SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended June 30, 2002

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)

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 reports), and (2) has been subject to such filing requirements for the past 90 days. YES [X] NO [ ]

As of July 31, 2002, there were 89,015,493 shares of the Registrant's Common Stock outstanding.

PROTEIN DESIGN LABS, INC.
QUARTERLY REPORT ON FORM 10-Q FOR THE PERIOD ENDED JUNE 30, 2002
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PROTEIN DESIGN LABS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except net income per share data)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Revenues:				
Royalties	$ 13,491	$ 10,462	$ 27,167	$ 20,067
License and other	1,300	2,221	1,951	9,347
Total revenues	14,791	12,683	29,118	29,414

Costs and expenses:				
Research and development	14,774	12,207	27,961	25,879
General and administrative	4,789	4,052	8,946	7,672
Total costs and expenses	19,563	16,259	36,907	33,551
Operating loss	(4,772)	(3,576)	(7,789)	(4,137)
Interest income	6,455	8,966	13,593	18,405
Interest expense	(2,242)	(2,250)	(4,482)	(4,497)
Net income (loss)	$ (559)	$ 3,140	$ 1,322	$ 9,771
Net income per share:				
Basic	$ (0.01)	$ 0.04	$ 0.01	$ 0.11
Diluted	$ (0.01)	$ 0.03	$ 0.01	$ 0.11
Weighted average number of shares:				
Basic	88,751	87,444	88,698	87,338
Diluted	88,751	93,184	91,382	92,848

See accompanying notes

PROTEIN DESIGN LABS, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

	June 30, 2002	**December 31, 2001**
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 212,786	$ 120,268
Marketable securities	425,599	530,047
Other current assets	4,196	4,144
Total current assets	642,581	654,459
Property, plant and equipment, net	54,136	42,111
Convertible note receivable	30,000	30,000
Other assets	4,554	3,328
Total assets	$ 731,271	$ 729,898
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 882	$ 1,249
Accrued compensation	1,727	2,000
Accrued clinical trials	2,968	2,588
Accrued interest	3,071	3,071
Other accrued liabilities	2,670	3,123
Deferred revenue	--	100
Current portion of long-term debt	449	432
Total current liabilities	11,767	12,563
Convertible subordinated notes	150,000	150,000
Other long-term debt	8,663	8,892
Total liabilities	170,430	171,455
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; 88,859 and 88,499 shares issued and outstanding at June 30, 2002 and December 31, 2001, respectively	889	885
Additional paid-in capital	626,413	624,094
Accumulated deficit	(74,601)	(75,923)
Accumulated other comprehensive income	8,140	9,387
Total stockholders' equity	560,841	558,443
Total liabilities and stockholders' equity	$ 731,271	$ 729,898

See accompanying notes

PROTEIN DESIGN LABS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(In thousands)

	Six Months Ended June 30,	
	2002	**2001**
Cash flows from operating activities:		
Net income	$ 1,322	$ 9,771
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,539	2,277
Amortization of convertible notes offering costs	360	361
Changes in assets and liabilities:		
Interest receivable	2,873	(5,016)
Other current assets	(100)	(2,542)
Other assets	(296)	(14)
Accounts payable	(367)	121
Accrued liabilities	(346)	(339)
Deferred revenue	(100)	(1,355)
Total adjustments	4,563	(6,507)
Net cash provided by operating activities	5,885	3,264
Cash flows from investing activities:		
Purchase of convertible note	--	(30,000)
Purchases of marketable securities	(79,954)	(377,011)
Maturities of marketable securities	180,000	117,885
Purchase of property, plant and equipment	(15,524)	(2,796)
Net cash used in investing activities	84,522	(291,922)
Cash flows from financing activities:		
Proceeds from issuance of capital stock, net of issuance costs	2,323	5,376
Payments on other long-term debt	(212)	(197)
Net cash provided by financing activities	2,111	5,179
Net increase (decrease) in cash and cash equivalents	92,518	(283,479)
Cash and cash equivalents at beginning of period	120,268	421,541
Cash and cash equivalents at end of period	$ 212,786	$ 138,062
Non-cash activities:		
Exchange of assets for third party preferred stock	$ 1,290	$ --

PROTEIN DESIGN LABS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2002
(unaudited)

1. Summary of Significant Accounting Policies

Organization and Business

Protein Design Labs, Inc. (PDL) is a biotechnology company engaged in the development of humanized antibodies to prevent or treat various disease conditions. We currently have antibodies under development for autoimmune and inflammatory conditions, asthma and cancer. We hold fundamental patents for our antibody humanization technology.

Basis of Presentation and Responsibility for Quarterly Financial Statements

The Consolidated Balance Sheet as of June 30, 2002, the Consolidated Statements of Operations for the three and six months ended June 30, 2002 and 2001 and the Consolidated Statements of Cash Flows for the six months ended June 30, 2002 and 2001 are unaudited, but include all adjustments (consisting only of normal recurring adjustments) which we consider necessary for a fair presentation of our financial position at such dates and the operating results and cash flows for those periods. Although we believe that the disclosures in our financial statements are adequate to make the information presented not misleading, certain information and footnote information normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The accompanying financial statements should be read in conjunction with our Annual Report on Form 10-K/A filed with the Securities and Exchange Commission, for the year ended December 31, 2001. The Consolidated Balance Sheet as of December 31, 2001 is derived from our audited financial statements. Results for any interim period are not necessarily indicative of results for any other interim period or for the entire year.

Reclassifications

Certain reclassifications of prior period amounts have been made to conform to the current presentation, including royalty revenue, license and other revenue and interest income.

Cash Equivalents, Marketable Securities and Concentration of Credit Risk

We consider all highly liquid investments with a maturity of three months or less at the date of purchase to be cash equivalents. Marketable securities in the Consolidated Balance Sheets includes the interest receivable associated with all marketable 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

We currently recognize three types of revenues resulting from the licensing and use of our technology, and from services we sometimes perform in connection with the licensed technology. These revenues are typically derived from our proprietary patent portfolio covering the humanization of antibodies for use in drug development and production. Revenues, and their respective treatment for financial reporting purposes, are as follows:

Upfront and License Maintenance Fees

We generally recognize revenue from upfront fees when the agreement is signed, we have completed the earnings process and we have no ongoing performance obligation with respect to the arrangement. Revenues recognized from upfront fees typically relate to patent license and patent rights agreements.

- Under patent license agreements, the licensee typically obtains a non-exclusive license to our patents. In this arrangement, the licensee is responsible for all of the development work on its product. The licensee has the technical ability to perform the humanization of the antibody it is developing using our patented technology, but needs to obtain a license from us to avoid infringing our patents. We have no future performance obligations under these agreements.

- Under patent rights agreements, licensees currently purchase a research patent license, in exchange for an upfront fee, and a right to obtain, in exchange for consideration separate from the upfront fee, patent licenses for commercial purposes for a specified number of drug targets to be designated by the licensee subsequent to execution of the agreement. All of the research is performed by the licensee, and therefore, upon delivery of the patent rights agreements, the earnings process is complete and we have no further performance obligations with respect to the research patent license and the grant of the right to obtain commercial patent licenses. Subsequent to execution of the agreement, the licensee has the right to purchase patent licenses to certain designated targets, for which the licensee pays separate consideration at a later date. Such consideration is recognized upon exercise of such right, execution and delivery of the associated patent license agreement and when payment is reasonably assured.

- Under our humanization agreements, at times referred to in our previous filings as research and development agreements, the licensee typically pays an upfront fee for us to humanize an antibody. These upfront fees are recognized on a percent completion basis, as the humanization work is performed, which is typically over three to six months.

- Under patent license agreements and humanization agreements, we may also receive annual license maintenance fees, payable at the election of the licensee to maintain the license in effect. We have no performance obligations with respect to such fees. Maintenance fees are recognized as they are due and when payment is reasonably assured.

Milestone Payments

Certain agreements include milestone payments which are recognized as revenue when earned as part of a multi-element arrangement. Each element of the contract represents a separate earnings process and as such we recognize milestone amounts when the associated earnings process is complete and, to the extent the milestone amount relates to our performance obligation, when our customer confirms that we have met the requirements under the terms of the agreement. Generally, there are three types of agreements under which a customer would owe us a milestone payment:

- Humanization agreements provide for the payment of certain milestones to us after the completion of services to perform the humanization process. These milestones include delivery of a humanized antibody meeting a certain binding affinity and, at the customer's election, delivery of a cell line meeting certain criteria described in the original agreement. We recognize these milestones when we have no further performance obligations with respect to that milestone and the funding party confirms that the milestone stipulated in the agreement has been met.

- Patent license agreements and humanization agreements sometimes require our customers to make milestone payments to us when they achieve certain progress, such as FDA approval, with respect to the customer's product. Because we have no obligations with respect to any of this activity, we record these milestone payments as revenue when received and we have confirmed that the milestone has been achieved.

- We may also receive certain milestone payments in connection with licensing technology to or from our partners, such as product licenses. Under these agreements, our partners may make milestone payments to us when we or they achieve certain levels of development with respect to the licensed technology. These fees are recognized when we have no further performance obligations with respect to the applicable milestone and it is confirmed that the milestone stipulated in the agreement has been met.

Royalties

Under some of our agreements, we also receive royalty payments based upon our licensees' net sales of products. Generally, we receive royalty reports from such licensees' approximately one quarter in arrears; that is, generally at the end of the second month of the quarter after the licensee has sold the royalty-bearing product. We recognize royalty revenues when we can reliably estimate such amounts and collectibility is reasonably assured. Accordingly, we have adopted an accounting policy of recording the royalty revenue in the quarter it is reported to us (i.e. a one quarter lag).

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 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 effect of outstanding stock options, if dilutive, but does not include the effect of outstanding convertible notes because the assumed conversion of these notes would be anti-dilutive for the periods presented.

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 per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Numerator:				
Net income (loss)	$ (559)	$ 3,140	$ 1,322	$ 9,771

Denominator:				
Basic net income (loss) per share - weighted-average shares	88,751	87,444	88,698	87,338
Dilutive potential common shares:				
Stock options	--	5,740	2,684	5,510
Denominator for diluted net income (loss) per share	88,751	93,184	91,382	92,848
Basic net income (loss) per share	$ (0.01)	$ 0.04	$ 0.01	$ 0.11
Diluted net income (loss) per share	$ (0.01)	$ 0.03	$ 0.01	$ 0.11

For the three months ended June 30, 2002, 2,152,000 shares related to outstanding stock options were excluded from the diluted net loss per share computation because the inclusion of theses shares would be anti-dilutive due to the net loss in the period.

Comprehensive Income

For the three months ended June 30, 2002, total comprehensive income was $1.8 million as compared to total comprehensive income of $3.1 million for the three months ended June 30, 2001. For the six months ended June 30, 2002, total comprehensive income was $0.1 million as compared to total comprehensive income of $13.9 million for the six months ended June 30, 2001. Total comprehensive income is comprised of net income (loss) and unrealized gains and losses on our available-for-sale securities.

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the use of management's estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. For example, our cost accruals for clinical trials are based on estimates of the services received and efforts expended pursuant to contracts with numerous clinical trial centers and clinical research organizations. In the normal course of business we contract with third parties to perform various clinical trial activities in the on going development of potential drugs. The financial terms of these agreements are subject to negotiation and vary from contract to contract and may result in uneven payment flows. Payments under the contracts depend on factors such as the achievement of certain events or the successful accrual of patients or the completion of portions of the clinical trial or similar conditions. The objective of our accrual policy is to match the recording of expenses in our financial statements to the actual services received and efforts expended. As such, expenses related to each patient enrolled in a clinical trial 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, we accrue an amount based on our estimate of the remaining non-cancelable obligations associated with the winding down of the clinical trial. In addition, funded research and development to third parties is expensed on a straight-line basis over the period of performance. Our estimates and assumptions could differ significantly from the amounts which may actually be incurred.

Sale of Small Molecule Group

In January 2002, we sold the assets of our small molecule group to Signature BioScience, Inc. (Signature), a privately-held detection- based drug discovery company, in exchange for 523,952 shares of Signature convertible preferred stock. The small molecule group primarily had been responsible for our chemistry, high-throughput screening and small-molecule drug discovery research efforts. The stock received was recorded at the net book value of the assets sold plus transaction costs incurred, which approximated $1.3 million. Accordingly, there was no gain or loss recorded on this transaction.

In conjunction with this sale, 12 of our former employees became employed by Signature. We may be obligated to pay up to a maximum of $320,000 in cash retention bonuses to designated key employees still employed by Signature after one year. We believe that if such amounts are paid, they will be recorded as an increase in the carrying value of the preferred stock.

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 adoption of FAS 142 did not have a material effect on our 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, 2003.

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 adoption of FAS 144 did not have a material effect on our financial condition or results of operations.

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 accompanying financial statements reflect the effect of this stock split.

2. 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. The cost of securities sold is based on the specific identification method, when applicable.

