

PROTEIN DESIGN LABS INC/DE
Form PRE 14A
April 22, 2005

**UNITED STATES
SECURITIES AND EXCHANGE
COMMISSION**
Washington, D.C. 20549
SCHEDULE 14A

OMB APPROVAL
OMB Number: 3235-0059

Expires: January 31, 2008
Estimated average burden
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- X** Preliminary Proxy Statement
- O** **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- O** Definitive Proxy Statement
- O** Definitive Additional Materials
- O** Soliciting Material Pursuant to Rule §240.14a-12

Protein Design Labs, Inc

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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**PROTEIN DESIGN LABS, INC.
NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
June 8, 2005**

Dear Stockholder:

On behalf of the Board of Directors, I cordially invite you to attend the annual meeting of stockholders of Protein Design Labs, Inc., a Delaware corporation (the Company), to be held on June 8, 2005 at 10:00 a.m. at the W New York Union Square Hotel, 201 Park Avenue South, New York, NY 10003, for the following purposes***:

1. To elect two Class I directors to hold office for a three-year term and until their respective successors are elected and qualified.
2. To consider the approval of the 2005 Equity Incentive Plan.

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3. To consider an amendment of the 2002 Outside Directors Stock Option Plan.
4. To consider an amendment to the Company's Certificate of Incorporation to change the name of the Company to [***].
5. To ratify the appointment of Ernst & Young LLP as the independent auditors of the Company for the fiscal year ending December 31, 2005.
6. To approve any adjournments of the meeting to another time or place, if necessary in the judgment of the proxy holders, for the purpose of soliciting additional proxies in favor of any of the foregoing proposals.
7. To transact such other business as may properly come before the meeting.

Stockholders of record at the close of business on April 25, 2005 are entitled to notice of, and to vote at, this meeting and any continuation or adjournments thereof. For ten days prior to the meeting, a complete list of stockholders entitled to vote at the meeting will be available during ordinary business hours at the principal office of the Company for examination by any stockholder for any purpose relating to the meeting and during the meeting at the place of the meeting for examination by any stockholder who is present.

By Order of the Board of Directors

Douglas O. Ebersole
Secretary

Fremont, California
May , 2005

WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING IN PERSON, YOU ARE URGED TO MARK, SIGN, DATE AND PROMPTLY MAIL THE ENCLOSED PROXY IN THE RETURN ENVELOPE OR VOTE BY TELEPHONE OR THROUGH THE INTERNET SO THAT YOUR STOCK MAY BE REPRESENTED AT THE MEETING.

*****NOTE: NOTWITHSTANDING ANYTHING TO THE CONTRARY HEREIN, ALL PROPOSALS SET FORTH IN THIS PRELIMINARY PROXY STATEMENT REMAIN SUBJECT TO FURTHER CONSIDERATION BY THE COMPANY'S BOARD OF DIRECTORS, AND THEREFORE MAY CHANGE OR BE WITHDRAWN BEFORE THE FILING AND MAILING OF A DEFINITIVE PROXY STATEMENT. ALSO, NOTWITHSTANDING ANYTHING TO THE CONTRARY HEREIN, ALL SPECIFIC INFORMATION DENOTED WITH A *** IN THIS PRELIMINARY PROXY STATEMENT AND ANY APPENDIX HEREOF REMAINS SUBJECT TO FURTHER CONSIDERATION BY THE BOARD AND WILL BE INSERTED IN THE DEFINITIVE PROXY STATEMENT IF FINALIZED BY THE BOARD.**

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PROXY STATEMENT
2005 ANNUAL MEETING OF STOCKHOLDERS
PROTEIN DESIGN LABS, INC.
34801 Campus Drive
Fremont, California 94555
(510) 574-1400

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors (the "Board") of PROTEIN DESIGN LABS, INC., a Delaware corporation (the "Company"), of Proxies for use at the annual meeting of stockholders to be held on June 8, 2005, or any adjournment thereof, for the purposes set forth in the accompanying Notice of Annual Meeting. This Proxy Statement and accompanying Proxy are first being distributed to stockholders on approximately May 3, 2005. The cost of the solicitation of Proxies will be borne by the Company. The Board may use the services of the Company's directors, officers and others to solicit Proxies, personally, by telephone or by the Internet. The Board may also arrange with brokerage houses and other custodians, nominees and fiduciaries to forward solicitation material to the beneficial owners of the stock held of record by such persons, and the Company may reimburse them for the reasonable out-of-pocket expenses incurred in so doing. In addition, we have retained Morrow & Co., Inc., a proxy solicitation firm, for assistance in connection with the annual meeting at a cost of approximately \$10,000 plus reasonable out-of-pocket expenses. The Annual Report to Stockholders for the fiscal year ended December 31, 2004, including financial statements, is being distributed to stockholders concurrently with the distribution of this Proxy Statement.

VOTING RIGHTS

The voting securities of the Company entitled to vote at the annual meeting consist of shares of Common Stock. Only stockholders of record at the close of business on April 25, 2005 are entitled to notice of and to vote at the annual meeting. On that date, there were [***] shares of Common Stock issued and outstanding. Each share of Common Stock is entitled to one vote. The Company's Bylaws provide that a majority of all of the shares of the stock entitled to vote, whether present in person or by proxy, shall constitute a quorum for the transaction of business at the meeting.

