

DURECT CORP
Form PRE 14A
April 16, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

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

Filed by the Registrant Filed by a Party other than the Registrant
Check the appropriate box:

Preliminary Proxy Statement
Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
Definitive Proxy Statement
Definitive Additional Materials
Soliciting Material Pursuant to §240.14a-12
DURECT Corporation

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

No fee required.

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

DURECT CORPORATION

10260 Bubb Road

Cupertino, CA 95014

NOTICE OF 2018 ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD JUNE 19, 2018

On Tuesday, June 19, 2018, DURECT Corporation (the “Company”), will hold its 2018 Annual Meeting of Stockholders (the “Meeting”) at 10240 Bubb Road, Cupertino, CA 95014. The Meeting will begin at 9:00 a.m. local time.

Only stockholders who owned common stock at the close of business on April 24, 2018 can vote at the Meeting or any adjournment that may take place. At the Meeting, the stockholders will:

1. Elect two Class III directors of our Board of Directors to serve until the 2021 annual meeting of stockholders;
2. Approve an amendment to our Certificate of Incorporation to increase the number of authorized shares of common stock from 200,000,000 to 350,000,000;
3. Approve an amendment to the 2000 Stock Plan to increase the number of shares of the Company’s Common Stock available for issuance by 7,500,000 shares;
4. Hold an advisory vote on executive compensation;
5. Ratify the appointment of Ernst & Young LLP as the Company’s independent registered public accounting firm for the current fiscal year; and
6. Transact any other business properly brought before the Meeting.

You can find more information about each of these items, including the nominees for directors, in the attached Proxy Statement.

The Board of Directors recommends that you vote in favor of each of proposals one, two, three, four and five, outlined in the attached Proxy Statement.

We cordially invite all stockholders to attend the Meeting in person. However, whether or not you expect to attend the Meeting in person, please mark, date, sign and return the enclosed proxy card as promptly as possible in the postage-prepaid envelope provided to ensure your representation and the presence of a quorum at the Meeting. Alternatively, you may vote your shares on the Internet or by telephone by following the instructions on your proxy card. If you send in your proxy card and then decide to attend the Meeting to vote your shares in person, you may still do so. Your proxy is revocable in accordance with the procedures set forth in the Proxy Statement.

Following the Meeting, we will also report on our business results and other matters of interest to stockholders.

By Order of the Board of Directors,

Matthew J. Hogan
Chief Financial Officer and Secretary

Cupertino, California
April [], 2018

YOUR VOTE IS IMPORTANT!

Important Notice Regarding the Internet Availability of Proxy Materials for the Stockholder Meeting To Be

Held on June 19, 2018.

The Proxy Statement, a proxy card and our 2018 Annual Report are available free of charge on the Internet at <https://proxydocs.com/DRRX>.

WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, PLEASE COMPLETE, SIGN, DATE AND MAIL PROMPTLY THE ACCOMPANYING PROXY CARD IN THE ENCLOSED RETURN ENVELOPE, WHICH REQUIRES NO POSTAGE IF MAILED IN THE UNITED STATES. THIS WILL ENSURE THE PRESENCE OF A QUORUM AT THE MEETING. ALTERNATIVELY, YOU MAY VOTE YOUR SHARES ON THE INTERNET OR BY TELEPHONE BY FOLLOWING THE INSTRUCTIONS ON YOUR PROXY CARD. IF YOU ATTEND THE MEETING, YOU MAY VOTE IN PERSON IF YOU WISH TO DO SO EVEN IF YOU HAVE PREVIOUSLY SENT IN YOUR PROXY CARD OR VOTED.

DURECT CORPORATION

10260 Bubb Road

Cupertino, CA 95014

PROXY STATEMENT

FOR THE

2018 ANNUAL MEETING OF STOCKHOLDERS

JUNE 19, 2018

Our Board of Directors is soliciting proxies for the 2018 Annual Meeting of stockholders. This Proxy Statement contains important information for you to consider when deciding how to vote on the matters brought before the Meeting. Please read it carefully.

The Board has set April 24, 2018 as the record date for the Meeting. Stockholders of record who owned our common stock on that date are entitled to vote at and attend the Meeting, with each share entitled to one vote. Stockholders who hold shares in "street name" may vote at the Meeting only if they hold a valid proxy from their broker. As of the record date, there were [] shares of common stock outstanding and entitled to vote at the Meeting.

Voting materials, which include this Proxy Statement, a proxy card and our 2018 Annual Report, will be mailed to stockholders on or about May 14, 2018. These materials are also available free of charge on the Internet at <https://proxydocs.com/DRRX>.

Our Annual Report on Form 10-K for the year ended December 31, 2017, which we refer to as our 2018 Annual Report, is available on the Internet at our website at www.direct.com in the Investor Relations section or through the SEC's electronic data system called IDEA (formerly EDGAR) at www.sec.gov. To request a printed copy of our Form 10-K, which we will provide to you without charge, either: write to Investor Relations, DURECT Corporation, 10260 Bubb Road, Cupertino, CA 95014 or e-mail Investor Relations at "info@direct.com."

In this Proxy Statement:

- "We," "us," "our" and the "Company" refer to DURECT Corporation
- "Annual Meeting" or "Meeting" means the 2018 Annual Meeting of stockholders
- "Board of Directors" or "Board" means our Board of Directors
- "SEC" means the Securities and Exchange Commission

We have summarized below important information with respect to the Annual Meeting.

Time and Place of the Annual Meeting

The Annual Meeting is being held on Tuesday, June 19, 2018, at 9:00 a.m. local time at 10240 Bubb Road, Cupertino, CA 95014. All stockholders who own shares of our stock as of April 24, 2018, the record date, may attend the Annual

Meeting.

Purpose of the Proxy Statement and Proxy Card

You are receiving a Proxy Statement and proxy card from us because you owned shares of our common stock on April 24, 2018, the record date. This Proxy Statement describes issues on which we would like you, as a stockholder, to vote. It also gives you information on these issues so that you can make an informed decision.

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When you sign the proxy card, you appoint Felix Theeuwes and Matthew J. Hogan as your representatives at the Meeting. Felix Theeuwes and Matthew J. Hogan will vote your shares at the Meeting as you have instructed them on the proxy card. This way, your shares will be voted whether or not you attend the Meeting. Alternatively, you may vote your shares on the Internet or by telephone by following the instructions on your proxy card. Even if you plan to attend the Meeting it is a good idea to complete, sign and return your proxy card in advance of the Meeting just in case your plans change.