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

	Available-for-Sale-Securities			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
June 30, 2002				
Securities of the U.S. Government and its agencies maturing:				
Less than 1 year	$ 50,889	$ 881	$ --	$ 51,770
between 1-3 years	220,689	2,810	--	223,499
U.S. corporate debt securities maturing:				
Less than 1 year	58,535	1,581	--	60,116
between 1-3 years	87,346	2,868	--	90,214
Total marketable debt securities	$ 417,459	$ 8,140	$ --	$ 425,599

During the six months ended June 30, 2002 and 2001, there were no realized gains or losses on the sale of available-for-sale securities, as all securities liquidated prior to that date were held to maturity.

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

This report 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 licensing or collaborative arrangements, 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 report. All forward-looking statements and reasons why results may differ included in this 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.

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 June 30, 2002, we had an accumulated deficit of approximately $74.6 million. Our expenses may increase because of the extensive resource commitments required to achieve regulatory approval and commercial success for any individual product. Over the next several years, we expect to 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 rights 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.

License and other revenue may also be unpredictable and may fluctuate due to the timing of payments of upfront 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 clinical trial expenses as well as 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 recognized by us in our first and second quarters than in other quarters. The seasonality of Synagis sales could contribute to fluctuation of our royalty revenues from quarter to quarter.

In January 2002, we sold the assets of our small molecule group to Signature BioScience, Inc. (Signature), a privately-held detection- based drug discovery company, in exchange for 523,952 shares of Signature convertible preferred stock. The small molecule group primarily has been responsible for our chemistry, high-throughput screening and small-molecule drug discovery research efforts. The stock received was recorded at the net book value of the assets sold plus transaction costs incurred, which approximated $1.3 million. Accordingly, there was no gain or loss recorded on this transaction.

In conjunction with this sale, 12 of our former employees became employed by Signature. We may be obligated to pay up to a maximum of $320,000 in cash retention bonuses to designated key employees still employed by Signature after one year. We believe that if such amounts are paid, they will be recorded as an increase in the carrying value of the preferred stock.

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:

We currently recognize three types of revenues resulting from the licensing and use of our technology, and from services we sometimes perform in connection with the licensed technology. These revenues are typically derived from our proprietary patent

portfolio covering the humanization of antibodies for use in drug development and production. Revenues, and their respective treatment for financial reporting purposes, are as follows:

Upfront and License Maintenance Fees

We generally recognize revenue from upfront fees when the agreement is signed, we have completed the earnings process and we have no ongoing performance obligation with respect to the arrangement. Revenues recognized from upfront fees typically relate to patent license and patent rights agreements.

- Under patent license agreements, the licensee typically obtains a non-exclusive license to our patents. In this arrangement, the licensee is responsible for all of the development work on its product. The licensee has the technical ability to perform the humanization of the antibody it is developing using our patented technology, but needs to obtain a license from us to avoid infringing our patents. We have no future performance obligations under these agreements.

- Under patent rights agreements, licensees currently purchase a research patent license, in exchange for an upfront fee, and a right to obtain, in exchange for consideration separate from the upfront fee, patent licenses for commercial purposes for a specified number of drug targets to be designated by the licensee subsequent to execution of the agreement. All of the research is performed by the licensee, and therefore, upon delivery of the patent rights agreements, the earnings process is complete and we have no further performance obligations with respect to the research patent license and the grant of the right to obtain commercial patent licenses. Subsequent to execution of the agreement, the licensee has the right to purchase patent licenses to certain designated targets, for which the licensee pays separate consideration at a later date. Such consideration is recognized upon exercise of such right, execution and delivery of the associated patent license agreement and when payment is reasonably assured.

- Under our humanization agreements, at times referred to in our previous filings as research and development agreements, the licensee typically pays an upfront fee for us to "humanize" an antibody. These upfront fees are recognized on a percent completion basis, as the humanization work is performed, which is typically over three to six months.

- Under patent license agreements and humanization agreements, we may also receive annual license maintenance fees, payable at the election of the licensee to maintain the license in effect. We have no performance obligations with respect to such fees. Maintenance fees are recognized as they are due and when payment is reasonably assured.

Milestone Payments

Certain agreements include milestone payments which are recognized as revenue when earned as part of a multi-element arrangement. Each element of the contract represents a separate earnings process and as such we recognize milestone amounts when the associated earnings process is complete and, to the extent the milestone amount relates to our performance obligation, when our customer confirms that we have met the requirements under the terms of the agreement. Generally, there are three types of agreements under which a customer would owe us a milestone payment:

- Humanization agreements provide for the payment of certain milestones to us after the completion of services to perform the humanization process. These milestones include delivery of a humanized antibody meeting a certain binding affinity and, at the customer's election, delivery of a cell line meeting certain criteria described in the original agreement. We recognize these milestones when we have no further performance obligations with respect to that milestone and the funding party confirms that the milestone stipulated in the agreement has been met.

- Patent license agreements and humanization agreements sometimes require our customers to make milestone payments to us when they achieve certain progress, such as FDA approval, with respect to the customer's product. Because we have no obligations with respect to any of this activity, we record these milestone payments as revenue when received and we have confirmed that the milestone has been achieved.

- We may also receive certain milestone payments in connection with licensing technology to or from our partners, such as product licenses. Under these agreements, our partners may make milestone payments to us when we or they achieve certain levels of development with respect to the licensed technology. These fees are recognized when we have no further performance obligations with respect to the applicable milestone and it is confirmed that the milestone stipulated in the agreement has been met.

Royalties

Under some of our agreements, we also receive royalty payments based upon our licensees' net sales of products. Generally, we receive royalty reports from such licensees' approximately one quarter in arrears; that is, generally at the end of the second month of the quarter after the licensee has sold the royalty-bearing product. We recognize royalty revenues when we can reliably estimate such amounts and collectibility is reasonably assured. Accordingly, we have adopted an accounting policy of recording the royalty revenue in the quarter it is reported to us (i.e. a one quarter lag).

Clinical Trial Expenses

Our cost accruals for clinical trials are based on estimates of the services received and efforts expended pursuant to contracts with numerous clinical trial centers and clinical research organizations. In the normal course of business we contract with third parties to

perform various clinical trial activities in the on-going development of potential drugs. The financial terms of these agreements are subject to negotiation and variation from contract to contract and may result in uneven payment flows. Payments under the contracts depend on factors such as the achievement of certain events or the successful accrual of patients or the completion of portions of the clinical trial or similar conditions. The objective of our accrual policy is to match the recording of expenses in our financial statements to the actual services received and efforts expended. As such, expenses related to each patient enrolled in a clinical trial 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, we accrue an amount based on our estimate of the remaining non-cancellable obligations associated with the winding down of the clinical trial.

RESULTS OF OPERATIONS

Three Months Ended June 30, 2002 and 2001

Revenues

The Company's total revenues for the three months ended June 30, 2002 were $14.8 million compared to $12.7 million in the second quarter of 2001. Royalty revenues recognized under agreements with Roche, Genentech, MedImmune and Wyeth were $13.5 million in the second quarter of 2002 compared to $10.5 million in the comparable period in 2001. This $3.0 million increase in royalty revenue was primarily the result of increased net sales of the products Synagis and Herceptin reported by two licensees. Royalty payments from two companies accounted for 62% and 25% of our revenues for the three months ended June 30, 2002 compared to 54% and 25% in the comparable period in 2001. License and other revenue was $1.3 million in the second quarter of 2002 compared to $2.2 million in the comparable period in 2001. License and other revenue recognized primarily consists of upfront patent licensing and patent rights fees, amortization of upfront fees associated with humanization agreements and license maintenance fees. The $0.9 million decrease in license and other revenue was primarily due to the recognition of less revenue in connection with humanization services and the recognition of fewer license maintenance fees in the second quarter of 2002 than in the second quarter of 2001.

Research and Development Expenses

Research and development expenses for the three months ended June 30, 2002 increased to $14.8 million compared with $12.2 million in the year-earlier quarter. Research and development costs include costs of personnel to support our research and development activities, costs of preclinical studies, costs of conducting our clinical trials, such as clinical investigator fees, monitoring costs, data management and drug supply costs, research and development funding provided to third parties and an allocation of facility costs. Research and development costs increased $2.6 million for the three month period ended June 30, 2002 as compared to the 2001 period primarily due to higher clinical development expenses for our major research and development projects which increased by $1.4 million, research and development funding provided to a third party and an increase in research and development personnel headcount and associated costs. We expect our research and development expenses will increase further as we advance our product candidates into later stages of development and add new product candidates.

General and Administrative Expenses

General and administrative expenses for the three months ended June 30, 2002 increased to $4.8 million from $4.1 million in the comparable period in 2001. General and administrative costs include costs of personnel, professional services, consulting and other expenses related to our administrative functions and an allocation of facility costs. General and administrative expenses increased $0.7 million for the three months ended June 30, 2002 as compared to the 2001 period primarily due to increased personnel and recruiting costs and legal costs related to our intellectual property, licensing and other contractual matters. We expect that general and administrative expenses will continue to increase as we continue to build our organization.

Interest Income and Expense

Interest income for the three months ended June 30, 2002 decreased to $6.5 million compared to $9.0 million in the 2001 period reflecting the decreased interest earned on our cash, cash equivalents and marketable securities balances primarily as a result of lower interest rates.

Interest expense for the three months ended June 30, 2002 and 2001 was essentially unchanged at $2.2 million.

Six Months Ended June 30, 2002 and 2001

Revenues

The Company's total revenues for the six months ended June 30, 2002 were $29.1 million compared to $29.4 million in the 2001 period. Royalty revenues recognized under agreements with Roche, Genentech, Medimmune and Wyeth were $27.2 million in the first six months of 2002 compared to $20.1 million in the comparable period in 2001. This $7.1 million increase in royalty revenue was primarily the result of increased net sales of the products Synagis and Herceptin reported by two licensees. Royalty payments from two companies accounted for 58% and 27% of our revenues for the six months ended June 30, 2002 compared to 45% and 18% in the 2001 period. License and other revenue was $2.0 million for the six months ended June 30, 2002 compared to $9.3 million in the comparable period in 2001. License and other revenue recognized primarily consists of upfront patent licensing and patent rights fees, milestones, amortization of upfront fees associated with humanization agreements and license maintenance fees.

The $7.3 million decrease in license and other revenue was primarily due to the recognition of less revenue under patent licensing, patent rights and humanization agreements in the first six months of 2002 as compared to the first six months of 2001.

Research and Development Expenses

Research and development expenses for the six months ended June 30, 2002 increased to $28.0 million compared with $25.9 million in the year-earlier period. Research and development costs include costs of personnel to support our research and development activities, costs of preclinical studies, costs of conducting our clinical trials, such as clinical investigator fees, monitoring costs, data management and drug supply costs, research and development funding provided to third parties and an allocation of facility costs. Research and development costs increased $2.1 million for the six month period ended June 30, 2002 as compared to the 2001 period primarily due to higher research and development funding provided to a third party which increased by $1.7 million and an increase in research and development personnel headcount and associated costs. We expect our research and development expenses will increase further as we advance our product candidates' progress into later stages of development and add new product candidates.

Below is a summary of products and the related stages of development for each product in clinical development, including the research and development expenses recognized in connection with each product. The information in the column labeled "Estimated Completion of Phase" is only our estimate of the timing of completion of product development phases. The actual timing of completion of those phases could differ materially from the estimates provided in the table. For a discussion of the risks and uncertainties associated with the timing of completing a product development phase, see the "Clinical development is inherently uncertain and expense levels may fluctuate unexpectedly because we can not accurately predict the timing and level of such expenses," "If we cannot successfully complete our clinical trials, we will be unable to obtain regulatory approvals required to market our products," "Our clinical trial strategy may increase the risk of clinical trial difficulties," "If our collaborations are not successful, we may not be able to effectively develop and market some of our products," "If we do not attract and retain key employees, our business could be impaired," and "We may be unable to obtain or maintain regulatory approval for our products" sections of our Risk Factors below. For further information on our products refer to our Annual Report on Form 10-K/A filed with the Securities and Exchange Commission, for the year ended December 31, 2001.

(In thousands)				**Estimated**	**Six Months ended**	
		Phase of		**Completion**	**June 30,**	
Product	**Description / Indication**	**Development**	**Collaborator**	**of Phase**	**2002**	**2001**
Humanized Anti-IL-4	.....	.....	GlaxoSmithKline		$ 1,480	$ 1,672
	Asthma	Phase IIa		2003		
SMART Anti-IL-12	.....	.....	-		1,537	1,160
	Auto Immune Diseases	Phase I		2002		
SMART Anti-Gamma Interferon	.....	.....	-		5,305	3,134
	Crohn's Disease	Phase II		2003		
	Psoriasis	Phase I/II		2002		
Nuvion	.....	.....	-		1,307	3,461
	Steroid Refractory Graft Vs. Host Disease	Phase II		2004		
	Primary Graft Vs. Host Disease	Phase I/II		2004		
	Ulcerative Colitis	Phase I		2003		
Remitogen	.....	.....	-		1,551	1,572
	Non-Hodgkin's B-Cell Lymphoma	Phase II		2003		
	Solid Tumors	Phase I		2003		
Zamyl	.....	.....	-		3,409	3,173
	Acute Myloid Leukemia	Phase III		Completed		
Daclizumab	.....	.....	Roche		4,022	4,765
	Asthma	Phase II		2003		
Other (1)	.....	.....	-		9,350	6,942
	Total Research and development costs				**$ 27,961**	**$ 25,879**

(1) No single potential product included in "other" constitutes more than 5% of the total research and development costs.