All registered stockholders can vote by paper Proxy or by telephone by following the instructions included with their Proxy. Stockholders whose shares of Common Stock are registered in the name of a bank or brokerage firm should follow the instructions provided by their bank or brokerage firm on voting their shares. Registered stockholders and stockholders whose shares of Common Stock are registered in the name of a bank or brokerage firm participating in the ADP Investor Communication Services online program may vote electronically through the Internet. Instructions on Internet voting and Proxy distribution are available through the Company's website at www.pdl.com/investors. Signing and

returning the Proxy or submitting the Proxy by telephone or through the Internet does not affect the right to vote in person at the annual meeting.

All shares represented by valid Proxies received prior to the annual meeting will be voted and, where a stockholder specifies by means of the Proxy a choice with respect to any matter to be acted upon, the shares will be voted in accordance with the specifications so made. If an executed Proxy is submitted without any instruction for the voting of such Proxy, the Proxy will be voted in favor of the proposals described. Any stockholder giving a Proxy has the power to revoke it at any time before it is exercised, whether the Proxy was given by telephone, via the Internet or by returning the Proxy. A Proxy may be revoked by filing with the Secretary of the Company a written revocation or duly executed Proxy bearing a later date, or by making an authorized Internet or telephone communication on a later date in accordance with the instructions on the enclosed Proxy. It may also be revoked by appearing at the annual meeting and electing to vote in person.

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PROPOSAL ONE NOMINATION AND ELECTION OF DIRECTORS

The Company has a classified Board of Directors consisting of three Class I, three Class II and two Class III directors who will serve until the annual meetings of stockholders to be held in 2005, 2006 and 2007, respectively, and until their respective successors are duly elected and qualified. At each annual meeting of stockholders, directors are elected for a term of three years to succeed those directors whose terms expire as of that annual meeting.

The terms of the current Class I directors will expire on the date of the upcoming annual meeting. One of those directors, George M. Gould, has announced he will not be seeking re-election to the Board at the conclusion of his term. Therefore, effective upon the expiration of the terms of the current Class I directors, the Board has decreased the number of directors to seven members, consisting of two members in each of Classes I and III and three members in Class II. Accordingly, two persons are to be elected to serve as Class I directors of the Board at the meeting. Management's nominees for election by the stockholders to those two positions are Jon S. Saxe, Esq. and L. Patrick Gage, Ph.D., the other Class I members of the Board. If elected, the nominees will serve as directors until the Company's annual meeting of stockholders in 2008. If any nominee(s) declines to serve or becomes unavailable for any reason, or if a vacancy occurs before the election (although the Company knows of no reason to anticipate that this will occur), the Proxies may be voted for such substitute nominee(s) as the Board may recommend in place of such nominee(s).

If a quorum is present, the two nominees for Class I directors receiving the highest number of votes will be elected as Class I directors. Abstentions and shares held by brokers that are present but not voted because the brokers were prohibited from exercising discretionary authority, i.e., broker non-votes, will be counted as present in determining if a quorum is present.

THE BOARD RECOMMENDS A VOTE FOR THE NOMINEES NAMED ABOVE.

Certain information concerning the current directors as of April 1, 2005, including the Class I nominees to be elected at this meeting, is set forth below.

Nominee/Director	Positions with the Company	Age	Director Since
<i>Class I directors whose terms expire at the 2005 Annual Meeting of Stockholders</i>			
George M. Gould, Esq.	Director	67	1989
Jon S. Saxe, Esq.	Director	68	1989
L. Patrick Gage, Ph.D.	Director	62	2003
<i>Class II directors whose terms expire at the 2006 Annual Meeting of Stockholders</i>			
Karen A. Dawes	Director	53	2003
Mark McDade	Chief Executive Officer, Director	49	2002
Cary L. Queen, Ph.D.	Consultant, Director	54	1987

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Nominee/Director	Positions with the Company	Age	Director Since
<i>Class III directors whose terms expire at the 2007 Annual Meeting of Stockholders</i>			
Laurence Jay Korn, Ph.D.	Director	55	1986
Max Link, Ph.D.	Chairman of the Board, Director	64	1993

Karen A. Dawes has been a director of the Company since June 2003. She is currently Principal, Knowledgeable Decisions, LLC, a pharmaceutical consulting firm. She served from 1999 to 2003 as Senior Vice President and U.S. Business Group Head for Bayer Corporation's U.S. Pharmaceuticals Group. Prior to joining Bayer, she was Senior Vice President, Global Strategic Marketing, at Wyeth, a pharmaceutical company (formerly known as American Home Products), where she held responsibility for worldwide strategic marketing. She also served as Vice President, Commercial Operations for Genetics Institute, Inc., which was

acquired by Wyeth in January 1997, designing and implementing that company's initial commercialization strategy to launch BeneFIX and Neumega. Ms. Dawes began her pharmaceuticals industry career at Pfizer, Inc. where, from 1984 to 1994, she held a number of positions in Marketing, serving most recently as Vice President, Marketing of the Pratt Division. There she directed launches of Glucotrol/Glucotrol XL, Zolof, and Cardura. Ms. Dawes also serves as a director of Genaisance Pharmaceuticals, Inc.