Proposals to Be Voted on at This Year's Annual Meeting

You are being asked to vote on:

1. The election of two Class III directors of our Board of Directors to serve until the 2021 annual meeting of stockholders;
2. The amendment to our Certificate of Incorporation to increase the number of authorized shares of common stock from 200,000,000 to 350,000,000;
3. An amendment to the 2000 Stock Plan to increase the number of shares of the Company's Common Stock available for issuance by 7,500,000 shares;
4. An advisory vote on executive compensation;
5. Ratify the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the current fiscal year.

The Board of Directors recommends a vote FOR each proposal.

Voting Procedure

You may vote by mail, phone or the Internet.

To vote by mail, please sign your proxy card and return it in the enclosed, prepaid and addressed envelope. If you mark your voting instructions on the proxy card, your shares will be voted as you instruct. To vote by phone or the Internet, please follow the instructions as listed on the proxy card.

You may vote in person at the Meeting.

We will pass out written ballots to anyone who wants to vote at the Meeting. If you hold your shares in street name, you must request a legal proxy from your stockbroker in order to vote at the Meeting. Holding shares in "street name" means your shares of stock are held in an account by your stockbroker, bank, or other nominee, and the stock certificates and record ownership are not in your name. If your shares are held in "street name" and you wish to attend the Annual Meeting, you must notify your broker, bank or other nominee and obtain the proper documentation to vote your shares at the Annual Meeting.

You may change your mind after you have returned your proxy.

If you change your mind after you return your proxy, you may revoke your proxy at any time before the polls close at the Meeting. You may do this by:

- signing another proxy with a later date, or
- voting in person at the Annual Meeting.

Multiple Proxy Cards

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If you received more than one proxy card, it means that you hold shares in more than one account. Please sign and return all proxy cards to ensure that all your shares are voted.

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Delivery of Documents to Security Holders Sharing an Address

Only one Proxy Statement and annual report is being delivered to you if you share an address with another stockholder, unless we receive contrary instructions from you or one of the other stockholder(s). We will deliver promptly upon written or oral request a separate copy of the Proxy Statement and annual report to you if you share an address to which we delivered a single copy of the documents; this request should be directed to Matthew J. Hogan, Chief Financial Officer, DURECT Corporation, 10260 Bubb Road, Cupertino, CA 95014, 408-777-4936.

Quorum Requirement

Shares are counted as present at the Meeting if the stockholder either:

- is present and votes in person at the Meeting, or
- has properly submitted a proxy card.

A majority of our outstanding shares as of the record date must be present at the Meeting (either in person or by proxy) in order to hold the Annual Meeting and conduct business. This is called a “quorum.”

Consequences of Not Returning Your Proxy; Broker Non-Votes

If your shares are held in your name, you must return your proxy (or attend the Annual Meeting in person) in order to vote on the proposals. If you are a beneficial owner of shares and your brokerage firm or other similar organization does not receive voting instructions from you, your brokerage firm may either:

- vote your shares on routine matters, or
- leave your shares unvoted.

If you are a beneficial owner and hold your shares in “street name” through a broker or other nominee and do not provide the organization that holds your shares with voting instructions, the broker or other nominee will determine if it has the discretionary authority to vote on the particular matter. Under applicable rules, brokers have the discretion to vote on routine matters but do not have discretion to vote on non-routine matters. For example, if you do not provide voting instructions to your broker, the broker could vote your shares for the approval of the amendment to our Certificate of Incorporation to increase the number of authorized shares of common stock (Proposal 2) or for the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the current fiscal year (Proposal 5) because those are deemed to be a routine matters under applicable rules, but the broker could not vote your shares for any of the other three proposals on the agenda for the Annual Meeting.

If you do not provide voting instructions to your broker and the broker has indicated that it does not have discretionary authority to vote on a particular proposal, your shares will be considered “broker non-votes” with regard to that matter. Broker non-votes will be considered as represented for purposes of determining a quorum but generally will not be considered as entitled to vote with respect to that proposal. Broker non-votes are not counted for purposes of determining the number of votes cast with respect to a particular proposal. Thus, a broker non-vote will make a quorum more readily obtainable, but the broker non-vote will not otherwise affect the outcome of the vote on a proposal that requires the affirmative vote of a majority of the shares present and entitled to vote.

We encourage you to provide instructions to your brokerage firm by voting your proxy. This ensures that your shares will be voted at the Meeting.

Effect of Abstentions

Abstentions are counted as shares that are present and entitled to vote for the purposes of determining the presence of a quorum and as votes AGAINST for purposes of determining the approval of any matter submitted to the stockholders for a vote.

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Required Vote

Assuming a quorum is present, the two nominees receiving the highest number of votes of shares that are present and entitled to vote will be elected as Class III directors. The vote required to approve the Amendment to our Certificate of Incorporation to increase the number of authorized shares of common stock as set forth in Proposal 2, is the affirmative vote of the holders of more than 50% of the combined voting power of all shares of the Company entitled to vote, voting together as a single class, present in person or represented by proxy. The vote required to approve the amendment to our 2000 Stock Plan, including to increase to the number of shares of the Company's Common Stock available for issuance thereunder by 7,500,000 shares, as set forth in Proposal 3, and to ratify the appointment of the independent registered public accounting firm, as set forth in Proposal 5, is the affirmative vote of the holders of a majority of the shares present in person or represented by proxy at the meeting and entitled to vote.

Proposal 4 is an advisory vote; however, the Compensation Committee and the Board of Directors will consider the voting results on the proposal.

Vote Solicitation; No Use of Outside Solicitors

DURECT Corporation is soliciting your proxy to vote your shares at the Annual Meeting. The expense of preparing, printing and mailing this proxy statement and the accompanying material will be borne by the Company. In addition to this solicitation by mail, our directors, officers, agents, and other employees may contact you by telephone, Internet, in person or otherwise to obtain your proxy. These persons will not receive any additional compensation for assisting in the solicitation. We will also request brokerage firms, nominees, custodians and fiduciaries to forward proxy materials to the beneficial owners. We will reimburse these entities and our transfer agent for their reasonable out-of-pocket expenses in forwarding proxy material. We have not retained the services of a proxy solicitor.