We cannot reliably estimate the overall completion dates or total costs to complete our major research and development programs. The clinical development portion of these programs spans as many as seven to ten years and any estimation of completion dates or costs to complete would be highly speculative and subjective due to the numerous risks and uncertainties associated with developing biopharmaceutical products, including intense and changing government regulation, the uncertainty of future preclinical and clinical study results and success and uncertainties associated with process development and manufacturing. These risks and uncertainties make reliably estimating overall completion dates and total costs to complete development highly speculative. For additional discussion of factors affecting overall completion dates and total costs, see the "Clinical development is inherently

uncertain and expense levels may fluctuate unexpectedly because we can not accurately predict the timing and level of such expenses" section of our Risk Factors below.

General and Administrative Expenses

General and administrative expenses for the six months ended June 30, 2002 increased to $8.9 million from $7.7 million in the comparable period in 2001. General and administrative costs include costs of personnel, professional services, consulting and other expenses related to our administrative functions and an allocation of facility costs. General and administrative expenses increased $1.2 million for the six months ended June 30, 2002 as compared to the 2001 period primarily due to increased personnel costs and legal costs related to our intellectual property, licensing and other contractual matters. We expect that general and administrative expenses will continue to increase as we continue to build our organization.

Interest Income and Expense

Interest income for the six months ended June 30, 2002 decreased to $13.6 as compared to $18.4 million in the 2001 period reflecting the decreased interest earned on our cash, cash equivalents and marketable securities balances primarily as a result of lower interest rates.

Interest expense for the six months ended June 30, 2002 and 2001 was essentially unchanged at $4.5 million.

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 June 30, 2002, we had cash, cash equivalents and marketable securities in the aggregate of $638.4 million, compared to $650.3 million at December 31, 2001.

Net cash provided by our operating activities for the six months ended June 30, 2002 was approximately $5.9 million compared with $3.3 million in the 2001 period. The change was primarily due to a decrease in interest receivable during the six months ended June 30, 2002 versus an increase in interest receivable for the 2001 period and a smaller increase in other current assets for the six months ended June 30, 2002 compared to the prior year period, partially offset by a decrease in net income.

Net cash provided by our investing activities for the six months ended June 30, 2002 was $84.5 million compared to net cash used in our investing activities of $291.9 million in 2001. The change in 2002 was primarily the result of maturities of marketable securities during the period as compared to our reinvestment activities associated with the purchases of short- and long- term investments in 2001.

Net cash provided by our financing activities for the six months ended June 30, 2002 was $2.1 million compared to $5.2 million in the 2001 period. The change in 2002 from 2001 was primarily the result of a decrease in the exercise of outstanding stock options.

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 by third party licensees, including Synagis, Herceptin, Zenapax and Mylotarg; our ability to enter into additional collaborative, humanization, patent license and patent rights agreements; 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 manufacturing facilities; 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, Plymouth, Minnesota and Paris, France, we occupy leased facilities under agreements that expire in 2004, 2005, 2009 and 2003, respectively. 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 at our option after the first year of the collaboration into Exelixis common stock. Exelixis will perform certain genetic screens and other research activities intended to identify and validate targets for antibody therapeutics in oncology. 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 certain 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 June 30, 2002 are as follows:

	PAYMENTS DUE BY PERIOD				
(In thousands) CONTRACTUAL OBLIGATIONS (1)	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years	Total
Operating leases	$ 1,240	$ 2,189	$ 1,629	$ 1,269	$ 6,327
Long-term debt	1,139	2,278	2,278	8,353	14,048
Convertible debentures (2)	8,250	16,500	166,375	--	191,125
Research funding	3,000	--	--	--	3,000
Capital improvements	4,600	--	--	--	4,600
Total contractual cash obligations	$ 18,229	$ 20,967	$ 170,282	$ 9,622	$ 219,100

(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, (c) amounts that may be committed to construct our new manufacturing plant and (d) 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.

We are currently improving our existing manufacturing plant in Plymouth, Minnesota in order to manufacture initial commercial supplies of certain products. We currently estimate this capital project will cost approximately $10 million. In March 2002, we purchased approximately 29 acres in Brooklyn Park, Minnesota and intend to build a new commercial manufacturing plant on this property. When we implement these plans we will incur substantial costs. We expect to expend approximately $200 million over the next three years.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT

MARKET RISK

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. We do not use derivative financial instruments for speculative or trading purposes. We hold a $30.0 million five-year convertible note receivable we purchased from Exelixis, Inc. in May 2001. Accounting rules require the conversion feature of some convertible notes to be separated from the debt agreement in which the conversion feature is contained and accounted for as a derivative instrument, and therefore reflected in the note purchaser's financial statements based upon the fair market value of the stock into which the note is convertible. Due in part to the number of shares into which this note receivable would currently convert and the average daily trading volume of Exelixis stock, the Exelixis note is not currently considered a derivative instrument and, therefore, changes in the market value of Exelixis stock are not required to be recorded in our financial statements. However, a significant increase in the average daily trading volume of Exelixis stock, or new accounting pronouncements or regulatory rulings could require us to report the value of the Exelixis stock in our financial statements. Such a requirement could cause changes in the Exelixis stock price to contribute to fluctuation of our operating results from quarter to quarter. 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. As of June 30, 2002, there has been no material change in our interest rate exposure from that described in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2001.

PART II. OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company's 2002 Annual Meeting of Stockholders was held on June 20, 2002 at the Company's principal offices in Fremont, California. Of the 88,757,688 shares of common stock outstanding as of the record date, 71,925,102 shares were present at the meeting or represented by proxy, representing approximately 81% of the total votes eligible to be cast.

At the meeting, the stockholders voted to re-elect the Class I members of the Company's Board of Directors as follows:

Nominee	For	Withheld

George M. Gould, Esq.	70,830,826	599,631
Jon S. Saxe, Esq.	70,245,409	1,185,048

The stockholders also voted to approve the 2002 Outside Directors Stock Option Plan as follows:

For	**Against**	**Abstentions**
50,908,163	20,257,239	265,054

Lastly, the stockholders voted to ratify the appointment of Ernst & Young LLP as the Company's independent auditors for the fiscal year ending December 31, 2002 as follows:

For	**Against**	**Abstentions**
69,877,041	1,490,395	63,021

ITEM 5. OTHER INFORMATION - RISK FACTORS

Risk Factors

This Quarterly 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 June 30, 2002**,** we had an accumulated deficit of approximately $74.6 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 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 agreements with third party business partners, 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.

License and 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 agreements with third party business partners. Revenue historically recognized under our prior agreements may not be an indicator of non-royalty revenue from any future collaborations.

Our expenses may be unpredictable and may fluctuate from quarter to quarter due to the timing of expenses, including clinical trial expenses as well as 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 partners and agreed to by us or our partners.

In addition, our expenses or other operating results may fluctuate due to the accounting treatment of securities we own or may purchase or securities we have issued or may issue. In May 2002, we entered into an agreement with our Chairman of the Board under which vesting of his stock options may accelerate in certain events, and such acceleration would trigger an accounting expense. In addition, we hold a $30.0 million five-year convertible note receivable we purchased from Exelixis, Inc. in May 2001. Accounting rules require the conversion feature of some convertible notes to be separated from the debt agreement in which the conversion feature is contained and accounted for as a derivative instrument, and therefore reflected in the note purchaser's financial statements based upon the fair market value of the stock into which the note is convertible. Due in part to the number of shares into which this note receivable would currently convert and the average daily trading volume of Exelixis stock, the Exelixis note is not currently considered a derivative instrument and, therefore, changes in the market value of Exelixis stock are not required to be recorded in our financial statements. However, a significant increase in the average daily trading volume of Exelixis stock, or new accounting pronouncements or regulatory rulings could require us to report the value of the Exelixis stock in our financial statements. Such a requirement could cause changes in the Exelixis stock price to contribute to fluctuation of our operating results from quarter to quarter.

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 were filed with the Japanese Patent Office with respect to our humanization patent issued in Japan in late 1998. We received a decision from the Japanese Opposition Board in March 2001, supporting one aspect of the position of the opponents, and we filed a response in September 2001. In April 2002, the examiner issued a further Office Action maintaining the earlier decision of the Opposition Board, to which we filed an additional response in May 2002. We now await a final decision from the examiner. If the examiner maintains her earlier decision, we will have the opportunity to appeal to the Tokyo High Court. The patent will remain valid and enforceable during this appeal process. If this appeal is unsuccessful, we will then have an opportunity to appeal to the Japanese Supreme Court.

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 humanized 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.

Clinical development is inherently uncertain and expense levels may fluctuate unexpectedly because we cannot accurately predict the timing and level of such expenses

Our future success depends in large part upon the results of clinical trials designed to assess the safety and efficacy of our potential products, and the majority of our expenses are to support these activities. The completion rate of clinical trials depends significantly upon the rate of patient enrollment, and our expense levels will vary depending upon the rate of enrollment. In addition, the length of time necessary to complete clinical trials and submit an application for marketing and manufacturing approvals varies significantly and is difficult to predict. The expenses associated with each phase of a trial depend upon the design of the trial. The design of each phase of trials depends in part upon results of prior phases, and additional trials may be necessary or appropriate at each phase. As a result the expense associated with future phases can not predicted in advance. Further, we may determine to terminate trials in process or suspend trials. Failure to comply with extensive FDA regulations may result in unanticipated delay, suspension or cancellation of a trial or the FDA's refusal to accept test results. The FDA may also suspend our clinical trials at any time if it concludes that the participants are being exposed to unacceptable risks. As a result of these factors, we can not predict the actual expenses that we will incur with respect to trials for any of our potential products, and we expect that our expense levels will fluctuate unexpectedly in the future.

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 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, which generally relate to our collaborators' license and use of our technology to develop therapeutic products, 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 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.

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. In May 2002, we announced that Laurence Jay Korn, Ph.D., a co-founder of PDL and its Chief Executive Officer since 1987, relinquished his responsibilities as Chief Executive Officer. Dr. Korn continues to serve as Chairman of the Board and Douglas O. Ebersole is currently serving as our Chief Executive Officer on an interim basis. In addition, we announced in May 2002 that Daniel J. Levitt, M.D., Ph.D., President, Research and Development, resigned. We believe that existing management can operate the Company effectively while we conduct searches to fill key positions; however, if we are unsuccessful in filling these positions or retaining qualified personnel**,** or if the searches are prolonged, our business could be impaired. In addition, we face competition for personnel from other companies, academic institutions, government entities and other organizations**.**

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 are currently improving our existing manufacturing plant in order to manufacture initial commercial supplies of certain products. Our ability to file for, and to obtain, regulatory approvals for such products, as well as the timing of such filings, 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 our products.

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. In May 2001, 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.

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.

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.

Legislative actions, higher insurance cost and potential new accounting pronouncements are likely to impact our future financial position and results of operations.

There have been regulatory changes, including the Sarbanes Oxley Act, and there may be potential new accounting pronouncements or regulatory rulings which will have an impact on our future financial position and results of operations. The Sarbanes Oxley Act and other rule changes and proposed legislative initiatives following the Enron bankruptcy are likely to increase general and administrative costs. In addition, insurers are likely to increase rates as a result of high claims rates over the past year and our rates for our various insurance policies are likely to increase. Further, proposed initiatives could result in changes in accounting rules, including legislative and other proposals to account for employee stock options as an expense. These and other potential changes could materially increase the expenses we report under generally accepted accounting principles, and adversely affect our operating results.

The Securities and Exchange Commission (SEC) staff has commented on our 2001 Form 10-K filing, including commenting on the timing of recognition of a portion of our revenue, and we cannot be certain of the outcome of this review.

In May 2002, we received a letter from the staff of the SEC (the Staff) in which the Staff commented with regard to our 2001 Form 10-K filing with the SEC. We believe this letter was the result of the SEC's efforts to review on a regular basis filings by registered companies. We have discussed the comments with the Staff, and believe we have resolved substantially all of the comments to the Staff's satisfaction. However, in July 2002 we received an additional letter from the Staff regarding what we believe is the only remaining outstanding issue in the review. The comment concerns the timing of recognition of revenue associated with non-refundable upfront fees we receive under patent license and patent rights agreements and maintenance fees we receive under patent license agreements. Such payments are not our primary source of revenue, and accounted for approximately 10% of our revenue in fiscal 2001.

We have no continuing performance obligations relating to these payments. As we believe that the earnings process for these payments is complete when such amounts are received or collection is reasonably assured, we believe our accounting for these as revenue at that time is appropriate under generally accepted accounting principles (GAAP). See "Revenue Recognition" in our footnotes to our consolidated financial statements for a full description of how we account for various types of revenue we receive, including upfront payments.

Of our total revenue of $44.4 million in 2001, $3.7 million was recognized from upfront payments under patent rights agreements; $1.0 million was recognized from an upfront payment under a patent license agreement in that period. None of our revenue for the first six months of 2002 was attributable to such upfront payments.