L. Patrick Gage, Ph.D. has been a director of the Company since March 2003. In November 1989, Dr. Gage joined the Genetics Institute, Inc., a subsidiary of Wyeth, serving as Chief Operating Officer and eventually President in 1997. In 1998, Dr. Gage became President of Wyeth Research, a division of Wyeth, and from 2000 to 2002 also served as Senior Vice President, Science and Technology for Wyeth. In this capacity he served as the Chief Scientific Officer for Wyeth corporate and as advisor to the company's Chairman and Chief Executive Officer as well as its Board of Directors. Prior to that time, Dr. Gage held various positions in research management at Hoffmann-La Roche Inc. (Roche) over an 18-year period. Dr. Gage is also a director of Neose Technologies and Serono SA, and retired as Chairman of the Dublin Molecular Medicine Centre in Ireland in June 2004. Dr. Gage is a part-time venture partner with Flagship Ventures in Cambridge, Massachusetts. He serves as the Executive Chairman of Compound Therapeutics, and as Chairman of Acceleron Pharma, both private biotechnology companies. Dr. Gage also serves as the Chair of the Science Advisory Board of Perkin Elmer Life and Analytical Sciences Company, and is a member of the Life Sciences Advisory Board of Warburg Pincus, a private equity investment company, and the Scientific Advisory Board of Functional Genetics. Dr. Gage also serves as a director of Immune Control, a private biotechnology company.

George M. Gould, Esq. has been a director of the Company since October 1989. Since June 1996, Mr. Gould has served as of counsel to the law firm of Gibbons, Del Deo, Dolan, Griffinger & Vecchione. From May 1996 to December 1996, Mr. Gould was a Senior Vice President of PharmaGenics, Inc. Prior to that time, Mr. Gould served as Vice President, Licensing & Corporate Development and Chief Patent Counsel for Roche from October 1989 to May 1996. Mr. Gould is also a director of NaPro BioTherapeutics, Inc.

Laurence Jay Korn, Ph.D. has been a director of the Company since July 1986. From July 1986 until June 2004, Dr. Korn served as Chairman of the Board and from January 1987 until April 2002, Dr. Korn also served as Chief Executive Officer. Dr. Korn continued to serve as an executive officer of the Company until June 2004. Previously, Dr. Korn headed a research laboratory and served on the faculty of the Department of Genetics at the Stanford University School of Medicine from March 1981 to December 1986. Dr. Korn received his Ph.D. from Stanford University and was a Helen Hay Whitney Postdoctoral Fellow at the Carnegie Institution of Washington and a Staff Scientist at the MRC Laboratory of Molecular Biology in Cambridge, England, before becoming an Assistant Professor at Stanford.

Max Link, Ph.D. has been a director of the Company since June 1993 and became Chairman of the Board of the Company in June 2004. Dr. Link served as Chairman and Chief Executive Officer of Centerpulse Ltd., an orthopedic products company, from March 2001 until its acquisition by Zimmer Holdings, Inc. in August 2003. He served as the Chief Executive Officer of Corange Ltd., a diagnostic and pharmaceutical company, from May 1993 to May 1994, and as the Chief Executive Officer of Boehringer Mannheim-Therapeutics, the worldwide pharmaceutical division of Corange Ltd., from October 1993 to May 1994. Dr. Link served as the Chairman of Sandoz Pharma Ltd., a pharmaceutical company, from April 1992 to April 1993, and served in various management positions at Sandoz Ltd. and Sandoz Pharmaceuticals Corporation from October 1971 to April 1992. Dr. Link also serves both as a director and an audit committee member of

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Access Pharmaceuticals, Inc., Alexion Pharmaceuticals, Inc., Cell Therapeutics, Inc., Discovery Laboratories, Inc., Human Genome Sciences, Inc. and Celsion Corporation.

Mark McDade has been a director of the Company since November 2002, when he joined the Company as Chief Executive Officer. From December 2000 until November 2002, he served as Chief Executive Officer of Signature BioScience, Inc., a drug discovery company. Prior to Signature, Mr. McDade co-founded and served as a director of Corixa Corporation, a developer of immunotherapeutic products. He served as Chief Operating Officer at Corixa from September 1994 through December 1998 and as President and Chief Operating Officer from January 1999 until his departure in late 2000. Prior to Corixa, Mr. McDade served as

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Chief Operating Officer of Boehringer Mannheim-Therapeutics. Prior to Boehringer Mannheim-Therapeutics, he served in several positions at Sandoz Ltd., which included business development, product management and general management responsibilities. Mr. McDade currently serves on the board of directors of Valentis, Inc. and Cytokinetics, Inc. Mr. McDade earned his M.B.A. from Harvard Business School.