Voting Procedures

Votes cast by proxy or in person at the Annual Meeting will be tabulated by a representative of Computershare, our transfer agent, who will act as the Inspector of Election. The Inspector will also determine whether a quorum is present at the Annual Meeting. The shares represented by the proxy cards received, properly marked, dated, signed and not revoked, will be voted at the Annual Meeting. If you are a shareholder of record (that is, if your shares are held in your name and not in street name by a brokerage firm) and you sign, date and return a proxy card but do not give specific voting instructions, then the proxy holders will vote your shares in the manner recommended by our Board of Directors on all matters presented in this proxy statement, and the proxy holders may determine in their discretion regarding any other matters properly presented for a vote at the Meeting. Broker non-votes will be counted for the purpose of determining the presence or absence of a quorum, but will not be counted for the purpose of determining the number of votes cast.

We believe that the procedures to be used by the Inspector to count the votes are consistent with Delaware law concerning voting of shares and determination of a quorum.

Publication of Voting Results

We will announce preliminary voting results at the meeting. We will publish the final results in a current report on Form 8-K, which we will file with the SEC within four business days of the meeting. You can get a copy on our website at www.durect.com in the Investor Relations section, by contacting Matthew J. Hogan, our Chief Financial Officer, at (408) 777-4936 or the SEC at (800) 732-0330 for the location of the nearest public reference room, or through the IDEA (formerly EDGAR) system at www.sec.gov.

Other Business

We do not know of any business to be considered at the Annual Meeting other than the proposals described in this proxy statement. However, if any other business is properly presented at the Annual Meeting, your signed proxy card gives authority to Felix Theeuwes and Matthew J. Hogan to vote on such matters at their discretion.

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Stockholder Proposals For The 2019 Annual Meeting

To have your proposal included in our proxy statement for our 2019 annual meeting, you must submit your proposal in writing no later than December 28, 2018 to Matthew J. Hogan, Chief Financial Officer and Secretary, DURECT Corporation, 10260 Bubb Road, Cupertino, CA 95014. Any such proposal must also comply with Rule 14a-8 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the regulations thereunder, as well as our bylaws, which may be obtained free of charge by written request to Matthew J. Hogan, Chief Financial Officer and Secretary, DURECT Corporation, 10260 Bubb Road, Cupertino, CA 95014.

Pursuant to our bylaws, stockholders must provide notice of any business that they wish to submit for consideration at the 2019 annual meeting to our executive offices (Attention: Secretary) no later than March 21, 2019 and no earlier than February 19, 2019; provided, however, that if the 2019 annual meeting is moved more than 30 days prior to or 60 days after the anniversary of the Annual Meeting and less than 60 days’ notice is provided to stockholders, then notice of a stockholder proposal must be received within 10 days of public notice of the meeting.

PROPOSAL NO. 1

ELECTION OF DIRECTORS

Our Certificate of Incorporation provides that our Board of Directors is divided into three classes, with staggered three-year terms. Our Class III directors, whose terms expire at the Annual Meeting and who are being nominated for re-election, are James E. Brown and Armand P. Neukermans. Our Class I directors, whose terms expire at our 2019 annual meeting, are Felix Theeuwes, Simon X. Benito and Terrence F. Blaschke. Our Class II directors, whose terms expire at our 2020 annual meeting, are David R. Hoffmann and Jon S. Saxe. You only elect one class of directors at each annual meeting. The other classes continue to serve for the remainder of their three-year terms. James E. Brown and Armand P. Neukermans, currently Class III directors, are nominees for re-election at the Annual Meeting. Each nominee has consented to serve an additional three-year term.

Vote Required

If a quorum is present, the two nominees receiving the highest number of votes of shares that are present and entitled to vote will be elected as directors for the ensuing three years. Unless marked otherwise, proxies received will be voted FOR the election of James E. Brown and Armand P. Neukermans. If additional people are nominated for election as directors through the stockholder proposal process which includes written notification to us within specified time frames, the proxy holders intend to vote all proxies received by them in a way that will ensure that as many as possible of the nominees listed above are elected. If this happens, the specific nominees to be voted for will be determined by the proxy holders.

Continuing Directors

The names of our continuing directors, their ages as of April 24, 2018 and certain other information about them are set forth below:

Name	Age	Position
James E. Brown, D.V.M.	61	President, Chief Executive Officer and Director
Felix Theeuwes, D.Sc.	80	Chairman and Distinguished Scientist
Simon X. Benito (1)(2)(3)	73	Director, Chairman of the Nominating and Corporate Governance Committee
Terrence F. Blaschke, M.D. (3)	75	Director
Armand P. Neukermans, Ph.D. (1)(3)	77	Director, Chairman of the Compensation Committee
David R. Hoffmann (1)(2)	73	Lead Independent Director, Chairman of the Audit Committee
Jon S. Saxe (1)(2)	81	Director

(1)Member of the Compensation Committee

(2)Member of the Audit Committee

(3)Member of the Nominating and Corporate Governance Committee

James E. Brown, D.V.M. co-founded DURECT in February 1998 and has served as our President, Chief Executive Officer and a Director since June 1998. He previously worked at ALZA Corporation as Vice President of Biopharmaceutical and Implant Research and Development from June 1995 to June 1998. Prior to that, Dr. Brown held various positions at Syntex Corporation, a pharmaceutical company, including Director of Business Development

from May 1994 to May 1995, Director of Joint Ventures for Discovery Research from April 1992 to May 1995, and held a number of positions including Program Director for Syntex Research and Development from October 1985 to March 1992. Dr. Brown holds a B.A. from San Jose State University and a D.V.M. (Doctor of Veterinary Medicine) from the University of California, Davis where he also conducted post-graduate work in pharmacology and toxicology. Dr. Brown's scientific expertise and pharmaceutical industry experience as well as the valuable perspective as the Company's Chief Executive Officer and co-founder into the management, strategies and operations of the Company are among the special qualifications that he brings to his service as a Director of the Company.