The SEC's comment letter indicates the Staff questions whether these up-front payments should be recognized over a period of time, or at a future time. We believe the Staff has not had the opportunity to fully review the information we have provided and that when it has done so, they will agree that our method of accounting for these payments is appropriate. However, because the Staff's review process is not yet complete, it is possible that the SEC will come to a different conclusion, and that we may need to agree to use a different method of accounting for these payments going forward, and possibly revise our prior consolidated financial statements to reflect a different method of accounting. We believe this outcome is unlikely. Further, the Staff has not indicated what the alternative timing or period for recognition for such amounts might be.

As a result, we cannot be certain of the outcome of this discussion with the Staff or precisely what the resulting consequence might be, if any. However, as an example of the possible result of this review, if the SEC were to disagree with our accounting, the result as to fiscal 2001 would be to reduce our $44.4 million in revenue by some or all of the $4.7 million in upfront fees we recognized in that period, and to spread that revenue over future periods. If periods prior to 2001 were revised, some of the payments from those prior periods might be recognized in 2001. Our revenue for the first six months of 2002 does not include any upfront fees, so our revenue for that period would not be reduced, but might increase somewhat as a result of recognizing upfront payments from 2001, or prior years, over a period of time.

The Staff also inquired about the timing of recognition of what we refer to as "maintenance" fees. These are annual payments due to us under patent license agreements if our licensees desire to continue to hold the licenses we have granted, and are recognized by us upon receipt. The Staff may believe that these annual payments should be recognized ratably over four quarters, instead of upon receipt. We recognized $1.9 million in maintenance fees in 2001, and $1.3 million in the first half of 2002. If it were determined to recognize these on a quarterly basis, our quarterly results might be different, but we do not believe our annual results would be meaningfully affected.

While we respect the Staff's comments and are working cooperatively with the Staff to resolve this issue, we believe that once the Staff understands that nature of these transactions, they will concur that our accounting is proper, and the issue will be resolved. However, as discussion of the issue is in process we cannot be certain of the outcome. Further, we do not believe the SEC has reached a specific conclusion of what the alternative methods or periods for recognizing these amounts revenue might be.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a. Exhibits

10.1	2002 Outside Directors Plan together with Form of Nonqualified Stock Option Agreement
10.2	Form of Notice of Grant of Stock Option under the 1999 Stock Option Plan

10.3	Form of Notice of Grant of Stock Option under the 1999 Nonstatutory Plan
10.4	Special Compensation and Continued Employment Agreement by and between the Company and Dr. Laurence J. Korn dated May 1, 2002
10.5	Stock Option Agreement by and between the Company and Mr. Douglas O. Ebersole dated April 25, 2002
10.6	Notice of Grant of Stock Option by and between the Company and Mr. Douglas O. Ebersole dated April 25, 2002
99.1	906 Certification for acting Chief Executive Officer
99.2	906 Certification for Principal Accounting Officer

b. No Reports on Form 8-K were filed during the quarter ended June 30, 2002.

SIGNATURES

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

Dated: August 14, 2002

PROTEIN DESIGN LABS, INC.
(Registrant)

By: /s/ Douglas O. Ebersole

Douglas O. Ebersole
Chief Executive Officer
(Principal Executive Officer)

By: /s/ Robert Kirkman

Robert Kirkman
Vice President, Business Development and Corporate Communications
(Principal Accounting Officer)

PROTEIN DESIGN LABS, INC.

2002 OUTSIDE DIRECTORS Stock OPTION PLAN

1. **Establishment, Purpose and Term of Plan**.
    1. **Establishment**. The Protein Design Labs, Inc. 2002 Outside Directors Stock Option Plan (the *"**Plan**"*) is hereby established effective as of the date of its approval by the stockholders of the Company, which date is _____, 2002 (the *"**Effective Date**"*)**.**
    2. **Purpose**. The purpose of the Plan is to advance the interests of the Company and its stockholders by providing an incentive to attract, retain and reward persons performing services as Outside Directors of the Company and by motivating such persons to contribute to the goals of the Company.
    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. *"**Change in Control**"* means the occurrence of any of the following:
            i. any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act, other than a trustee or other fiduciary holding securities of the Company under an employee benefit plan of the Company, becomes the "beneficial owner" (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of the Company representing 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;
            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).
        c. *"**Code**"* means the Internal Revenue Code of 1986, as amended, and any applicable regulations promulgated thereunder.
        d. ***"Committee"*** means the committee of the Board, if any, 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.
        e. *"**Company**"* means Protein Design Labs, Inc., a Delaware corporation, or any successor corporation thereto.
        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 the Company or any Parent Corporation or Subsidiary Corporation.
        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, 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.

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 of Stock acquired upon the exercise thereof.

n. *"**Optionee**"* means a person who has been granted one or more Options.

o. *"**Outside Director**"* means a Director who is not an Employee.

p. *"**Parent Corporation**"* means any present or future "parent corporation" of the Company, as defined in Section 424(e) of the Code.

q. *"**Predecessor Plan**"* means the Protein Design Labs, Inc. Outside Directors Stock Option Plan approved by the stockholders of the Company on October 20, 1992 and subsequently amended from time to time.

r. *"**Predecessor Plan Option**"* means an option granted pursuant to the Predecessor Plan.

s. *"**Predecessor Plan Termination Date**"* means the earlier of October 20, 2002 or the date on which the Predecessor Plan is terminated by the Board.

t. *"**Prior Employee Option**"* means an outstanding Option previously granted by the Company to an individual who, at the time of such grant, was an Employee and who, subsequent to such grant, becomes an Outside Director.

u. *"**Prior Option**"* means an outstanding Option, but in all cases excluding Prior Employee Options, previously granted by the Company to a Director in his or her capacity as such pursuant to any of the Company's stock option plans, other than the Predecessor Plan.

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

w. *"**Service**"* means an Optionee's service with the Company as a Director. An Optionee's Service shall be deemed to have terminated if the Optionee ceases to be a Director, even if the Optionee continues or commences to render service to the Company or to a Parent Corporation or Subsidiary Corporation in a capacity other than as a Director. An Optionee's Service with the Company shall not be deemed to have terminated if the Optionee takes any bona fide leave of absence approved by the Company. 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. 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.

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

y. *"**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. <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 Officer.** 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.

4. <u>Shares Subject to Plan</u>.

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) 240,000, (b) the number of shares that remain available for grant pursuant to the Predecessor Plan on the Predecessor Plan Termination Date and (c) the number of unissued shares subject to each Predecessor Plan Option outstanding 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. 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, to the grant of Options pursuant to Section 6.1, to the rates of vesting pursuant to Section 6.3 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 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**.

Options may be granted only to those persons who, at the time of grant, are serving as Outside Directors.

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. **Automatic Grant.** Subject to the execution by an Outside Director of an appropriate Option Agreement, Options shall be granted automatically and without further action of the Board, as follows:
    a. ***Initial Option.*** Each person who first becomes an Outside Director on or after the Effective Date (whether upon initial election or appointment to the Board (including following a break in service as a Director) or upon ceasing to be an Employee while remaining or simultaneously becoming a Director) shall be granted on the date such person first becomes an Outside Director an Option to purchase twelve thousand (12,000) shares of Stock (an *"**Initial Option**"*), except as follows:
        i. An Outside Director who holds Prior Employee Option(s) that will continue to vest on the basis of such individual's Service as an Outside Director shall be granted an Initial Option only upon the date that such Prior Employee Option(s) cease to vest.
        ii. Each person who was an Outside Director prior to the Effective Date, and who does not have a break in Service as an Outside Director subsequent to the Effective Date, shall not be granted an Initial Option.
    b. ***Annual Option.*** Each Outside Director shall be granted on the date of each annual meeting of the stockholders of the Company which occurs on or after the Effective Date (an *"**Annual Meeting**"*) immediately following which such person remains an Outside Director an Option to purchase twelve thousand (12,000) shares of Stock (an *"**Annual Option**"*); provided, however, that no Annual Option shall be granted to an Outside Director granted an Initial Option on the same Annual Meeting date, and subject to the following:
        i. An Outside Director who holds Prior Employee Option(s) that continue to vest on the basis of such individual's Service as an Outside Director shall be granted his or her first Annual Option on the date of the Annual Meeting immediately following the grant to such individual of an Initial Option, as described in Section 6.1(a)(i). The number of shares subject to such Annual Option shall be determined in accordance with Section 6.1(b)(ii).
        ii. An Annual Option granted to an Outside Director who was granted an Initial Option prior to the date of the current Annual Meeting and subsequent to the date of the preceding Annual Meeting shall be reduced by a number of shares equal to one thousand (1,000) multiplied by the number of months (rounded to the nearest whole number) determined by dividing the number of days between the date of the preceding Annual Meeting and the date of grant of an Initial Option to such Outside Director by thirty (30).
        iii. The first Annual Option granted to an Outside Director who holds Predecessor Plan Option(s) or Prior Option(s) shall be granted on the date of the Annual Meeting immediately preceding the date on which the Predecessor Plan Option(s) or the Prior Option(s), as applicable, are scheduled to cease vesting. Such Annual Option shall be reduced by a number of shares equal to one thousand (1,000) multiplied by the number of months (rounded to the nearest whole number) determined by dividing the number of days between the date of grant of such Annual Option and the date on which the Predecessor Plan Option(s) or the Prior Option(s), as applicable, are scheduled to cease vesting by thirty (30). Notwithstanding anything herein to the contrary, if the number of shares subject to such Annual Option would be reduced to zero (0) pursuant to the preceding sentence, then the first Annual Option shall be granted to such Outside Director at the Annual Meeting immediately following the date on which the Predecessor Plan Option(s) or the Prior Option(s), as applicable, cease to vest, and the number of shares of Stock subject to such Annual Option shall be twelve thousand (12,000).
    c. ***Right to Decline Option.*** Notwithstanding the foregoing, any person may elect not to receive an Option 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. A person who has declined an Option may revoke such

election by delivering written notice of such revocation to the Board no later than the day prior to the date such Option would be granted pursuant to Section 6.1(a) or (b), as the case may be.

2. **Exercise Price.** The exercise price for each Option shall be the Fair Market Value of a share of Stock on the date of grant of an Option.
3. **Exercisability and Term of Options.** Except as otherwise provided in the Plan or in the Option Agreement evidencing an Option and provided that the Optionee's Service has not terminated prior to the relevant date, the Options shall vest and become exercisable as follows:
    a. Each Initial Option and each Annual Option (other than an Annual Option described in Section 6.1(b)(i), (ii) or (iii)) shall vest and become exercisable at the rate of one thousand (1,000) shares for each full month of the Optionee's continuous Service from the date of grant until the Option is fully vested.
    b. Each Annual Option described in Section 6.1(b)(i) or (ii) shall vest and become exercisable at the rate of one thousand (1,000) shares for each full month of the Optionee's continuous Service from the date on which the Optionee's Initial Option vests in full until such Annual Option is fully vested.
    c. Each Annual Option described in Section 6.1(b)(iii) shall vest and become exercisable at the rate of one thousand (1,000) shares for each full month of the Optionee's continuous Service from the date on which the Optionee's Predecessor Plan Option(s) or Prior Option(s), as applicable, cease to vest until such Annual Option is fully vested.

    Unless earlier terminated in accordance with the terms of the Plan or the Option Agreement evidencing an Option, each Option shall terminate and cease to be exercisable ten (10) years after the date of grant of the Option.

4. **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**"*), or (iv) by any combination thereof.
    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 applicable 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 (and not used for another option exercise by attestation during such period) 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.
5. **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 Company 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, by cash payment or otherwise, including by means of a Cashless Exercise, to make adequate provision for any such tax withholding obligations of the Company arising in connection with the Option or the shares of Stock acquired upon the exercise thereof. The Fair Market Value of any shares of Stock withheld or tendered to satisfy any such tax withholding obligations shall not exceed the amount determined by the applicable minimum statutory withholding rates. The Company shall have no obligation to deliver shares of Stock until the Company's tax withholding obligations have been satisfied by the Optionee.
6. **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 Company 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 Company 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, provided that such period shall be extended by the number of days between the date on which the Optionee's Service terminated and the date on which the executor, personal representative or administrator of the Optionee's estate determines the person who acquired the right to exercise the Option by reason of the Optionee's death. Notwithstanding the foregoing, in no event shall the option be exercisable following 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. **Other Termination of Service.** If the Optionee's Service with the Company terminates for any reason, except Disability or death, 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 six (6) 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 6.6(a) is prevented by the provisions of Section 10 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 6.6(a) of shares acquired upon the exercise of the Option could 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.

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

1. **Outside Director Stock Option Agreement.** Each Option shall comply with and be subject to the terms and conditions set forth in the appropriate form of Option Agreement approved 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.

In the event of a Change in Control, any unexercisable or unvested portions of outstanding Options and any shares acquired upon the exercise thereof shall be immediately exercisable and vested in full as of the date ten (10) days prior to the date of the Change in Control. The exercise or vesting of any Option and any shares acquired upon the exercise thereof that was permissible solely by reason of this Section 8 shall be conditioned upon the consummation of the Change in Control. In addition, 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. 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 a Change in Control described in Section 2.1(b)(i) is the surviving or continuing corporation and immediately after such Change in Control 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. 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, an Option shall be assignable or transferable to the extent permitted by the Board and set forth in the Option Agreement evidencing such Option.