Cary L. Queen, Ph.D. has been a director of the Company since January 1987 and served as its Vice President, Research, from April 1989 to August 2001, and as its Senior Vice President from June 1993 until January 2004. Previously, Dr. Queen held positions at the National Institutes of Health from 1983 to 1986, where he studied the regulation of genes involved in the synthesis of antibodies. Dr. Queen received his Ph.D. in Mathematics from the University of California at Berkeley and subsequently served as an Assistant Professor of Mathematics at Cornell University.

Jon S. Saxe, Esq. has been a director of the Company since March 1989. Mr. Saxe served as a consultant to the Company from June 1993 to December 1994 and again from May 2000 until January 2002. From May 1999 to April 2000, Mr. Saxe served as Senior Advisor to our Chief Executive Officer. From January 1995 to April 1999, Mr. Saxe also served as President of the Company. He has also served as President of Saxe Associates, a biotechnology and pharmaceutical consulting firm, since May 1993. Mr. Saxe is also a director of Questcor Pharmaceuticals, Inc., First Horizon Pharmaceuticals, Inc., InSite Vision, Inc., SciClone Pharmaceuticals, Inc., ID Biomedical Corporation, Durect Corporation and several private companies.

The Board of Directors has determined that, other than Mr. McDade, Dr. Korn and Dr. Queen, each member of the Board is an independent director for purposes of the Nasdaq Marketplace Rules. Mr. McDade is an executive officer of the Company, Dr. Korn was an executive officer until June 2004, and Dr. Queen is a consultant to the Company.

Board Committees and Meetings

During the 2004 fiscal year, the Board of Directors held nine meetings. During that period, the Audit Committee of the Board held six meetings, the Compensation Committee of the Board held five meetings and the Nominating and Governance Committee (the Nominating Committee) held two meetings. Attendance by the directors at meetings held in the Company's 2004 fiscal year was 95% for the Board, 100% for the Audit Committee, 86% for the Compensation Committee and 100% for the Nominating Committee. Each director currently serving attended at least 75% of the aggregate number of meetings of the Board and the committees on which each director serves.

The Audit Committee currently consists of three members, George M. Gould, Max Link and Karen Dawes. [***] was appointed to the Audit Committee to replace Mr. Gould when his term expires, effective as of the date of the 2005 annual meeting. Each of the members of the Audit Committee is independent for purposes of the Nasdaq Marketplace Rules as they apply to audit committee members. Dr. Link, who serves as chairman of the Audit Committee, is also an audit committee financial expert, as defined in Item 401(h) of Regulation S-K promulgated by the Securities and Exchange Commission. The functions of the Audit Committee include (i) monitoring the independence and performance of the independent auditors and recommending the independent auditors to the Board, (ii) reviewing and approving the planned scope of the annual audit and the results of the annual audit, (iv) pre-approving all audit services and permissible non-audit services provided by the independent auditor, (v) reviewing the accounting and reporting principles applied by the Company in preparing its financial statements, (vi) reviewing the internal financial and accounting controls and finance and accounting personnel of the Company with the independent auditors, (vii) overseeing compliance with the Foreign Corrupt Practices Act, (viii) reviewing with management and the independent auditors, as appropriate, the Company's financial reports and other financial information provided by the Company to any governmental body or the public, and the Company's compliance with legal and regulatory requirements, (ix) reviewing and approving any transaction that may present potential for conflict of interest, such as with the Company's officers, directors or significant stockholders, and (x) reviewing the Company's Audit Committee charter annually and at other times as conditions dictate.

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The Compensation Committee currently consists of three members, George M. Gould, Jon Saxe and Karen Dawes, each of whom is an independent director for purposes of the Nasdaq Marketplace Rules. From

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January 2004 through June 2004, the Compensation Committee consisted of two members, George M. Gould and Max Link. Karen Dawes and Jon Saxe joined the Compensation Committee and Dr. Link left the Compensation Committee in July 2004. [***] was appointed to the Committee to replace Mr. Gould when his term expires, effective as of the date of the 2005 annual meeting. [***] serves as chairman of the Compensation Committee. The functions of the Compensation Committee include (i) designing and implementing competitive compensation policies to attract and retain key personnel, (ii) reviewing and formulating policy and determining or making recommendations to the Board regarding compensation of the Company's officers with respect to salaries, bonuses, and other compensation, (iii) administering the Company's stock option plans (the Plans) and granting or recommending grants of stock options and shares of stock to the Company's executive officers and directors under the Plans and (iv) reviewing and establishing Company policies in the area of management perquisites.

The Nominating and Governance Committee (the Nominating Committee) consists of two members, L. Patrick Gage and Max Link, each of whom is an independent director for purposes of the Nasdaq Marketplace Rules. Mr. Gage serves as chairman of the Nominating Committee. The Nominating Committee operates under a formal written charter attached as Appendix A to the Company's Proxy Statement for its 2004 Annual Meeting of Stockholders. The functions of the Nominating Committee include (i) identifying individuals qualified to become Board members, (ii) selecting, or recommending to the Board, director nominees for each election of directors, (iii) developing and recommending to the Board criteria for selecting qualified director candidates, (iv) considering committee member qualifications, appointment and removal, (v) recommending corporate governance principles, codes of conduct and compliance mechanisms applicable to the Company, and (vi) providing oversight in the evaluation of the Board and each committee of the Board.