Felix Theeuwes, D.Sc. co-founded DURECT in February 1998 and has served as our Chairman and Distinguished Scientist since February 2018. Dr. Theeuwes served as our Chairman and Chief Scientific Officer from July 1998 to February 2018. Prior to that, Dr. Theeuwes held various positions at ALZA Corporation, including President of New Ventures from August 1997 to August 1998, President of ALZA Research and Development from 1995 to August 1997, President of ALZA Technology Institute from 1994 to April 1995 and Chief Scientist from 1982 to June 1997. Dr. Theeuwes holds a D.Sc. degree in Physics from the University of Leuven (Louvain), Belgium. He also served as a post-doctoral fellow and visiting research assistant professor in the Department of Chemistry at the University of Kansas and has completed the Stanford Executive Program. Dr. Theeuwes' scientific expertise in drug delivery and pharmaceutical industry experience and the unique perspective he has as the Company's co-founder and its Chief Scientific Officer are among the qualifications he brings to the Board and his service as a Director of the Company.

Simon X. Benito has served as a director since April 2005. Mr. Benito is currently a director and chairman of the Audit Committee of Inovio Pharmaceuticals Corporation, a biomedical company. From 1974 to 1999, Mr. Benito held various positions at Merck & Co Inc. including Senior Vice President, Vaccine Division from 1996 to 1999, Executive Vice President, Merck-Medco Managed Care from 1994 to 1996 and Executive Director and Vice President, Merck Human Health, Japan from 1986 to 1993. Mr. Benito was a Fellow of the Institute of Chartered Accountants in England and Wales from 1969 to 1999 until his retirement from Merck. Mr. Benito's pharmaceutical industry experience as relates to executive management, corporate transactions and international operations as well as his financial and accounting expertise are among the qualifications he brings to the Board and his service as a Director of the Company.

Terrence F. Blaschke, M.D. has served as a director since December 2006. Dr. Blaschke has served on the faculty of Stanford University since 1974 and is Professor of Medicine and Molecular Pharmacology (Emeritus) at the Stanford University School of Medicine. From 2012 to January 2016, he was a senior program officer, Global Health Discovery and Translational Science at the Bill and Melinda Gates Foundation. Dr. Blaschke held the position of Vice President of Methodology and Science at Pharsight Corporation from 2000 to 2002. Dr. Blaschke has served as an independent consultant working with a number of leading pharmaceutical and biotechnology companies. Dr. Blaschke was formerly a board member of Therapeutic Discovery Corporation and Crescendo Pharmaceuticals, two publicly-traded companies. He has also worked as a special government employee for the U.S. Food and Drug Administration ("FDA") and has served as the chairman of the FDA's Generic Drugs Advisory Committee. Dr. Blaschke's medical and scientific expertise and pharmaceutical industry experience as relates to drug development are among the qualifications he brings to the Board and his service as a Director of the Company.

Armand P. Neukermans, Ph.D. has served as a Director since March 2001. Dr. Neukermans founded Xros, Inc. in December 1996. Xros was acquired by and became a division of Nortel Networks in March 2000. Throughout and until June 2002, Dr. Neukermans held the position of Chairman and Chief Technical Officer at Xros. In October 1993, Dr. Neukermans founded Adagio Associates, a consulting firm in the area of instrumentation, metrology and microfabrication and currently serves as its President. From 1992 to 1993, Dr. Neukermans was Vice President, Systems Development at Teknekron TSDC. Between 1985 and 1992, Dr. Neukermans held various positions at Tencor Instruments including Vice President and Chief Technical Officer. From 1973 to 1985, Dr. Neukermans held various positions at Hewlett Packard Company, HP Labs, including Department Manager. Dr. Neukermans holds an Engineer's Degree in Mechanical and Electrical Engineering from Louvain University, an M.S. in Electrical Engineering from Arizona State University and a Ph.D. in Applied Physics from Stanford University. Dr. Neukermans was named Silicon Valley Inventor of the Year in 2001. Dr. Neukerman's engineering and technical expertise and general industrial experience as relates to executive management and business operations are among the qualifications he brings to the Board and his service as a Director of the Company.

David R. Hoffmann has served as a director since December 2002 and as Lead Independent Director since December 2010. Mr. Hoffmann is retired from ALZA Corporation (now a Johnson & Johnson company) where he held the positions of Vice President and Treasurer from 1992 to until his retirement in October 2002, Vice President of Finance from 1982 to 1992, and Director of Accounting/Finance from 1976 to 1982. Mr. Hoffmann is currently Chief Executive Officer of Hoffmann Associates, a multi-group company specializing in cruise travel and financial and benefits consulting. Mr. Hoffmann holds a B.S. in Business Administration from the University of Colorado. Mr. Hoffmann is currently a member of the Board of Directors and chairman of the Audit Committee of Molecular Templates, an oncology company. Mr. Hoffmann's financial and accounting expertise has caused the Board to designate him as the Audit Committee's financial accounting expert. In addition, his pharmaceutical industry experience as relates to executive management, treasury, employee benefits and audit matters is an additional qualification he brings to the Board and his service as a Director of the Company.

Jon S. Saxe has served as a director since September 2003. Mr. Saxe is currently a director of a number of biotechnology and pharmaceutical companies including VistaGen and several private companies. From January 1995 to May 1999, Mr. Saxe was President of Protein Design Labs. During 1999, he was an Executive-in-Residence at Institutional Venture Partners, a venture capital firm. Mr. Saxe was President of Saxe Associates, a biotechnology and pharmaceutical consulting firm, from May 1993 to December 1994. He served as President, Chief Executive Officer and as a director of Synergen, Inc., a biopharmaceutical company acquired by Amgen from October 1989 to April 1993. From August 1984 through September 1989, Mr. Saxe was Vice President, Licensing and Corporate Development at Hoffmann-LaRoche and also head of the patent law department and Associate General Counsel at the company from September 1978 through September 1989. Mr. Saxe received his B.S. in Chemical Engineering from Carnegie-Mellon University, a J.D. from George Washington University School of Law and an LL.M. from New York University School of Law. Mr. Saxe's legal and business expertise and pharmaceutical industry experience as relates to executive management, licensing, corporate development, intellectual property and legal matters and his board experience including as chairperson of audit and compensation committees are among the qualifications he brings to the Board and his service as a Director of the Company.

There are no family relationships among any of our directors or executive officers.

The Board, Board Committees and Meetings

Corporate governance is typically defined as the system that allocates duties and authority among a company's stockholders, board of directors and management. The stockholders elect the Board and vote on extraordinary matters; the Board is our governing body, responsible for hiring, overseeing and evaluating management, particularly the Chief Executive Officer; and management runs our day-to-day operations. The Board reviews succession planning on an annual basis and has a written succession plan. Our Board currently consists of 7 directors.