10. 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.

11. Termination or Amendment of Plan.

The Board may terminate or amend the Plan at any time. However, 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), and (b) no material change in the class of persons eligible to receive Options. 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.

IN WITNESS WHEREOF, the undersigned Secretary of the Company certifies that the foregoing sets forth the Protein Design Labs, Inc. 2002 Outside Directors Stock Option Plan as adopted by the Board on _____, 2002 and approved by the stockholders on _____, 2002.

_____

Douglas O. Ebersole
Secretary

legal/common/equity plans/DirPlans/2002 DirPlans/

Final 2002 Plan/Final Plan (04-17-02) clean

PLAN HISTORY

_____, 2002	Board adopts Plan, with an initial share reserve equal to the sum of (a) 240,000 shares, (b) the number of shares remaining available for grant under the Predecessor Plan upon its termination (_____ shares as of date of Plan adoption), and (c) the number of unissued shares subject to options outstanding under the Predecessor Plan upon its termination which expire or are terminated or canceled (_____ shares are subject to Predecessor Plan options as of the date of Plan adoption)..
_____, 2002	Stockholders approve the Plan.

STANDARD FORM OF

PROTEIN DESIGN LABS, INC.

2002 OUTSIDE DIRECTORS STOCK OPTION PLAN

OUTSIDE DIRECTOR STOCK OPTION AGREEMENT

PROTEIN DESIGN LABS, INC.

STOCK OPTION AGREEMENT (OUTSIDE DIRECTOR)

Protein Design Labs, Inc. has granted to the individual (the *"**Optionee**"*) named in the *Notice of Grant of Stock Option* (the *"**Notice**"*) to which this Stock Option Agreement (Outside Director) (the *"**Option Agreement**"*) is attached an option (the "***Option***") to purchase certain shares of Stock upon the terms and conditions set forth in this Option Agreement and the Notice. The Option has been granted pursuant to the Protein Design Labs, Inc. 2002 Outside Directors Stock Option Plan (the *"**Plan**"*). By signing the Notice, the Optionee represents that the Optionee is familiar with the terms and provisions of this Option Agreement and accepts the Option subject to all of the terms and provisions hereof. The Optionee agrees to accept as final and binding all decisions or interpretations of the Board upon any questions arising under the Notice, this Option Agreement or the Plan.

1. <u>Definitions and Construction</u>.

1. **Definitions.** Whenever used herein, capitalized terms shall have the meanings assigned in the Notice or as 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. *"**Change in Control**"* means the occurrence of any of the following:
      i. any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act, other than a trustee or other fiduciary holding securities of the Company under an employee benefit plan of the Company, becomes the "beneficial owner" (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of the Company representing 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;
      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).
   c. *"**Code**"* means the Internal Revenue Code of 1986, as amended, and any applicable regulations promulgated thereunder.
   d. ***"Committee"*** means the committee of the Board, if any, 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.
   e. *"**Company**"* means Protein Design Labs, Inc., a Delaware corporation, or any successor corporation thereto.
   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 the Company or any Parent Corporation or Subsidiary Corporation.
   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, 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.

k. *"**Parent Corporation**"* means any present or future "parent corporation" of the Company, as defined in Section 424(e) of the Code.

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

m. *"**Service**"* means the Optionee's service with the Company as a Director. The Optionee's Service shall be deemed to have terminated if the Optionee ceases to be a Director, even if the Optionee continues or commences to render service to the Company or to a Parent Corporation or Subsidiary Corporation in a capacity other than as a Director. The Optionee's Service with the Company shall not be deemed to have terminated if the Optionee takes any bona fide leave of absence approved by the Company. 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 Option Agreement. Subject to the foregoing, the Company, in its discretion, shall determine whether the Optionee's Service has terminated and the effective date of such termination.

n. *"**Stock**"* means the common stock of the Company, as adjusted from time to time in accordance with Section 9.

o. *"**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 this Option Agreement. 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.

2. Tax Status of Option.

This Option is intended to be a Nonstatutory Stock Option and shall not be treated as an "incentive stock option" within the meaning of Section 422(b) of the Code.

3. Administration.

All questions of interpretation concerning this Option Agreement shall be determined by the Board. All determinations by the Board shall be final and binding upon all persons having an interest in the Option. The Chief Executive Officer 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.

4. Exercise of the Option.

1. **Right to Exercise.** Except as otherwise provided herein, the Option shall be exercisable prior to the termination of the Option (as provided in Section 6) in an amount not to exceed that portion of the Number of Option Shares (as adjusted pursuant to Section 9) which have become Vested Shares less the number of shares previously acquired upon exercise of the Option.
2. **Method of Exercise.** Exercise of the Option shall be by written notice to the Company which must state the election to exercise the Option, the number of whole 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. The written notice must be signed by the Optionee and must be delivered to the Chief Financial Officer, Controller or Stock Administrator of the Company, or other authorized representative of the Company, prior to the termination of the Option as set forth in Section 6, accompanied by full payment of the aggregate Exercise Price for the number of shares of Stock being purchased and the tax withholding obligations, if any, as provided in Section 4.4. The Option shall be deemed to be exercised upon receipt by the Company of such written notice, the aggregate Exercise Price, and tax withholding obligations, if any.
3. **Payment of Exercise Price.**

a. ***Forms of Consideration Authorized*.** Except as otherwise provided below, payment of the aggregate Exercise Price for the number of shares of Stock for which the Option is being exercised 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 means of a Cashless Exercise, as defined in Section 4.3(b)(ii), or (iv) by any combination of the foregoing.

b. ***Limitation on Forms of Consideration***.

i. **Tender of Stock.** Notwithstanding the foregoing, the 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 shares of Stock. The 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 (and not used for another option exercise by attestation during such period) or were not acquired, directly or indirectly, from the Company.

ii. **Cashless Exercise.** A "***Cashless Exercise***" means the assignment in a form acceptable to the Company of the proceeds of a sale or loan with respect to some or all of the shares of Stock acquired upon the exercise of the Option pursuant to a program or procedure approved by the Company (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). The Company reserves, at any and all times, the right, in the Company's sole and absolute discretion, to decline to approve or terminate any such program or procedure.

4. **Tax 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 hereby authorizes withholding from any amounts payable to the Optionee, and otherwise agrees to make adequate provision for (including by means of a Cashless Exercise to the extent permitted by the Company), any sums required to satisfy the federal, state, local and foreign tax withholding obligations of the Company, if any, which arise in connection with the Option.
5. **Certificate Registration.** Except in the event the Exercise Price is paid by means of a Cashless Exercise, the certificate for the shares of Stock as to which the Option is exercised shall be registered in the name of the Optionee, or, if applicable, in the names of the heirs of the Optionee.
6. **Restrictions on Grant of the Option and Issuance of Shares.** The grant of the Option and the issuance of shares of Stock upon exercise of the Option shall be subject to compliance with all applicable requirements of federal, state or foreign law with respect to such securities. The Option 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, the Option may not be exercised unless (i) 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 (ii) 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 OPTIONEE IS CAUTIONED THAT THE OPTION MAY NOT BE EXERCISED UNLESS THE FOREGOING CONDITIONS ARE SATISFIED. ACCORDINGLY, THE OPTIONEE MAY NOT BE ABLE TO EXERCISE THE OPTION WHEN DESIRED EVEN THOUGH THE OPTION IS VESTED. Questions concerning this restriction should be directed to the Legal Department of the Company. 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 subject to the Option 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 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.
7. **Fractional Shares**. The Company shall not be required to issue fractional shares of Stock upon the exercise of the Option.

5. Nontransferability of the Option.

The Option may be exercised during the lifetime of the Optionee only by the Optionee or the Optionee's guardian or legal representative and may not be assigned or transferred in any manner except by will or by the laws of descent and distribution. Following the death of the Optionee, the Option, to the extent provided in Section 7, may be exercised by the Optionee's legal representative or by any person empowered to do so under the deceased Optionee's will or under the then applicable laws of descent and distribution.

6. Termination of the Option.

The Option shall terminate and may no longer be exercised after the first to occur of (a) the Option Expiration Date, (b) the last date for exercising the Option following termination of the Optionee's Service as described in Section 7, or (c) a Change in Control to the extent provided in Section 8.

7. Effect of Termination of Service.

1. **Option Exercisability.**
   a. ***Disability*.** If the Optionee's Service with the Company 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 Option Expiration Date.
   b. ***Death*.** If the Optionee's Service with the Company 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, provided that such period shall be extended by the number of days between the date on which the Optionee's Service terminated and the date on which the executor, personal representative or administrator of the Optionee's estate determines the person who acquired the right to exercise the Option by reason of the Optionee's death. Notwithstanding the foregoing,

in no event shall the option be exercisable following 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.

c. ***Other Termination of Service*.** If the Optionee's Service with the Company terminates for any reason, except Disability or death, 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 six (6) 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.

2. **Extension if Exercise Prevented by Law.** Notwithstanding the foregoing, if the exercise of the Option within the applicable time periods set forth in Section 7.1 is prevented by the provisions of Section 4.6, 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.
3. **Extension if Optionee Subject to Section 16(b).** Notwithstanding the foregoing, if a sale within the applicable time periods set forth in Section 7.1 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.

8. Change in Control.

In the event of a Change in Control, any unexercisable or unvested portions of the Option and any shares acquired upon the exercise thereof shall be immediately exercisable and vested in full as of the date ten (10) days prior to the date of the Change in Control. The exercise or vesting of the Option and any shares acquired upon the exercise thereof that was permissible solely by reason of this Section 8 shall be conditioned upon the consummation of the Change in Control. In addition, 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 the Option or substitute for the Option a substantially equivalent option for the Acquiring Corporation's stock. The Option shall terminate and cease to be outstanding effective as of the date of the Change in Control to the extent that the Option is 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. Notwithstanding the foregoing, if the corporation the stock of which is subject to the Option immediately prior to a Change in Control described in Section 1.1(b)(i) is the surviving or continuing corporation and immediately after such Change in Control 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 Option shall not terminate unless the Board otherwise provides in its sole discretion.

9. 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, Exercise Price and class of shares of stock subject to the Option. If a majority of the shares which are of the same class as the shares that are subject to the Option are exchanged for, converted into, or otherwise become (whether or not pursuant to an Ownership Change Event) shares of another corporation (the "***New Shares***"), the Board may unilaterally amend the Option to provide that the Option is exercisable for New Shares. In the event of any such amendment, the Number of Option Shares and the Exercise Price shall be adjusted in a fair and equitable manner, as determined by the Board, in its sole discretion. Notwithstanding the foregoing, any fractional share resulting from an adjustment pursuant to this Section 9 shall be rounded down to the nearest whole number, as determined by the Board, and in no event may the Exercise Price 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 9 shall be final and binding.

10. 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 for the shares of Stock for which the Option has been exercised (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date such certificate is issued, except as provided in Section 9.

11. Legends.

The Company may at any time place legends referencing any applicable federal, state or foreign 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 carry out the provisions of this Section 11.

12. Arbitration.

In the event any dispute between the parties to this Option Agreement arises out of, or in connection with, this Option Agreement, the parties to this Option Agreement agree that all such disputes shall, upon the written request of one (1) party delivered to the other party, be submitted to the American Arbitration Association in the county in which the Company's principal offices are located, to be fully, finally and exclusively resolved by binding arbitration. The parties to this Option Agreement hereby waive their respective rights to have any such disputes or claims tried to a judge or jury. This arbitration provision shall not apply to any claims for injunctive relief by the parties to this Option Agreement.

The arbitrator shall have the power to enter any award that could be entered by a judge of the Superior Court of the State of California or the United States District Court, and only such power, and shall follow the law. The arbitrator shall issue the award in writing and state the essential findings and conclusions on which the award is based. The parties to this Option Agreement agree to abide by and perform any valid award rendered by the arbitrator and judgment on the award may be entered in any court of competent jurisdiction. The arbitrator shall award to the prevailing party in any such arbitration reasonable expenses, including attorneys' fees and costs, incurred in connection with the dispute.

13. Miscellaneous Provisions.

1. **Binding Effect.** Subject to the restrictions on transfer set forth herein, this Option Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, executors, administrators, successors and assigns.
2. **Termination or Amendment.** The Board may terminate or amend the Plan or the Option at any time; provided, however, that except as provided in Section 8 in connection with a Change in Control, no such termination or amendment may adversely affect the Option or any unexercised portion hereof without the consent of the Optionee unless such termination or amendment is necessary to comply with any applicable law or government regulation. No amendment or addition to this Option Agreement shall be effective unless in writing.
3. **Notices.** Any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given (except to the extent that this Option Agreement provides for effectiveness only upon actual receipt of such notice) upon personal delivery or upon deposit in the United States Post Office, by registered or certified mail, with postage and fees prepaid, addressed to the other party at the address of such party as set forth in the Notice or at such other address as such party may designate in writing from time to time to the other party.
4. **Integrated Agreement.** This Option Agreement and the Notice 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 with respect to such subject matter other than those as set forth or provided for herein or therein. To the extent contemplated herein, the provisions of this Option Agreement shall survive any exercise of the Option and shall remain in full force and effect.
5. **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.