Director Nominations

Consistent with its charter, the Nominating Committee will evaluate and recommend to the Board of Directors director nominees for each election of directors.

In fulfilling its responsibilities, the Nominating Committee considers the following factors in reviewing possible candidates for nomination as director:

the appropriate size of the Company's Board of Directors and its Committees;

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

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

nominees' independence from management;

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

the benefits of a constructive working relationship among directors; and

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

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

Other than the foregoing, there are no stated minimum criteria for director nominees, although the Nominating Committee may also consider such other factors as it may deem, from time to time, to be in the best interests of the Company and its stockholders.

Identifying and Evaluating Candidates for Nomination as Director

The Nominating Committee annually evaluates the current members of the Board of Directors whose terms are expiring and who are willing to continue in service against the criteria set forth above in determining whether to recommend these directors for election. The Nominating Committee regularly assesses the optimum size of the Board and its committees and the needs of the Board for various skills, background and business experience in determining whether it is advisable to consider additional candidates for nomination.

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

The Nominating Committee's policy is to evaluate any recommendation for director nominee proposed by a stockholder. In order to be evaluated in connection with the Nominating Committee's established procedures for evaluating potential director nominees, any recommendation for director nominee submitted by a stockholder must be sent in writing to the Corporate Secretary, Protein Design Labs, Inc., 34801 Campus Drive, Fremont, CA 94555, at least 120 days prior to the anniversary of the date definitive proxy materials were mailed to stockholders in connection with the prior year's annual meeting of stockholders and must contain the following information:

the candidate's name, age, contact information and present principal occupation or employment; and

a description of the candidate's qualifications, skills, background, and business experience during, at a minimum, the last five years, including his/her principal occupation and employment and the name and principal business of any corporation or other organization in which the candidate was employed or served as a director.

In addition, the Company's bylaws permit stockholders to nominate directors for consideration at an annual meeting provided they notify the Company at least 120 days prior to the anniversary of the date when definitive proxy materials were mailed to stockholders in connection with the prior year's annual meeting of stockholders. Each such notice must set forth: (a) the name and address of the stockholder who intends to make the nomination and of the person or persons to be nominated; (b) a representation that the stockholder is a holder of record of stock of the Company entitled to vote for the election of directors on the date of such notice and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder; (d) such other information regarding each nominee proposed by such stockholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission, had the nominee been nominated, or intended to be nominated, by the Board of Directors; and (e) the consent of each nominee to serve as a director of the Company if so elected.

All directors and director nominees must submit a completed form of directors' and officers' questionnaire as part of the nomination process. The evaluation process may also include interviews and additional background and reference checks for non-incumbent nominees, at the discretion of the Nominating Committee.

Policy Regarding Communications by Stockholders with Directors

Stockholders may communicate with directors of the Company by transmitting correspondence by mail or facsimile, addressed to the director or the full Board of Directors as follows:

Board of Directors
or [individual director]
c/o Corporate Secretary
Protein Design Labs, Inc.
34801 Campus Drive
Fremont, CA 94555
Fax: 510-574-1473

The Corporate Secretary will maintain a log of such communications and transmit as soon as practicable such communications to the identified director(s), except where security concerns militate against further transmission of the communication or the communication relates to commercial matters not related to the sender's interest as a stockholder, as determined by the Corporate Secretary in consultation with the General Counsel. The Board of Directors or individual directors so addressed will be advised of any communication withheld for such reasons.

Attendance at Annual Meetings by Directors

The Company has no formal policy regarding directors' attendance at annual meetings but believes that annual meetings provide an opportunity for stockholders to communicate with directors and as such requests directors to make every effort to attend the Company's annual meeting of stockholders. Four directors attended the 2004 Annual Meeting.

Code of Ethics

We have adopted a Code of Conduct and Policy Regarding Reporting of Potential Violations (the Code of Conduct) for directors, officers (including our principal executive officer, principal financial officer and controller) and employees, which constitutes a code of ethics as defined in Item 406 of SEC Regulation S-K. The Code of Conduct is available on our website at http://www.pdl.com/documents/code_of_conduct.pdf.

Additionally, stockholders may request a free copy of the Code of Conduct from:

Protein Design Labs, Inc.
Attention: Investor Relations
34801 Campus Drive
Fremont, CA 94555
(510) 574-1400

Corporate Governance Guidelines

The Company has adopted Corporate Governance Guidelines, which are available on the Company's website at http://www.pdl.com/documents/corpgov_guidelines.pdf. Stockholders may request a free copy of the Corporate Governance Guidelines from the address and phone numbers set forth above under Code of Ethics.

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PROPOSAL TWO APPROVAL OF 2005 EQUITY INCENTIVE PLAN

At the annual meeting, the stockholders will be asked to approve the Protein Design Labs, Inc. 2005 Equity Incentive Plan (the 2005 Plan). The Board of Directors has adopted the 2005 Plan, subject to its approval by our stockholders. If the stockholders approve the 2005 Plan, it will become effective on the date of the annual meeting.

