 or 6.4(b) of the ERS Plan or pursuant to a Retiree Medical Plan or Prior Indemnity Agreement (as such terms are defined by the ERS Plan).
3. Employee acknowledges that s/he has read Section 1542 of the Civil Code of the State of California, which states in full:

   A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor.

   Employee waives any rights that s/he has or may have under Section 1542 and comparable or similar provisions of the laws of other states in the United States to the full extent that s/he may lawfully waive such rights pertaining to this general release of claims, and affirms that s/he is releasing all known and unknown claims that s/he has or may have against the parties listed above.

4. Employee and the Company acknowledge and agree that they shall continue to be bound by and comply with the terms and his obligations under the following agreements: (i) any proprietary rights or confidentiality agreements between the Company and Employee, (ii) the ERS Plan, (iii) any Retiree Medical Plan or Prior Indemnity Agreement (as such terms are defined by the ERS Plan) under which Employee is a beneficiary or to which Employee is a Party, and (iv) any stock option or stock purchase agreements between the Company and Employee.
5. This Agreement shall be binding upon, and shall inure to the benefit of, the parties and their respective successors, assigns, heirs and personal representatives.
6. The parties agree that any and all disputes that both 1) arise out of the ERS Plan, the interpretation, validity or enforceability of the ERS Plan or the alleged breach thereof and 2) relate to the enforceability of this Agreement or the interpretation of the terms of this Agreement shall be subject to binding arbitration pursuant to Section 12 of the ERS Plan.
7. The parties agree that any and all disputes that 1) do not arise out of the ERS Plan, the interpretation, validity or enforceability of the ERS Plan or the alleged breach thereof and 2) relate to the enforceability of this Agreement, the interpretation of the terms of this Agreement or any of the matters herein released or herein described shall be subject to binding arbitration, to the extent permitted by law, in Palo Alto, California or any other cite mutually agreed to by the Company and Employee, before the American Arbitration Association, as provided in this paragraph. The parties agree to and hereby waive their rights to jury trial as to such matters to the extent permitted by law; provided however, that (a) the arbitrator shall have no authority to make any ruling or judgment that would confer any rights with respect to trade secrets, confidential and proprietary information or other intellectual property; and (b) this arbitration provision shall not preclude the parties from seeking legal and equitable relief from any court having jurisdiction with respect to any disputes or claims relating to or arising out of the misuse or misappropriation of intellectual property. The Company shall bear the costs of the arbitrator, forum and filing fees and each party shall bear its own respective attorney fees and all other costs, unless otherwise provided by law and awarded by the arbitrator.
8. This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior negotiations and agreements, whether written or oral, with the exception of any agreements described in paragraph 4 of this Agreement. This Agreement may not be modified or amended except by a document signed by an authorized officer of the Company and Employee. If any provision of this Agreement is deemed invalid, illegal or unenforceable, such provision shall be modified so as to make it valid, legal and enforceable, and the validity, legality and enforceability of the remaining provisions of this Agreement shall not in any way be affected.

EMPLOYEE UNDERSTANDS THAT S/HE SHOULD CONSULT WITH AN ATTORNEY PRIOR TO SIGNING THIS AGREEMENT AND THAT S/HE IS GIVING UP ANY LEGAL CLAIMS S/HE HAS AGAINST THE PARTIES RELEASED ABOVE BY SIGNING THIS AGREEMENT. EMPLOYEE ACKNOWLEDGES THAT S/HE IS SIGNING THIS AGREEMENT

KNOWINGLY, WILLINGLY AND VOLUNTARILY IN EXCHANGE FOR THE COMPENSATION AND BENEFITS DESCRIBED IN PARAGRAPH 1.

Dated:_____ _____

[Employee Name]

[Company]

By:_____

Dated:_____

EXHIBIT 23.1

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements Form S-3 No. 333-36708 pertaining to the issuance of 5.50% Convertible Subordinated Notes and related shares of common stock issuable upon conversion of the notes, and Form S-8 Nos. 333-44762, 333-87957, 33-65224, 33-50116, 33-50114, 33-96318 and 333-68314 pertaining to the 1993 Employee Stock Purchase Plan, Outside Directors Stock Option Plan, 1991 Stock Option Plan, 1999 Nonstatutory Stock Option Plan and 1999 Stock Option Plan of Protein Design Labs, Inc. of our report dated February 1, 2002, with respect to the consolidated financial statements of Protein Design Labs, Inc. included in this Annual Report (Form 10-K) for the year ended December 31, 2001.

/s/ ERNST & YOUNG LLP

Palo Alto, California
March 13, 2002