Optionee: _____

Date: _____

PROTEIN DESIGN LABS, INC.

STOCK OPTION (OUTSIDE DIRECTOR)

EXERCISE NOTICE

Protein Design Labs, Inc.
Attention: Stock Administrator
34801 Campus Drive
Fremont, CA 94555

Ladies and Gentlemen:

1. **Option.** I was granted a nonstatutory stock option (*"**Option**"*) to purchase shares of the common stock (*"**Shares**"*) of Protein Design Labs, Inc. (*"**Company**"*) pursuant to the Company's 2002 Outside Directors Stock Option Plan (the *"**Plan**"*) as follows:

Grant Number:	_____
Date of Option Grant:	_____
Number of Option Shares:	_____
Exercise Price per Share:	$ _____

2. **Exercise of Option.** I hereby elect to exercise the Option to purchase the following number of shares, all of which have vested in accordance with my Option Agreement:

No. of Shares Purchased:	_____
Total Exercise Price:	$_____

3. **Payment.** I enclose payment in full of the total exercise price for the Shares in the following form(s), as authorized by my Option Agreement:

Cash:	$ _____
Check:	$ _____
Tender of Company Stock:	Contact Stock Administrator for additional forms
Cashless exercise (same-day sale):	Contact Stock Administrator for additional forms

4. **Tax Withholding.** I will make adequate provision for federal, state, local and foreign tax withholding obligations of the Company, if any, in connection with my exercise of the Option and my subsequent disposition of the Shares.

5. **Optionee Information.**

My address is:	
	_____
	_____
	My Social Security Number is: _____

I understand that I am purchasing the Shares pursuant to the terms of the Plan and my Option Agreement, a copy of which I have received and have carefully read and understand.

Very truly yours,

_____

(Signature)

_____

(Optionee's Name Printed)

Receipt of the above is hereby acknowledged:
PROTEIN DESIGN LABS, INC.

By:_____

Title: _____

Dated: _____

Exhibit 10.2

PROTEIN DESIGN LABS, INC.

NOTICE OF GRANT OF STOCK OPTION

(1999 Stock Option Plan)

_____ (the *"**Optionee**"*) has been granted an option (the *"**Option**"*) to purchase certain shares of Stock of Protein Design Labs, Inc. pursuant to the Protein Design Labs, Inc. **1999 Stock Option Plan** (the *"**Plan**"*), as follows:

Date of Option Grant:	_____
Number of Option Shares:	_____
Exercise Price:	The date one (1) year after _____
Initial Vesting Date:	_____
Option Expiration Date:	The date ten (10) years after the Date of Option Grant.
Type of Option:	Nonstatutory Stock Option

Vested Shares:	Except as provided in the Stock Option Agreement, determined as of any date by multiplying the Number of Option Shares by the *"**Vested Ratio**"* as follows:

	Vested Ratio
Prior to Initial Vesting Date	0
On Initial Vesting Date, provided the Optionee's Service as an Employee has not terminated prior to such date	1/4
Plus:	
For each full month of the Optionee's continuous Service as an Employee from Initial Vesting Date until the Vested Ratio equals 1/1, an additional	1/48

Adjustments to Vested Ratio: The Company may adjust the Vested Ratio to account for any periods of part-time Service as an Employee.

Termination of Unvested Option: Except as may otherwise be provided by the Board, upon termination of the Optionee's Service as an Employee, the Option shall terminate immediately with respect to shares that are not Vested Shares. However, provided the Optionee's Service continues uninterrupted in a capacity other than as an Employee, the Option shall continue in accordance with the terms of the Stock Option Agreement with respect to any Vested Shares. Upon termination of the Optionee's Service, the Option shall terminate in accordance with the terms of the Stock Option Agreement.

By their signatures below, the parties hereto agree that the Option is governed by the terms and conditions of the Stock Option Agreement attached to and made a part of this document. The Optionee acknowledges receipt of a copy of the Stock Option Agreement, represents that the Optionee is familiar with its provisions, and hereby accepts the Option subject to all of its terms and conditions.

PROTEIN DESIGN LABS, INC.	OPTIONEE
By:_____	_____
	Signature
Its: _____	_____
	Date
34801 Campus Drive	_____
Fremont, California 94555	Address

	_____

Exhibit 10.3

PROTEIN DESIGN LABS, INC.

NOTICE OF GRANT OF STOCK OPTION

(1999 Nonstatutory Stock Option Plan)

_____ (the *"**Optionee**"*) has been granted an option (the *"**Option**"*) to purchase certain shares of Stock of Protein Design Labs, Inc. pursuant to the Protein Design Labs, Inc. **1999 Nonstatutory Stock Option Plan** (the *"**Plan**"*), as follows:

Date of Option Grant:	_____
Number of Option Shares:	_____
Exercise Price:	_____
Initial Vesting Date:	The date one (1) year after _____
Option Expiration Date:	The date ten (10) years after the Date of Option Grant.
Type of Option:	Nonstatutory Stock Option

Vested Shares:	Except as provided in the Stock Option Agreement, determined as of any date by multiplying the Number of Option Shares by the *"**Vested Ratio**"* as follows:

	Vested Ratio
Prior to Initial Vesting Date	0
On Initial Vesting Date, provided the Optionee's Service as an Employee has not terminated prior to such date	1/4
Plus:	
For each full month of the Optionee's continuous Service as an Employee from Initial Vesting Date until the Vested Ratio equals 1/1, an additional	1/48

Adjustments to Vested Ratio: The Company may adjust the Vested Ratio to account for any periods of part-time Service as an Employee.

Termination of Unvested Option: Except as may otherwise be provided by the Board, upon termination of the Optionee's Service as an Employee, the Option shall terminate immediately with respect to shares that are not Vested Shares. However, provided the Optionee's Service continues uninterrupted in a capacity other than as an Employee, the Option shall continue in accordance with the terms of the Stock Option Agreement with respect to any Vested Shares. Upon termination of the Optionee's Service, the Option shall terminate in accordance with the terms of the Stock Option Agreement.

By their signatures below, the parties hereto agree that the Option is governed by the terms and conditions of the Stock Option Agreement attached to and made a part of this document. The Optionee acknowledges receipt of a copy of the Stock Option Agreement, represents that the Optionee is familiar with its provisions, and hereby accepts the Option subject to all of its terms and conditions.

PROTEIN DESIGN LABS, INC.	OPTIONEE
By: _____	_____
	Signature
Its: _____	_____
	Date
34801 Campus Drive	_____

Fremont, California 94555	Address
	_____

Exhibit 10.4

[PDL LETTERHEAD]

May 1, 2002

Laurence Jay Korn
34801 Campus Drive
Fremont, CA 94555

Re: Special Compensation and Continued Employment Agreement

Dear Laurence:

As we have discussed, Protein Design Labs, Inc. (the "Company") wishes to acknowledge your resignation as the Company's Chief Executive Officer and memorialize the terms of your continued employment with the Company as its Chairman of the Board of Directors ("Chairman") by entering into this Special Compensation and Continued Employment Agreement (the "Agreement") with you.

1. Resignation. You hereby resign from your position as Chief Executive Officer of the Company effective as of May 1, 2002, and accept continued employment with the Company as its Chairman.

2. Services. As the Company's Chairman, you shall have the following duties:

(a) take the lead role in forming a Corporate Governance committee of the Board of Directors (the "Board") and/or a Nominating Committee (to review and evaluate potential nominees to the Board, and to make recommendations to the Board regarding such potential nominees) of the Board, and make recommendations to the Board as to the scope and charter of such committee(s);

(b) participate in leading investor relations in coordination with the Chief Executive Officer and Vice President, Business Development and Corporate Communications (or the successor head of Corporate Communications); in this role you will have access to the Chief Executive Officer's direct reports in Corporate Communications on strategy and implementation;

(c) participate in leading business development activities for the Company in coordination with the Chief Executive Officer and Vice President, Business Development and Corporate Communications (or the successor head of Business Development); in this role you will have access to the Chief Executive Officer's direct reports in Business Development on strategy and implementation;

(d) such other duties as the Company's Board may reasonably assign to you; and

(e) serve as Chairman and as a member of the Board and preside at all Board meetings and stockholder meetings.

You will be given access to all Company information necessary to perform your duties hereunder, which information would be deemed material under the federal securities laws. With respect to your duties for the Company, including but not limited to those set forth in subsections (b) - (d) above (but excluding your activities as a member of the Board or of any Board committee), you shall coordinate and consult with the Company's Chief Executive Officer and his/her designees to carry out such duties. In the event of any disagreement between you and the Chief Executive Officer, the decision of the Chief Executive Officer shall control.

3. Compensation. During the remainder of your employment, you will be compensated for your services to the Company as follows:

(a) Base Salary. Until April 30, 2004, your base salary shall be equal to your final base salary as the Company's Chief Executive Officer ($515,000 per year). Although it will be under no obligation to do so, the Board may increase your base salary at any time, in its sole discretion. If you continue to be employed by the Company after April 30, 2004, your salary shall be subject to negotiation.

(b) Stock Options. All of your current unvested options to purchase the Company's common stock shall continue to vest at the full time vesting rate. Notwithstanding anything to the contrary contained in the applicable stock option agreements, such stock options shall continue to vest at that rate for as long as you are an employee and/or director of the Company, except that stock options granted under the 1991 Stock Option Plan will continue to vest only as long as you remain an employee. Although it will be under no obligation to do so, the Board may grant you additional stock options at any time in its sole discretion.

(c) Benefits. The Company will continue to provide you with the following employee fringe benefits that you were receiving as of the effective date of your resignation as the Company's Chief Executive Officer: group health insurance (including dependent coverage), short and long-term disability insurance, life insurance, accidental death and dismemberment insurance, business travel accident insurance, 401(k) matching, employee stock purchase plan and

tuition reimbursement. You will also remain eligible to participate in the Company's retiree medical insurance plan. The Company will increase, or may reduce, your fringe benefits under the plans identified in this paragraph if such increase or reduction is similarly applicable to the Company's Chief Executive Officer. In addition, so long as you remain an employee of the Company, the Company will continue to provide you with at least your current level of vacation, sick leave, holiday leave and comp time and reimbursement of travel expenses.

(d) Administrative Support/Office. The Company will continue to provide you, at the Company's sole expense, with the services of a full-time administrative assistant, and with reasonable office facilities for you and your administrative assistant in Palo Alto or Menlo Park, California (or any other reasonable location in the San Francisco Bay Area), which shall be your principal office and be equipped with standard office equipment, such as telephone lines, desktop personal computers and office furniture. To the extent that she is agreeable to doing so, Jeanne Mager will serve as your administrative assistant. Ms. Mager will continue to be employed by the Company while serving as your administrative assistant. If Ms. Mager's employment is terminated by the Company without "Cause" (as defined below) or if Ms. Mager elects to resign from her employment with the Company within 30 days following the termination of your employment with the Company for any reason, and if Ms. Mager executes and delivers to the Company a general release of all known and unknown claims in a form satisfactory to the Company, the Company will pay Ms. Mager a lump sum severance payment equal to the greater of (i) six months' base pay at Ms. Mager's final base pay rate, or (ii) two weeks' base pay at Ms. Mager's final base pay rate for each full year of her employment with the Company, and will accelerate her stock options for the same period.

You will enter Company facilities (other than the office at a location other than the Fremont facilities provided to you pursuant to this paragraph) only as (i) reasonably necessary to perform your duties under paragraph 2(a) - (e), or (ii) requested by the Chief Executive Officer. The Company also will provide an office at its Fremont facilities for your use during visits to such facilities in carrying out your duties under paragraph 2(b), 2(c) and 2(d).

You will not be entitled to any other compensation or benefits from the Company during the remainder of your employment, except as provided in paragraph 8 of this Agreement.

4. Term of Employment. Your employment is for no specified term, and may be terminated by you or the Company at any time, with or without cause, in accordance with the terms and conditions of this Agreement.

5. No Conflict. During the remainder of your employment with the Company, you agree to devote such business time, energy and skill to your duties at the Company as is reasonably necessary to perform your duties hereunder (which we anticipate will be less than full-time employment). Notwithstanding the previous sentence, you may engage in such personal and other business activities as you wish (including but not limited to service on other Boards of Directors) so long as such activities do not violate your fiduciary obligations to the Company.