"Independent" Directors. Each of our directors other than Drs. Theeuwes and Brown qualify as "independent directors" as defined under NASDAQ rules. NASDAQ's definition of independent director includes a series of objective tests, such as that the director is not a Company employee and has not engaged in various types of business dealings with us. In addition, as further required by NASDAQ rules, the Board has made a subjective determination as to each independent director that no relationships exist which, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. In making these determinations, our directors reviewed and discussed information provided by our directors and us with regard to each director's business and personal activities as they may relate to us and our management.

Board and Committee Responsibilities. The primary responsibilities of the Board are oversight, counseling and direction to our management in the long-term interests of the Company and its stockholders. The Chief Executive Officer and management are responsible for seeking the advice and, in appropriate situations, the approval of the

Board with respect to extraordinary actions to be undertaken by us.

The Board and its committees meet throughout the year on a set schedule, and also hold special meetings and act by written consent from time to time as appropriate. The Board has delegated various responsibilities and authority to different Board committees as described in this section of the proxy statement. Committees regularly report on their activities and actions to the full Board.

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Board Leadership Structure. The roles of Board chair and principal executive officer are currently separated. Our Board chair is currently Felix Theeuwes, our Distinguished Scientist, and our principal executive officer is currently James E. Brown, our President and Chief Executive Officer and also a director. By having these officers serve on the Board, the Company believes it can better ensure that relevant information is made available directly between management and the Board. We also believe this separation of responsibilities provides an appropriate delegation of duties and responsibilities, with our Board chair concentrating on the strategic opportunities and direction of the Company with guidance from the Board, and our principal executive officer focusing on the management and coordination of the operational performance and efforts of the Company in alignment with the strategic guidance and direction offered from the Board of Directors.

In addition, in December 2010, David R. Hoffmann was designated lead independent director. As lead independent director, his duties include serving as the principal liaison between the Chairman and the independent directors, consulting with the Chairman concerning information sent to the Board, meeting agendas and schedules for the Board and ensuring that he is available for consultation and direct communication with stockholders, if requested, and he also has the authority to call meetings of the independent directors. As in the past, it is expected that executive sessions will be conducted including the Chairman and independent directors (excluding the Chief Executive Officer) and including just the independent directors, in each case with the lead independent director chairing the executive session, at each regularly scheduled meeting of the Board of Directors.

Board Oversight of Risk. The Board of Directors is responsible for overseeing the Company's risks. In carrying out this responsibility, the Board evaluates the most critical risks relating to our business, allocates responsibilities for the oversight of risks among the full Board and its committees, and ensures that management has established effective systems and processes for managing the Company's risks. Additionally, because risk is inherently present in the Company's strategic decisions, the Board analyzes risk on an ongoing basis in connection with its consideration of specific proposed actions.

While the Board is responsible for oversight, management is responsible for identifying and communicating risk to the Board. Management fulfills this obligation in a variety of ways, including its establishment of appropriate and effective internal processes for the identification of risk. Management may report its findings to the full Board or its committees. Committees of the Board play an important role in risk oversight, including the Audit Committee, which oversees our processes for assessing risks and the effectiveness of our internal controls, and the Compensation Committee, which oversees risks present in the Company's compensation programs. Committees, to the extent that they deem appropriate or as required by their charters, report their findings and deliberations with respect to risk to the full Board.

In fulfilling its duties, the Audit Committee oversees and works in conjunction with our independent registered public accounting firm, Ernst & Young LLP. In accordance with its charter, the Audit Committee is responsible for making examinations as necessary to monitor corporate financial reporting and the internal and external audits of the Company, reporting to the Board the results of such examinations and recommending changes that may be made in the Company's internal accounting controls. The Compensation Committee, with the assistance of its compensation consultants, periodically reviews the Company's compensation policies and profile with management to ensure that executive compensation incentivizes its executive officers to meet the Company's goals and strategic objectives. The Audit Committee periodically performs an analysis of risks arising from our compensation policies and practices and has concluded that such policies and practices are not reasonably likely to expose the Company to material risk.

Board Committees and Charters. The Board currently has, and appoints the members of, standing Audit, Compensation, and Nominating and Corporate Governance Committees. Each of the Board committees has a written charter approved by the Board. Copies of each charter are available on our website at www.durect.com under "About DURECT—Corporate Policies/Governance."

Audit Committee. The Audit Committee has been established in accordance with Section 3(a)(58)(A) of the Exchange Act. The Audit Committee assists the Board in its general oversight of our financial reporting, internal controls and audit functions, and is directly responsible for the appointment, retention, compensation and oversight of the work of our independent registered public accounting firm. The Audit Committee held four meetings in 2017. The responsibilities and activities of the Audit Committee are described in greater detail in the “Audit Committee Report.” At the end of the last fiscal year, the Audit Committee was composed of the following directors: Simon X. Benito, David R. Hoffmann and Jon S. Saxe. Mr. Hoffmann has served as Chairman of the Audit Committee since September 2004.

Among other matters, the Audit Committee monitors the activities and performance of our external auditors, including the audit scope, external audit fees, auditor independence matters and the extent to which the independent registered public accounting firm may be retained to perform non-audit services. Our independent registered public accounting firm, Ernst & Young LLP, provides the Audit Committee with the written disclosures and the letter required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant’s communications with the audit committee concerning independence, and the Audit Committee discusses with the independent registered public accounting firm and management that firm’s independence.

In accordance with Audit Committee policy and the requirements of law, all services to be provided by Ernst & Young are pre-approved by the Audit Committee. Pre-approval includes audit services, audit-related services, tax services and other services. In its pre-approval and review of non-audit service fees, the Audit Committee considers, among other factors, the possible effect of the performance of such services on the auditor’s independence. To avoid certain potential conflicts of interest in maintaining auditor independence, the law prohibits a publicly traded company from obtaining certain non-audit services from its auditing firm.

As required by NASDAQ rules, the members of the Audit Committee each qualify as “independent” under special standards established for members of audit committees. The Audit Committee also includes at least one member who is determined by the Board to meet the qualifications of an “audit committee financial expert” in accordance with SEC rules. David R. Hoffmann is the director who has been determined by the Board of Directors to be the Audit Committee financial expert. Stockholders should understand that this designation is a disclosure requirement of the SEC related to Mr. Hoffmann’s experience and understanding with respect to certain accounting and auditing matters. The designation does not impose upon Mr. Hoffmann any duties, obligations or liability that are greater than are generally imposed on him as a member of the Audit Committee and the Board, and his designation as an audit committee financial expert pursuant to this SEC requirement does not affect the duties, obligations or liability of any other member of the Audit Committee or the Board.