Our 1999 Stock Option Plan and 1999 Nonstatutory Stock Option Plan authorize only one type of award: stock options. We are asking our stockholders to approve the 2005 Plan to provide a number of alternatives to stock options, including stock appreciation rights, restricted stock and restricted stock unit awards, performance share and performance unit awards, deferred compensation awards and other stock-based or cash-based awards. We believe that the ability to grant incentive awards other than stock options will be an important component of compensation for our company in the future.

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As many of our stockholders may be aware, the Financial Accounting Standards Board has adopted revised principles governing the accounting treatment of share-based payments. Once they are effective, companies must record compensation expense in their financial statements for stock options granted to employees, as well as for other types of equity-based incentives provided to employees. Our Board of Directors believes that, as a result of these accounting changes, other forms of equity compensation will become more prevalent in the future and further believes that the Company should have compensation alternatives that minimize the expense of those equity-based incentives, or that provide a form of incentive that may previously have been desirable but would have resulted in disadvantageous accounting treatment compared to traditional stock options.

In addition, we operate in a competitive marketplace in which our success depends to a great extent on our ability to attract and retain employees of the highest caliber. One of the tools our Board of Directors regards as essential in addressing these human resource challenges is a competitive equity incentive program. The Board of Directors believes it of paramount importance that our employee stock incentive program provide the Company with a range of incentive tools and sufficient flexibility to permit the Board's Compensation Committee to implement them in ways that will make the most effective use of the shares our stockholders authorize for incentive purposes.

The Board of Directors believes that equity ownership by senior management and nonemployee directors is a significant factor in aligning the interests of management and stockholders. If the 2005 Plan is approved by our stockholders, the Compensation Committee intends to grant awards of restricted stock to the chief executive officer and other executive officers named in the Summary Compensation Table (as set forth below Executive Compensation and Other Matters Compensation of Executive Officers) in lieu of stock option grants beginning in 2005. Moreover, the Board of Directors has recently adopted Stock Ownership Guidelines for the chief executive officer, the next five most highly compensated officers (determined by base cash compensation) and nonemployee members of the Board of Directors. A description of the Stock Ownership Guidelines is contained in the Report of the Compensation Committee on Executive Compensation set forth in this proxy statement. The Board of Directors believes adoption of the 2005 Plan will facilitate compliance with the Stock Ownership Guidelines.

As of March 31, 2005, options were outstanding under all existing stock option plans (i.e., the 1999 Stock Option Plan, 1999 Nonstatutory Stock Option Plan and 2002 Outside Directors Stock Option Plan) for a total of 15,974,574 shares of our common stock at a weighted average exercise price of \$16.52 and having a weighted average term to expiration of 6.96 years. As of March 31, 2005, a total of 5,331,344 shares remained available for future grant under all existing stock option plans, of which 975,313 shares were available under the 1999 Nonstatutory Stock Option Plan, 3,968,031 shares were available under the 1999 Stock Option Plan, and 388,000 shares were available under the 2002 Outside Directors Stock Option Plan.

Our Board of Directors is well aware of the criticism that has been leveled generally against the misuse of stock-based compensation by some companies. The Board believes that the 2005 Plan it has adopted takes steps to address many of the possible concerns of our stockholders. These include:

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Stock options and stock appreciation rights may not be repriced without the approval of our stockholders.

No discount from fair market value is permitted in setting the exercise price of stock options and stock appreciation rights.

Each stock option, stock appreciation right and full value award (i.e., an award that does not require the employee to purchase shares, such as the grant of restricted stock) that vests based on continued service will require more than three years of service for at least 25% of the shares subject to the award, and each such award that vests based on the attainment of performance goals will require a performance period of at least twelve months, except in the case of a participant's death, disability, retirement, involuntary termination or a change in control of the Company.

The maximum life of stock options and stock appreciation rights granted under the 2005 Plan will be seven years.

The maximum number of shares for which awards may be granted to any individual under the 2005 Plan in any fiscal year will not exceed 9% of the maximum aggregate number of shares authorized under the 2005 Plan, except in the case of awards granted during the first year of a participant's employment.

The 2005 Plan establishes a list of measures of business and financial performance from which the Compensation Committee may construct predetermined performance goals that must be met for an award to vest.

The 2005 Plan has a fixed term of ten years.

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Finally, the 2005 Plan is also designed to preserve the Company's ability to deduct in full for federal income tax purposes the compensation recognized by its executive officers in connection with certain types of awards. Section 162(m) of the Internal Revenue Code (the "Code") generally denies a corporate tax deduction for annual compensation exceeding \$1 million paid by a publicly held company to its chief executive officer or to any of its four other most highly compensated officers. However, compensation that is deemed to be "performance-based" under Section 162(m) is generally excluded from this limit. To enable compensation received in connection with stock options, stock appreciation rights, certain restricted stock and restricted stock unit awards, performance share and performance unit awards, and certain other stock-based or cash-based awards granted under the 2005 Plan to qualify as "performance-based" within the meaning of Section 162(m), the stockholders are being asked to approve certain material terms of the 2005 Plan. By approving the 2005 Plan, the stockholders will be approving, among other things:

the eligibility requirements for participation in the 2005 Plan;

the performance measures upon which the grant or vesting of awards of performance shares or performance units and certain restricted stock, restricted stock unit, other stock-based or cash-based awards may be based;

the maximum numbers of shares for which stock options, stock appreciation rights, awards of restricted stock, restricted stock units or performance shares or other stock-based awards intended to qualify as performance-based awards may be granted to an employee in any fiscal year; and

the maximum dollar amount that a participant may receive upon settlement of performance units or other cash-based awards intended to qualify as performance-based awards.