6. Benefits Upon Termination. As noted above, you or the Company can terminate our employment relationship at any time, with or without cause. If the Company terminates your employment for a reason other than (i) "Cause" (as defined below), (ii) your death, or (iii) your inability to perform the essential functions of your job due to disability even after reasonable accommodation, such termination shall be an "Involuntary Termination". In the event of an Involuntary Termination, and if you execute and deliver to the Company within 60 days following your Involuntary Termination a general release of all known and unknown claims against the Company existing as of the date of execution of the release, in a form reasonably satisfactory to the Company (which release shall also obligate you to refrain from soliciting employees, other than Ms. Mager, or any other administrative assistant provided to you pursuant to this Agreement, contractors, vendors, strategic partners, and customers to terminate their relationships with the Company, and to refrain from disparaging the Company, its directors, employees, products or services), you shall receive continued payment of your base salary at your final base salary rate, as well as any employee fringe benefits identified in paragraph 3(c), above (to the extent such fringe benefits can be made generally available to directors or former employees of the Company pursuant to the terms of the applicable fringe benefit plan or policy), for the Specified Period (as defined below) following your Involuntary Termination, and you will immediately become vested in that portion of any unvested stock options previously granted to you by the Company that would have become vested during the Specified Period, including stock options granted under the 1991 Stock Option Plan. In addition, to the extent that you are not eligible for continued group health insurance coverage under the Company's group health insurance plan upon your Involuntary Termination or resignation, the Company will pay the premiums necessary to continue equal or greater coverage for you under COBRA until the earlier of (a) the end of the Specified Period, (b) the end of your COBRA eligibility, or (c) the date on which you first become covered under another group health insurance plan of equal or greater coverage.

If your Involuntary Termination occurs more than 1year after the date of this Agreement, the Specified Period will be 1 year. If your Involuntary Termination occurs less than 1year after the date of this Agreement, the Specified Period will be 2 years less the amount of time that you were employed by the Company following the date of this Agreement.

For purposes of this Agreement, your resignation for "Good Reason" (as defined below) shall also constitute an Involuntary Termination. If you resign for Good Reason pursuant to paragraph 7(b)(v) below, in addition to the salary continuation payments that you will receive for the Specified Period, any unvested stock options the Company has previously granted to you will become immediately and fully vested.

If the termination of your employment by the Company is for (i) "Cause" (as defined in this paragraph 6), (ii) your death, or (iii) your inability to perform the essential functions of your job due to disability even after reasonable accommodation, or if you resign from your employment for other than Good Reason, you will not be entitled to any payments or benefits upon the termination of

your employment other than the salary earned by you through the date of your termination, except the retiree medical insurance plan. Notwithstanding the foregoing, in the event that you resign from your employment for other than Good Reason within 90 days following the first day of employment of the Company's next, non-interim Chief Executive Officer, and you sign the general release of claims described above, you shall receive a one-time payment of your base salary at your final base salary rate (no less than $515,000); if you also resign from your position as a member of the Board at the same time, you will immediately become vested in the portion of any unvested stock options previously granted to you by the Company that would have become vested during the one year period following your resignation date.

If you do not execute and deliver to the Company the general release described above within 60 days following; i) your Involuntary Termination, or ii) your resignation within 90 days following the first day of employment of the Company's next, non-interim Chief Executive Officer, you will not be entitled to receive any severance or termination compensation or benefits from the Company, including those described in this paragraph 6, except the retiree medical insurance plan. The Company agrees that after you cease being either an employee or a director, it will instruct its officers and human resources personnel to respond to any inquiries regarding your employment by only confirming the fact and dates of your employment, except as otherwise required by law.

7. Definitions.

(a) For purposes of this Agreement, "Cause" shall exist for termination of your employment if you: (i) engage in a material act of theft or dishonesty, intentional misrepresentations regarding the Company or falsification of any employment or Company records; (ii) improperly use or disclose the Company's confidential or proprietary information; or (iii) are convicted of (including entering a plea of guilty or no contest to) any criminal act, which conviction impairs your ability to perform your services for the Company.

(b) For purposes of this Agreement, "Good Reason" shall mean the existence of any of the following conditions 10 days after the Company's Chief Executive Officer or a majority of the Board actually receives a written notice from you of such condition(s), provided that such notice is provided to the Company's Chief Executive Officer or a majority of the Board within 90 days of the date on which you become aware of the condition:

(i) a decrease in your base salary before April 30, 2004;

(ii) a material decrease in any of your employee fringe benefits described in paragraph 3(c), above, which decrease is not similarly applicable to the Chief Executive Officer of the Company;

(iii) a material, adverse change in your title or duties for the Company, as measured against your title or duties immediately prior to such change;

(iv) the Board's assignment to you of additional duties pursuant to paragraph 2(d) which you choose not to perform;

(v) the failure of the Board to nominate you for re-election to the Board at the conclusion of your current term and/or the Board's failure to undertake the same efforts to secure your re-election to the Board as it undertakes on behalf of the other Board nominees on the slate at that election; or

(vi) any material breach of this Agreement by the Company.

8. Benefits Upon Termination Following a Change in Control. In the event that the Company is subject to a "Change in Control" (as that phrase is defined in the Company's Executive Retention and Severance Plan of October 10, 2001 (the "Plan")), you will be eligible to receive all compensation and benefits in accordance with the terms of that Plan as if you were the Company's Chief Executive Officer. In the event that you receive the severance compensation or benefits pursuant to Section 5 of the Plan, you will not receive the severance compensation or benefits under paragraph 6 of this Agreement.

9. Invention and Assignment Agreement. You shall continue to be bound by the terms and conditions of any agreements between you and the Company related to the protection of the Company's confidential and proprietary information and/or assignment of inventions. At your request, the Company will allow you to sign its current Invention and Assignment Agreement, provided that it shall be made effective as of the first day of your employment with the Company.

10. Assignment. In view of the personal nature of the services to be performed under this Agreement by you, you cannot assign or transfer any of your rights or obligations under this Agreement.

11. Press Release. The Company will promptly issue the press release attached hereto as Exhibit A to announce your acceptance of the Chairman position and your resignation from your position as Chief Executive Officer.

12. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California. In any litigation arising out or in connection with or relating to the terms of this Agreement or the breach or alleged breach thereof, the prevailing party shall be entitled to recover its attorneys' fees.

13. Attorneys' Fees. The Company will reimburse you for up to $30,000 of reasonable, documented attorneys' fees incurred by you in the negotiation and documentation of this Agreement.

14. Entire Agreement. This Agreement, along with any agreements described in Paragraphs 3, 8 and 9 above and any agreements concerning your indemnification by the Company, constitutes the entire agreement between you and the Company regarding the terms and conditions of your continued employment with the Company, and it supersedes all prior negotiations, representations, and agreements, whether written or oral, concerning your employment with the Company and/or the termination of your employment. (This Agreement does not affect any stock option or restricted stock agreements between you and the Company, which remain in full force and effect.) This Agreement may only be modified or amended by a supplemental written agreement signed by you and the Chief Executive Officer or the General Counsel of the Company.

Laurence, we look forward to your continued service with the Company. Please sign and date this letter on the spaces provided below to acknowledge your acceptance of the terms of this Special Compensation and Continued Employment Agreement.

Sincerely,

Protein Design Labs, Inc.

By:_____

Douglas O. Ebersole,
Senior Vice President,
Legal and Licensing

I agree to and accept continued employment with Protein Design Labs, Inc. on the terms and conditions set forth in this Special Compensation and Continued Employment Agreement.

Date: May 1, 2002 _____
Laurence Jay Korn, Ph.D.

PROTEIN DESIGN LABS, INC.

STOCK OPTION AGREEMENT (NONSTATUTORY)

Protein Design Labs, Inc. has granted to the individual (the *"**Optionee**"*) named in the *Notice of Grant of Stock Option* (the *"**Notice**"*) to which this Stock Option Agreement (Nonstatutory) is attached an option (the "***Option***") to purchase certain shares of Stock upon the terms and conditions set forth in this Option Agreement (the *"**Option Agreement**"*) and the Notice. The Option has been granted pursuant to the Protein Design Labs, Inc. 1999 Stock Option Plan (the *"**Plan**"*). By signing the Notice, the Optionee represents that the Optionee is familiar with the terms and provisions of this Option Agreement and accepts the Option subject to all of the terms and provisions hereof. The Optionee agrees to accept as final and binding all decisions or interpretations of the Board upon any questions arising under this Option Agreement or the Plan.

1. Definitions and Construction.

1. **Definitions.** Whenever used herein, capitalized terms shall have the meanings assigned in the Notice or as set forth below:
   a. *"**Board**"* means the Board of Directors of the Company.
   b. "***Cause***" shall have the meaning assigned by the ERSP.
   c. *"**Code**"* means the Internal Revenue Code of 1986, as amended, and any applicable regulations promulgated thereunder.
   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. "***ERSP"*** means that certain Executive Retention and Severance Plan, adopted by the Board on October 10, 2001.
   j. *"**Exchange Act**"* means the Securities Exchange Act of 1934, as amended.
   k. *"**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.
   l. *"**Good Reason**"* shall mean any one or more of the following conditions, without the Optionee's informed, written consent, which condition(s) remain(s) in effect ten (10) days after written notice to the Company from the Optionee of such condition(s):

      (i) except for his position, duties, responsibilities and status as Chief Executive Officer, the assignment to the Optionee of any duties, or any limitation of the Optionee's responsibilities, inconsistent with the Optionee's positions, duties, responsibilities and status with a Participating Company immediately prior to April 25, 2002 (the "CEO Election Date").

      (ii) a decrease in the Optionee's annual base salary below $370,000 or target bonus amount prior to the CEO Election Date (subject to applicable performance requirements with respect to the actual amount of bonus compensation earned by the Optionee);

      (iii) any failure by the Company to pay to Optionee any material portion of Optionee's compensation within seven (7) days of the date on which such compensation is due to be paid;

      (iv) any failure by the Company to (i) continue to provide the Optionee 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 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 CEO Election Date , or their equivalent, or (ii) 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 held by the Optionee prior to the CEO Election Date;

(v) the relocation of the Optionee's work place for the Participating Company Group to a location that increases the regular commute distance between the Optionee's residence and work place by more than fifteen (15) miles (one-way), or the imposition of travel requirements substantially more demanding of the Optionee than such travel requirements existing immediately prior to the CEO Election Date ; or

(vi) any material breach of this Agreement by the Company with respect to Optionee.

The existence of Good Reason shall not be affected by the Optionee's temporary incapacity due to physical or mental illness not constituting a Disability. The Optionee'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 Optionee 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.

m. *"**Parent Corporation**"* means any present or future "parent corporation" of the Company, as defined in Section 424(e) of the Code.
n. *"**Participating Company**"* means the Company or any Parent Corporation or Subsidiary Corporation.
o. *"**Participating Company Group**"* means, at any point in time, all corporations collectively which are then Participating Companies.
p. "***Person***" means a natural person.
q. *"**Securities Act**"* means the Securities Act of 1933, as amended.
r. *"**Service**"* means the 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, the 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. 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 the Vested Shares under the Option Agreement. The 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 the Optionee's Service has terminated and the effective date of such termination.
s. *"**Stock**"* means the common stock of the Company, as adjusted from time to time in accordance with Section 9.
t. *"**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 this Option Agreement. 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.

2. <u>Tax Status of Option</u>.

This Option is intended to be a Nonstatutory Stock Option and shall not be treated as an "incentive stock option" within the meaning of Section 422(b) of the Code.

3. <u>Administration</u>.

All questions of interpretation concerning this Option Agreement shall be determined by the Board. All determinations by the Board shall be final and binding upon all Persons having an interest in the Option. The General Counsel or Chief Executive Officer, other than the Optionee, 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.

4. <u>Exercise of the Option</u>.

1. **Right to Exercise.** Except as otherwise provided herein, the Option shall be exercisable prior to the termination of the Option (as provided in Section 6) in an amount not to exceed that portion of the Number of Option Shares which have become Vested Shares less the number of shares previously acquired upon exercise of the Option.
2. **Method of Exercise.** Exercise of the Option shall be by written notice to the Company which must state the election to exercise the Option, the number of whole 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. The written notice must be signed by the Optionee and must be delivered to the Chief Financial Officer, Controller or Stock Administrator of the Company, or other authorized representative of the Participating Company Group, prior to the termination of the Option as set forth in Section 6, accompanied by full payment of the aggregate Exercise Price for the number of shares of Stock being purchased and the tax withholding obligations, if any, as provided in Section 4.4. The Option shall be deemed to be exercised upon receipt by the Company of such written notice, the aggregate Exercise Price, and tax withholding obligations, if any.