Compensation Committee. The Compensation Committee reviews and approves salaries, performance-based incentives and other matters relating to executive compensation, and administers our stock option plans, including reviewing and granting stock options to executive officers. The Compensation Committee also reviews and approves various other Company compensation policies and matters. The Compensation Committee held three meetings in 2017. For more information, see the “Compensation Committee Report.” At the end of the last fiscal year, the Compensation Committee was composed of Simon X. Benito, David R. Hoffmann, Armand P. Neukermans and Jon S. Saxe. Dr. Neukermans has served as Chairman of the Committee since March 2004. As required by NASDAQ rules, the members of the Compensation Committee each qualify as “independent” under special standards established for members of compensation committees. In addition, the Compensation Committee, from time to time, retains independent compensation consultants to assist it with benchmarking of executive and Board compensation. From 2013 to 2017, the Compensation Committee retained Setren, Smallberg & Associates, Inc. as an independent compensation consultant. The process by which compensation is set for executive officers is described in the Compensation Discussion and Analysis below under the heading “Setting Officer Compensation.”

Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee identifies, evaluates and recommends to the Board individuals, including individuals proposed by stockholders, qualified to serve as members of the Board and the nominees for election as directors at the next annual or special meeting of stockholders at which directors are to be elected. The Nominating and Corporate Governance Committee also identifies, evaluates and recommends to the Board individuals to fill any vacancies or newly created directorships that may occur between such meetings. The Nominating and Corporate Governance Committee also is responsible for preparing and recommending to the Board adoption of corporate governance guidelines, reviewing

and assessing our Code of Ethics, and overseeing and conducting an annual evaluation of the Board's performance. The Nominating and Corporate Governance Committee held three meetings in 2017. At the end of the last fiscal year, the Nominating and Corporate Governance Committee was composed of Simon X. Benito, Terrence F. Blaschke and Armand P. Neukermans. Mr. Benito was appointed as Chairman of the Committee at the end of 2013. As required by NASDAQ rules, the members of the Nominating and Corporate Governance Committee each qualify as "independent" under special standards established for members of the committee.

Criteria for Board Membership. In recommending candidates for appointment or re-election to the Board, the Nominating and Corporate Governance Committee considers the appropriate balance of experience, skills and characteristics required of the Board of Directors, and seeks to insure that at least a majority of our directors are independent under NASDAQ rules, and that members of the Audit Committee meet the financial literacy and sophistication requirements under NASDAQ rules and at least one of them qualifies as an "audit committee financial expert" under SEC rules. Nominees for director are selected on the basis of their depth and breadth of experience, integrity, ability to make independent analytical inquiries, understanding of our business environment and willingness to devote adequate time to Board duties.

Stockholder Nominees. The Nominating and Corporate Governance Committee will consider written proposals from stockholders for nominees for director. Any such nominations should be submitted to the Nominating and Corporate Governance Committee, c/o Matthew J. Hogan, Chief Financial Officer and Secretary, 10260 Bubb Road, Cupertino, CA 95014 and should include the following information: (a) all information relating to such nominee that is required to be disclosed pursuant to Regulation 14A under the Exchange Act (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (b) the names and addresses of the stockholders making the nomination and the number of shares of the Company's common stock which are owned beneficially and of record by such stockholders; and (c) appropriate biographical information and a statement as to the qualification of the nominee, and should be submitted in the time frame described in our bylaws and under the caption "Stockholder Proposals for 2019 Annual Meeting" above.

Process for Identifying and Evaluating Nominees. The Nominating and Corporate Governance Committee believes that the Company is well-served by its current directors. In the ordinary course, absent special circumstances or a material change in the criteria for Board membership, the Nominating and Corporate Governance Committee will re-nominate incumbent directors who continue to be qualified for Board service and are willing to continue as directors. If an incumbent director is not standing for re-election, or if a vacancy on the Board occurs between annual stockholder meetings, the Nominating and Corporate Governance Committee will seek out potential candidates for Board appointment who meet the criteria for selection as a nominee and have the specific qualities or skills being sought. Director candidates will be selected based on input from members of the Board, our senior management, stockholder nominations, and, if the Nominating and Corporate Governance Committee deems appropriate, a third-party search firm. The Nominating and Corporate Governance Committee will evaluate each candidate's qualifications and check relevant references; in addition, such candidates will be interviewed by at least one member of the Nominating and Corporate Governance Committee. Candidates meriting serious consideration will then meet with the members of the Board. Based on this input, the Nominating and Corporate Governance Committee will evaluate which of the prospective candidates is qualified to serve as a director and whether the committee should recommend to the Board that this candidate be appointed to fill a current vacancy on the Board or presented for the approval of the stockholders, as appropriate.

Consideration of Diversity. The Nominating and Corporate Governance Committee believes that the interests of the stockholders are best served by a Board of Directors whose members collectively have a diverse balance of experience, skills and characteristics as appropriate to our business because it encourages a full discussion on Board topics from a variety of viewpoints and with the benefit of many different experiences. Although we do not have a policy regarding diversity, in looking for a candidate who will best meet the particular needs of the Board at the time,

the Nominating and Corporate Governance Committee does consider whether the specific skills, background and work experience of a candidate would add to and complement the existing viewpoints represented by the present Board members. The Nominating and Corporate Governance Committee believes that the current Board composition does represent a diversity of experience and skills appropriate to our business.

Attendance at Board, Committee and Annual Stockholders' Meetings. The Board held nine meetings in 2017. All directors are expected to attend each meeting of the Board and the committees on which they serve, and are also strongly encouraged to attend our annual meeting of stockholders. Each director attended at least 75% of all Board and applicable committee meetings during 2017. All directors attended our 2017 annual meeting of stockholders.