While we believe that compensation in connection with such awards under the 2005 Plan generally will be deductible by the Company for federal income tax purposes, under certain circumstances, such as a change in control of the Company, compensation paid in settlement of certain awards may not qualify as "performance-based."

The Board of Directors believes that the 2005 Plan will serve a critical role in attracting and retaining the high caliber employees, directors and consultants essential to our success and in motivating these individuals to strive to meet our goals. Therefore, our Board urges you to vote to approve the adoption of the 2005 Plan.

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Summary of the 2005 Plan

The following summary of the 2005 Plan is qualified in its entirety by the specific language of the 2005 Plan, attached as Appendix A to this Proxy Statement.

General. The purpose of the 2005 Plan is to advance the interests of the Company by providing an incentive program that will enable the Company to attract and retain employees, consultants and directors upon whose judgment, interest and efforts the Company's success is dependent and to provide them with an equity stake in the success of the Company. These incentives will be provided through the grant of stock options, stock appreciation rights, restricted stock purchase rights, restricted stock bonuses, restricted stock units, performance shares, performance units, deferred compensation awards, and other stock-based and cash-based awards.

Authorized Shares. If the 2005 Plan is approved by the stockholders, a total of 2,300,000 shares of our common stock will initially be authorized for issuance under the plan. Shares issued under the 2005 Plan may be authorized but unissued or reacquired shares of the common stock of the Company.

Certain Award Limits. In addition to the limit described above on the total number of shares of our common stock that will be authorized for issuance under the 2005 Plan, the 2005 Plan limits the number of shares that may be issued under certain types of awards to any single individual, subject to adjustment as described under "Share Accounting and Adjustments" below. No more than 9% of the maximum aggregate number of shares authorized under the 2005 Plan may be granted to any individual in any fiscal year, except in the case of awards granted during the first year of a participant's employment. To enable compensation in connection with certain types of awards to qualify as "performance-based" within the meaning of Section 162(m), the 2005 Plan establishes a limit on the maximum aggregate number of shares or dollar value for which any such award may be granted to an employee in any fiscal year. The limits for awards intended to qualify as performance-based as follows:

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Stock options and stock appreciation rights: No more than 1,600,000 shares.

Restricted stock and restricted stock unit awards: No more than 200,000 shares.

Performance share and performance unit awards: No more than 100,000 shares and no more than \$2,000,000, respectively, for each full fiscal year contained in the performance period of the award.

Other stock-based and cash-based awards: No more than 100,000 shares and no more than \$2,000,000, respectively, for each full fiscal year contained in the performance period of the award.

Further, no more than 2,300,000 shares may be issued upon the exercise of incentive stock options granted under the 2005 Plan. Finally, the 2005 Plan establishes minimum vesting conditions applicable to stock options, stock appreciation rights and full value awards (i.e., awards that do not require the participant to purchase shares, such as an award of restricted stock). Any such award that vests on the basis of continued service must require more than three years of service for at least 25% of the shares subject to the award, while any such award that vests on the basis of the attainment of performance goals must require a performance period of at least twelve months, except in the case of the participant's death, disability, retirement, involuntary termination or a change in control of the Company.

Share Accounting and Adjustments. If any award granted under the 2005 Plan expires or otherwise terminates for any reason without having been exercised or settled in full, or if shares subject to forfeiture or repurchase are forfeited or repurchased by the Company for the participant's purchase price, any such shares reacquired or subject to a terminated award will again become available for issuance under the 2005 Plan. Shares will not be treated as having been issued under the 2005 Plan and will therefore not reduce the number of shares available for grant to the extent an award is settled in cash or such shares are withheld or reacquired by the Company in satisfaction of a tax withholding obligation. The number of shares available under the 2005 Plan will be reduced upon the exercise of a stock appreciation right only by the number of shares actually issued. If shares are tendered in payment of the exercise price of an option, the number of shares

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available under the 2005 Plan will be reduced only by the net number of shares issued. Appropriate adjustments will be made to the number of shares authorized under the 2005 Plan, to the numerical limits on certain types of awards described above, and to outstanding awards in the event of any change in our common stock through merger, consolidation, reorganization, reincorporation, recapitalization, reclassification, stock dividend, stock split, reverse stock split, split-up, split-off, spin-off, combination of shares, exchange of shares or similar change in our capital structure, or if we make a distribution to our stockholders in a form other than common stock (excluding normal cash dividends) that has a material effect on the fair market value of our common stock. In such circumstances, the Compensation Committee also has the discretion under the 2005 Plan to adjust the terms of outstanding awards as it deems appropriate. Without affecting the number of shares available for grant under the 2005 Plan, the Compensation Committee may authorize the issuance or assumption of benefits under the 2005 Plan in connection with any merger, consolidation or similar transaction on such terms and conditions as it deems appropriate.