3. **Payment of Exercise Price.**
    a. ***Forms of Consideration Authorized*.** Except as otherwise provided below, payment of the aggregate Exercise Price for the number of shares of Stock for which the Option is being exercised shall be made (i) in cash or cash equivalent, (ii) by tender to the Company, or attestation to the ownership, of whole shares of Stock owned by the Optionee having a Fair Market Value (as determined by the Board 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 aggregate Exercise Price, (iii) by means of a Cashless Exercise, as defined in Section 4.3(b)(ii), or (iv) by any combination of the foregoing.
    b. ***Limitations on Forms of Consideration.***
        i. **Tender of Stock.** Notwithstanding the foregoing, the 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. The 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.** A "***Cashless Exercise***" means the assignment in a form acceptable to the Company of the proceeds of a sale or loan with respect to some or all of the shares of Stock acquired upon the exercise of the Option pursuant to a program or procedure approved by the Company (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). The Company reserves, at any and all times, the right, in the Company's sole and absolute discretion, to decline to approve or terminate any such program or procedure.
4. **Tax 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 hereby authorizes withholding from payroll and any other amounts payable to the Optionee, and otherwise agrees to make adequate provision for (including by means of a Cashless Exercise to the extent permitted by the Company), any sums required to satisfy the federal, state, local and foreign tax withholding obligations of the Participating Company Group, 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 upon exercise of the Option, (iii) the operation of any law or regulation providing for the imputation of interest, or (iv) the lapsing of any restriction with respect to any shares of Stock acquired upon exercise of the Option. THE OPTIONEE IS CAUTIONED THAT THE OPTION IS NOT EXERCISABLE UNLESS THE TAX WITHHOLDING OBLIGATIONS OF THE PARTICIPATING COMPANY GROUP ARE SATISFIED. ACCORDINGLY, THE OPTIONEE MAY NOT BE ABLE TO EXERCISE THE OPTION WHEN DESIRED EVEN THOUGH THE OPTION IS VESTED, AND THE COMPANY SHALL HAVE NO OBLIGATION TO ISSUE A CERTIFICATE FOR SUCH SHARES OF STOCK.
5. **Certificate Registration.** Except in the event the Exercise Price is paid by means of a Cashless Exercise, the certificate for the shares of Stock as to which the Option is exercised shall be registered in the name of the Optionee, or, if applicable, in the names of the heirs of the Optionee.
6. **Restrictions on Grant of the Option and Issuance of Shares.** The grant of the Option and the issuance of shares of Stock upon exercise of the Option shall be subject to compliance with all applicable requirements of federal, state or foreign law with respect to such securities. The Option 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, the Option may not be exercised unless (i) 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 (ii) 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 OPTIONEE IS CAUTIONED THAT THE OPTION MAY NOT BE EXERCISED UNLESS THE FOREGOING CONDITIONS ARE SATISFIED. ACCORDINGLY, THE OPTIONEE MAY NOT BE ABLE TO EXERCISE THE OPTION WHEN DESIRED EVEN THOUGH THE OPTION IS VESTED. Questions concerning this restriction should be directed to the Legal Department of the Company. 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 subject to the Option 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 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.

7. **Fractional Shares**. The Company shall not be required to issue fractional shares of Stock upon the exercise of the Option.

5. Nontransferability of the Option.

The Option may be exercised during the lifetime of the Optionee only by the Optionee or the Optionee's guardian or legal representative and may not be assigned or transferred in any manner except by will or by the laws of descent and distribution. Following the death of the Optionee, the Option, to the extent provided in Section 7, may be exercised by the Optionee's legal representative or by any Person empowered to do so under the deceased Optionee's will or under the then applicable laws of descent and distribution.

6. Termination of the Option.

The Option shall terminate and may no longer be exercised on the first to occur of (a) the Option Expiration Date, (b) the last date for exercising the Option following termination of the Optionee's Service as described in Section 7, or (c) a Change in Control to the extent provided in Section 8.

7. Effect of Termination of Service.

1. **Option Exercisability.**
   a. ***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 Option Expiration Date.
   b. ***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.

(c) ***Termination Without Cause or Resignation for Good Reason.*** If, within six (6) months of a new Chief Executive Officer commencing employment with the Company (the "New CEO Start Date"), the Optionee's Service is terminated by the Participating Company Group other than for Cause, or the Optionee resigns for Good Reason then (i) 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 Option Expiration Date, and (ii) the number of Vested Shares shall be increased such that 100% of the Option Shares are fully vested and exercisable effective as of the date on which the Optionee's Service terminated.

(d) ***Termination for Cause*.** If the Optionee's Service is terminated by the Participating Company Group for Cause, the Option, to the extent unexercised and exercisable by the Optionee on the date on which the Optionee's Service was 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.

(e) ***Other Termination of Service*.** If the Optionee's Service with the Participating Company Group terminates for any reason, other than pursuant to Section 7.1(a), (b), (c) or (d), 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 twelve (12) 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.

2. **Extension if Exercise Prevented by Law.** Notwithstanding the foregoing, if the exercise of the Option within the applicable time periods set forth in Section 7.1 is prevented by the provisions of Section 4.6, 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.
3. **Extension if Optionee Subject to Section 16(b).** Notwithstanding the foregoing, if a sale within the applicable time periods set forth in Section 7.1 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.

8. **Change in Control.**

8.1 A "***Change in Control***" shall have the meaning set forth in the ERSP.

8.2 **Effect of Change in Control on Option.** In the event of a Change in Control while Optionee is Chief Executive Officer, the vesting and exercisability of the Option shall be determined in accordance with the ERSP. In addition, the surviving, continuing, successor, or purchasing corporation or parent corporation thereof, as the case may be (the "***Acquiring Corporation***"), shall either assume the Company's rights and obligations under the Option or substitute for the Option a substantially equivalent option for the Acquiring Corporation's stock. The Option shall terminate and cease to be outstanding effective as of the date of the Change in Control to the extent that the Option is 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. Notwithstanding the foregoing, if the corporation the stock of which is subject to the Option immediately prior to a Change in Control is the surviving or continuing corporation and immediately after such Change in Control 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 Option shall not terminate unless the Board otherwise provides in its sole discretion.

9. 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, Exercise Price and class of shares of stock subject to the Option. If a majority of the shares which are of the same class as the shares that are subject to the Option are exchanged for, converted into, or otherwise become (whether or not pursuant to an Ownership Change Event) shares of another corporation (the "***New Shares***"), the Board may unilaterally amend the Option to provide that the Option is exercisable for New Shares. In the event of any such amendment, the Number of Option Shares and the Exercise Price shall be adjusted in a fair and equitable manner, as determined by the Board, in its sole discretion. Notwithstanding the foregoing, any fractional share resulting from an adjustment pursuant to this Section 9 shall be rounded down to the nearest whole number, as determined by the Board, and in no event may the Exercise Price 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 9 shall be final and binding.

10. Rights as a Stockholder, Employee or Consultant.

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 for the shares of Stock for which the Option has been exercised (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date such certificate is issued, except as provided in Section 9. If the Optionee is an Employee, the Optionee understands and acknowledges that, except as otherwise provided in a separate, written employment agreement between a Participating Company and the Optionee, the Optionee's employment is "at will" and is for no specified term. Nothing in this Option Agreement shall confer upon the Optionee, whether an Employee, Director or Consultant, any right to continue in the Service of a Participating Company or interfere in any way with any right of the Participating Company Group to terminate the Optionee's Service as an Employee, Director or Consultant, as the case may be, at any time.

11. Legends.

The Company may at any time place legends referencing any applicable federal, state or foreign 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 carry out the provisions of this Section 11.

12. **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 Fremont, 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 Section 12. 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:

1. Each party will appoint one individual 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) individuals so chosen will select a third impartial arbitrator. The majority decision of the arbitrators will be final and binding 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 Section 12.1, 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.

2. 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.

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

4. 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 binding upon the parties to the arbitration.

5. 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.

13. **Miscellaneous Provisions.**
    1. **Binding Effect.** Subject to the restrictions on transfer set forth herein, this Option Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, executors, administrators, successors and assigns.
    2. **Termination or Amendment.** The Board may terminate or amend the Plan or the Option at any time; provided, however, that no such termination or amendment may adversely affect the Option or any unexercised portion hereof without the consent of the Optionee unless such termination or amendment is necessary to comply with any applicable law or government regulation. No amendment or addition to this Option Agreement shall be effective unless in writing.
    3. **Notices.** Any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given (except to the extent that this Option Agreement provides for effectiveness only upon actual receipt of such notice) upon personal delivery or upon deposit in the United States Post Office, by registered or certified mail, with postage and fees prepaid, addressed to the other party at the address of such party as set forth in the Notice or at such other address as such party may designate in writing from time to time to the other party.
    4. **Integrated Agreement.** This Option Agreement and the Notice constitute the entire understanding and agreement of the Optionee and the Participating Company Group 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 Participating Company Group with respect to such subject matter other than those as set forth or provided for herein or therein, except for the ERSP which shall continue to apply to Optionee by its terms. To the extent contemplated herein, the provisions of this Option Agreement shall survive any exercise of the Option and shall remain in full force and effect.
    5. **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.

Optionee: _____

Date: _____

PROTEIN DESIGN LABS, INC.

STOCK OPTION (NONSTATUTORY)

EXERCISE NOTICE

Protein Design Labs, Inc.
Attention: Stock Administrator
34801 Campus Drive
Fremont, CA 94555

Ladies and Gentlemen:

1. **Option.** I was granted a nonstatutory stock option (*"**Option**"*) to purchase shares of the common stock (*"**Shares**"*)of Protein Design Labs, Inc. (*"**Company**"*) pursuant to the Company's 1999 Stock Option Plan (the *"**Plan**"*) as follows:

Grant Number:	_____

Date of Option Grant:	_____
Number of Option Shares:	_____
Exercise Price per Share:	$ _____

2. **Exercise of Option.** I hereby elect to exercise the Option to purchase the following number of shares, all of which have vested in accordance with my Option Agreement:

No. of Shares Purchased:	_____
Total Exercise Price:	$ _____

3. **Payment.** I enclose payment in full of the total exercise price for the Shares in the following form(s), as authorized by my Option Agreement:

Cash:	$ _____
Check:	$ _____
Tender of Company Stock:	Contact Stock Administrator for additional forms
Cashless exercise (same-day sale):	Contact Stock Administrator for additional forms

4. **Tax Withholding.** I authorize payroll withholding and otherwise will make adequate provision for federal, state, local and foreign tax withholding obligations of the Company, if any, in connection with my exercise of the Option and my subsequent disposition of the Shares.

5. **Optionee Information.**

My address is:	
	_____
	_____
	My Social Security Number is: _____

I understand that I am purchasing the Shares pursuant to the terms of the Plan and my Option Agreement, a copy of which I have received and have carefully read and understand.

Very truly yours,

_____

(Signature)

_____

(Optionee's Name Printed)

Receipt of the above is hereby acknowledged:

PROTEIN DESIGN LABS, INC.

By: _____

Title: _____

Dated: _____

Exhibit 10.6

PROTEIN DESIGN LABS, INC.

NOTICE OF GRANT OF STOCK OPTION

(1999 Stock Option Plan)

_____ (the *"**Optionee**"*) has been granted an option (the *"**Option**"*) to purchase certain shares of Stock of Protein Design Labs, Inc. pursuant to the Protein Design Labs, Inc. 1999 Stock Option Plan (the *"**Plan**"*) as provided in the attached Stock Option Agreement, as follows:

Date of Option Grant:	_____
Number of Option Shares:	_____
Exercise Price:	_____
Initial Vesting Date:	May 1, 2002.
Option Expiration Date:	The date ten (10) years after the Date of Option Grant.
Type of Option:	Stock Option (Nonstatutory)

Vested Shares:	Except as provided in the Stock Option Agreement, determined as of any date by multiplying the Number of Option Shares by the *"**Vested Ratio**"* as follows:

	Vested Ratio
Prior to Initial Vesting Date	0
For each month (rounded up for any fraction of a month) of the Optionee's continuous full-time Service as Chief Executive Officer from Initial Vesting Date until the Vested Ratio equals 1/1, an additional	1/12

Adjustments to the Vested Ratio: The Company may adjust the Vested Ratio to account for any periods of part-time employment by the Optionee.

Termination of Option: Except as may otherwise be provided by the Board, upon termination of Optionee's Service as Chief Executive Officer, the Option shall terminate immediately with respect to shares that are not Vested Shares. However, provided the Optionee's Service continues uninterrupted in a capacity other than as Chief Executive Officer, the Option shall continue in accordance with the Stock Option Agreement with respect to any Vested Shares. Upon termination of the Optionee's Service, the Option shall terminate in accordance with the terms of the Stock Option Agreement.

By their signatures below, the parties hereto agree that the Option is governed by the terms and conditions of the Stock Option Agreement attached to and made a part of this document. The Optionee acknowledges receipt of a copy of the Stock Option Agreement, represents that the Optionee is familiar with its provisions, and hereby accepts the Option subject to all of its terms and conditions.

PROTEIN DESIGN LABS, INC.	OPTIONEE
By: _____	_____
Its: _____	
34801 Campus Drive	_____
Fremont, California 94555	Address
	_____

Exhibit 99.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Douglas O. Ebersole, acting Chief Executive Officer of Protein Design Labs, Inc. (the "Registrant"), do hereby certify in accordance with 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, based on my knowledge:

(1) the Quarterly Report on Form 10-Q of the Registrant, to which this certification is attached as an exhibit (the "Report"), fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and

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

Dated: August 14, 2002

By: /s/ Douglas O. Ebersole
Douglas O. Ebersole
Chief Executive Officer (acting)

Exhibit 99.2

CERTIFICATION OF PRINCIPAL ACCOUNTING OFFICER

I, Robert Kirkman, the principal accounting officer of Protein Design Labs, Inc. (the "Registrant"), do hereby certify in accordance with 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, based on my knowledge:

(1) the Quarterly Report on Form 10-Q of the Registrant, to which this certification is attached as an exhibit (the "Report"), fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and

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

Dated: August 14, 2002

By: /s/ Robert Kirkman
Robert Kirkman
Vice President, Business Development and Corporate Communications
(Prinicipal Accounting Officer)