Communications from Stockholders to the Board. The Board recommends that stockholders initiate any communications with the Board in writing and send them c/o the Company's Secretary, Matthew J. Hogan. Stockholders can send communications by e-mail to matt.hogan@direct.com, by fax to (408) 777-3577 or by mail to Matthew J. Hogan, Chief Financial Officer and Secretary, DURECT Corporation, 10260 Bubb Road, Cupertino, California 95014. This centralized process will assist the Board in reviewing and responding to stockholder communications in an appropriate manner. The name of any specific intended Board recipient should be noted in the communication. The Board has instructed the Secretary to forward such correspondence only to the intended recipients; however, the Board has also instructed the Secretary, prior to forwarding any correspondence, to review such correspondence and, in his discretion, not to forward certain items if they are deemed to be of a commercial or frivolous nature or otherwise inappropriate for the Board's consideration. In such cases, some of that correspondence may be forwarded elsewhere in the Company for review and possible response.

Code of Ethics

In September 2017, the Board approved an amended Code of Ethics applicable to all of our employees, officers and directors. The purpose of the Code of Ethics is to deter wrongdoing and, among other things, promote compliance with applicable laws, fair dealing, proper use and protection of our assets, prompt and accurate public company reporting, reporting of accounting complaints or concerns and avoidance of conflicts of interest and usurpation of corporate opportunities.

Our Code of Ethics can be found on our corporate website at www.direct.com under "About DURECT—Corporate Policies/Governance." If we make any substantive amendments to the Code of Ethics or grant any waiver from a provision of the Code of Ethics to any executive officer or director, we will promptly disclose the nature of the amendment or waiver by a method selected by the Board of Directors and in conformity with applicable SEC and NASDAQ rules.

Whistleblower Policy

In December 2003, in compliance with Section 301 of the Sarbanes-Oxley Act, the Audit Committee of the Board of Directors established procedures for the receipt, retention, and treatment of complaints received by us regarding accounting, internal accounting controls or auditing matters, and confidential, anonymous employee submissions of concerns regarding questionable accounting or auditing matters ("Whistleblower Policy"). In December 2017, the Board approved an amended Whistleblower Policy. Our Whistleblower Policy can be found on our corporate website at www.direct.com under "About DURECT—Corporate Governance."

Recommendation of the Board:

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR

THE ELECTION OF ALL NOMINEES NAMED ABOVE.

PROPOSAL NO. 2

APPROVAL OF AN AMENDMENT TO OUR CERTIFICATE OF INCORPORATION TO INCREASE THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK FROM 200,000,000 to 350,000,000

The Board of Directors has determined that it is advisable to increase our authorized common stock from 200,000,000 shares to 350,000,000 shares, and has voted to recommend that the shareholders adopt an amendment to our Certificate of Incorporation effecting the proposed increase.

As of April 24, 2018, [] shares of our common stock were issued and outstanding and an additional [] shares were reserved for issuance upon the exercise of options and warrants. Accordingly, a total of [] shares of common stock is currently available for future issuance.

The Company has not increased the number of authorized common stock since 2010. In the intervening years, shares have been issued in connection with financings and equity-based compensation plans. These uses have enabled the Company to broaden its technology base, develop a pipeline of pharmaceutical products in development, assist in business development activities, and attract and retain key scientists, managers and employees. Over the three years covering 2015 through April 24, 2018, we issued [] shares in connections with financings, granted [] options (net of expired or cancelled options) in connection with our 2000 Stock Plan, and issued [] shares in connection with our 2000 Employee Stock Purchase plan.

The Board of Directors believes it continues to be in our best interest to have sufficient additional authorized but unissued shares of common stock available in order to provide flexibility for corporate action in the future. Management believes that the availability of additional authorized shares for issuance from time to time at the Board of Directors' discretion in connection with possible acquisitions of other companies, future financings, investment opportunities, stock splits or dividends or for other corporate purposes is desirable in order to avoid repeated separate amendments to our charter and the delay and expense of holding special meetings of shareholders to approve such amendments. Other than shares of common stock that we may issue pursuant to our equity compensation plan and employee stock purchase plan or stock options issued pursuant to prior equity compensation plans, we currently have no specific understandings, arrangements or agreements that would require us to issue new shares of our common stock. The Board of Directors believes, however, that the currently available unissued shares do not provide sufficient flexibility for corporate action in the future.

Although at present the Board of Directors has no specific plans to issue shares of common stock in excess of the number previously authorized, the Board believes it is desirable to have a significant number of available and authorized shares, to provide the Board with flexibility to use common stock for business and financial purposes in the future. The additional shares may be issued without further stockholder approval, except as may be required by law, regulatory authorities, or the rules of the NASDAQ Global Market, Inc. or any other stock exchange on which our shares may be listed at the time of any proposed issue. The additional shares may be used for various purposes including, without limitation, raising capital, providing equity incentives to employees, directors and consultants, establishing strategic relationships with other companies, expanding our business or research and development programs through the acquisition of other businesses and products, and stock splits and dividends. If this amendment to increase the number of authorized shares of common stock is not approved, our business could be materially harmed as our ability to undertake the corporate actions listed above would be severely constrained by the fact that only a total of [] shares of common stock is currently available for future issuance.

The proposed Certificate of Amendment of the Amended and Restated Certificate of Incorporation is included in this Proxy Statement as Appendix A.

The affirmative vote of a majority of the combined voting power of all outstanding shares of the Company is required to approve this Proposal 2.

Recommendation of the Board:

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR

THE AMENDMENT TO OUR CERTIFICATE OF INCORPORATION TO INCREASE THE NUMBER OF
AUTHORIZED SHARES OF COMMON STOCK FROM 200,000,000 to 350,000,000

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PROPOSAL NO. 3

APPROVAL OF AN AMENDMENT TO THE 2000 STOCK PLAN TO INCREASE THE NUMBER OF
SHARES OF OUR COMPANY'S COMMON STOCK AVAILABLE FOR ISSUANCE BY 7,500,000
SHARES

General

The purpose of the Company's 2000 Stock Plan (the "Stock Plan") is to offer incentives to attract and retain the best available personnel for positions of substantial responsibility and by providing additional incentive to employees, consultants and directors to promote the success of the Company's business. Stock options, stock purchase rights, restricted stock, restricted stock units, stock appreciation rights and cash awards may be granted under the Stock Plan (each an "Award"). Options granted under the Stock Plan may be either "incentive stock options," as defined in section 422 of the Code, or non-statutory stock options.