Administration. The 2005 Plan will be administered by the Compensation Committee and any other committee or subcommittee of the Board of Directors appointed to administer the plan or, in the absence of such committee, by the Board of Directors. For purposes of this summary, the term "Committee" will refer to either such duly appointed committee or the Board of Directors. In the case of awards intended to qualify as performance-based under Section 162(m) of the Code, the term "Committee" will refer to the two members of the Compensation Committee who qualify as outside directors within the meaning of Section 162(m). Subject to the provisions of the 2005 Plan, the Committee will determine in its discretion the persons to whom and the times at which awards are granted, the types and sizes of such awards, and all of their terms and conditions. The Committee may, subject to certain limitations on the exercise of its discretion required by the 2005 Plan, amend, cancel or renew any award, waive any restrictions or conditions applicable to any award, and accelerate, continue, extend or defer the vesting of any award. The Committee may delegate to a committee comprised of one or more officers of the Company the authority to grant awards under the 2005 Plan to persons eligible to participate who are neither members of the Board or Directors nor executive officers of the Company, subject to the provisions of the 2005 Plan and guidelines established by the Committee. The 2005 Plan provides, subject to certain limitations, for indemnification by the Company of any director, officer or employee against all reasonable expenses, including attorneys' fees, incurred in connection with any legal action arising from such person's action or failure to act in administering the 2005 Plan. All awards granted under the 2005 Plan will be evidenced by a written or electronic agreement between the Company and the participant specifying the terms and conditions of the award, consistent with the requirements of the 2005 Plan. The Committee will interpret the 2005 Plan and awards granted thereunder, and all determinations of the Committee will be final and binding on all persons having an interest in the 2005 Plan or any award.

Prohibition of Option and SAR Repricing. The 2005 Plan expressly provides that, without the approval of a majority of the votes cast in person or by proxy at a meeting of our stockholders, the Committee may not provide for either the cancellation of outstanding options or stock appreciation rights in exchange for the grant of new options or stock appreciation rights at a lower exercise price or the amendment of outstanding options or stock appreciation rights to reduce the exercise price.

Eligibility. Awards may be granted only to employees, directors and consultants of the Company or any present or future parent or subsidiary corporation of the Company or other affiliated entity. Incentive stock options may be granted only to employees who, as of the time of grant, are employees of the Company or any parent or subsidiary corporation of the Company. As of April 1, 2005, we had approximately 797 employees, including 17 executive officers and directors who would be eligible under the 2005 Plan.

Stock Options. The Committee may grant nonstatutory stock options, incentive stock options within the meaning of Section 422 of the Code, or any combination of these. The exercise price of each option may not be less than the fair market value of a share of our common stock on the date of grant. However, any incentive stock option granted to a person who at the time of grant owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any parent or subsidiary corporation of the Company (a Ten Percent Stockholder) must have an exercise price equal to at least 110%

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of the fair market value of a share of common stock on the date of grant. On April 1, 2005, the closing price of our common stock on the Nasdaq National Market was \$15.63 per share.

The 2005 Plan provides that the option exercise price may be paid in cash or its equivalent; by means of a broker-assisted cashless exercise; by tender to the Company of shares of common stock owned by the participant having a fair market value not less than the exercise price; by means of a net-exercise procedure, by such other lawful consideration as approved by the Committee; or by any combination of these. Nevertheless, the Committee may restrict the forms of payment permitted in connection with any option grant. No option may be exercised unless the participant has made adequate provision for federal, state, local and foreign taxes, if any, relating to the exercise of the option, including, if permitted or required by the Company, through the participant's surrender of a portion of the option shares to the Company.

Subject to the minimum vesting requirements described above under Certain Award Limits, options will become vested and exercisable at such times or upon such events and subject to such terms, conditions, performance criteria or restrictions as specified by the Committee. The maximum term of any option granted under the 2005 Plan is seven years, provided that an incentive stock option granted to a Ten Percent Stockholder must have a term not exceeding five years. Unless otherwise permitted by the Committee, an option generally will remain exercisable for three months following the participant's termination of service, provided that if service terminates as a result of the participant's death or disability, the option generally will remain exercisable for 12 months, but in any event the option must be exercised no later than its expiration date.

Incentive stock options are not transferable by the participant other than by will or by the laws of descent and distribution, and are exercisable during the participant's lifetime only by the participant. However, a nonstatutory stock option may be assigned or transferred to certain family members to the extent permitted by the Committee in its discretion.

Stock Appreciation Rights. The Committee may grant stock appreciation rights either in tandem with a related option (a Tandem SAR) or independently of any option (a Freestanding SAR). A Tandem SAR requires the option holder to elect between the exercise of the underlying option for shares of common stock or the surrender of the option and