As of April 24, 2018, Awards (net of expired or canceled Awards) covering an aggregate of [] shares of common stock had been granted under the Stock Plan. [] shares of common stock (plus any shares that might in the future be returned to the Stock Plan as a result of expiration of Awards) remain available for future grant under the Stock Plan. As of April 24, 2018, there were [] shares of common stock covered by options outstanding under the Stock Plan, with a weighted average exercise price of \$[] and a weighted remaining average life of [] years. There were no awards, other than stock options, outstanding under the Stock Plan as of April 24, 2018. The proposed increase of 7,500,000 available shares is intended to be sufficient to meet the Company's projected needs for at least the next two years.

The Stock Plan currently permits the Company to issue such Awards incorporating performance objectives and provides that these performance objectives ("Qualifying Performance Criteria") may be based upon: (i) cash flow (including operating cash flow or free cash flow); (ii) earnings (including gross margin, earnings before interest and taxes, earnings before taxes, and net earnings); (iii) earnings per share; (iv) growth in earnings or earnings per share; (v) stock price; (vi) return on equity or average stockholders' equity; (vii) total stockholder return; (viii) return on capital; (ix) return on assets or net assets; (x) return on investment; (xi) revenue; (xii) income or net income; (xiii) operating income or net operating income; (xiv) operating profit or net operating profit; (xv) operating margin; (xvi) return on operating revenue; (xvii) market share; (xviii) contract awards or backlog; (xix) overhead or other expense reduction; (xx) growth in stockholder value relative to the moving average of the S&P 500 Index or a peer group index; (xxi) credit rating; (xxii) strategic plan development and implementation (including individual performance objectives that relate to achievement of the Company's or any business unit's strategic plan); (xxiii) improvement in workforce diversity; (xxiv) expenses; (xxv) economic value added; (xxvi) product quality; (xxvii) number of customers; (xxviii) objective customer indicators; (xxix) customer satisfaction; (xxx) new product invention or innovation; (xxxii) profit after taxes; (xxxiii) pre-tax profit; (xxxiv) working capital; (xxxv) sales; (xxxvi) advancement of the Company's product pipeline; (xxxvii) consummation of strategic transactions; (xxxviii) reduction in cash utilization; and (xxxviii) addition of technologies and products.

A copy of the Stock Plan, as amended, will be filed with the SEC contemporaneously with this Proxy Statement as Exhibit 1 and is available online at www.sec.gov or from the Company upon request by any stockholder. The following description of the Stock Plan is only a summary and so is qualified by reference to the complete text of the

Stock Plan. Except as otherwise noted, this summary reflects the amendment proposed above.

Administration. The Stock Plan is administered by the Board of Directors or a committee designated by the Board (the “Administrator”). The Compensation Committee presently acts as the Administrator.

Eligibility. Nonstatutory stock options, stock awards and cash awards may be granted under the Stock Plan to employees, directors (including non-employee directors) and consultants of the Company, its parent and subsidiaries. Incentive stock options may be granted only to employees of the Company, its parent or its subsidiaries. The Administrator, in its discretion, selects the individuals to whom stock options and stock awards, as well as cash awards, may be granted, the time or times at which such Awards are granted, and the terms of such Awards to be granted under the Stock Plan. As of April 24, 2018, the Company had approximately [•] employees, [•] consultants and 5 non-employee directors who are eligible to participate in the Stock Plan.

Amended Plan Benefits. The grant of options, stock awards, and cash awards under the Stock Plan to employees, including the Named Executive Officers, is subject to the discretion of the Administrator. As of the date of this proxy statement, there has been no determination by the Administrator with respect to future Awards under the Stock Plan to employees. Accordingly, future Awards to employees, consultants and non-employee directors are not yet determinable. No Awards, other than options, have been granted under the Stock Plan during or with respect to the fiscal year ended December 31, 2017. The following table sets forth information with respect to the stock options granted to the Named Executive Officers, all executive officers as a group, all directors who are not executive officers as a group, and all employees and consultants (excluding executive officers) as a group under the Stock Plan during the fiscal year ended December 31, 2017. These grants may not be indicative of future grants under the Stock Plan. As of April 24, 2018, the closing sales price of the Company's common stock was \$[•] per share.

Name and Position	Number of shares subject to options granted under the stock plan	Weighted average exercise price per share (\$)
James E. Brown, D.V.M President and Chief Executive Officer	417,846	1.32
Matthew J. Hogan, M.B.A. Chief Financial Officer	196,629	1.32
Felix Theeuwes, D.Sc. Chairman and Chief Scientific Officer	373,079	1.34
Judy R. Joice Senior Vice President, Operations and Corporate Quality Assurance	139,266	1.31
Current Executive Officers Group	1,126,820	1.32
Non-Executive Director Group	378,303	1.40
Non-Executive Officer/Employee Group	3,155,471	1.32

As of April 24, 2018, the following persons or groups have received stock options to purchase the following numbers of shares of common stock under the Stock Plan: Dr. Brown, [•] shares; Mr. Hogan, [•] shares; Dr. Theeuwes, [•] shares; Ms. Joice, [•] shares; all current executive officers as a group, [•] shares; all current directors who are not executive officers as a group, [•] shares; each nominee for election as a director, [•] shares; each associate of any of such directors, executive officers or nominees, [•] shares; each other person who received 5% of the options, [•] shares; and all employees, including all current officers who are not executive officers, as a group, [•] shares.

Nontransferability of Awards. Incentive stock options may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the participant, only by the participant. Other awards are transferable (i) by will and by the laws of descent and distribution and (ii) during the lifetime of the participant, to the extent and in the manner authorized by the Administrator, but only to the extent such transfers are made in accordance with applicable laws to family members, to family trusts, to family controlled entities, to charitable organizations, and pursuant to domestic relations orders or agreements, in all cases without payment for such transfers to the Participant.

Stock Options

Exercise Price. The Administrator determines the exercise price of options at the time the options are granted. The exercise price of a stock option may not be less than 100% of the fair market value of our common stock on the date of grant of such option, and the exercise price of an incentive stock option to an employee who is

also a 10% stockholder must have an exercise price at least equal to 110% of the fair market value of our common stock on the date of grant of such option. The Company may grant options with exercise prices less than 100% of the fair market value of our common stock on the date of grant in connection with an acquisition by the Company of another company. The fair market value of our common stock is generally the closing sales price as quoted on the NASDAQ Global Market of The NASDAQ Stock Market on the date of grant. No option may be repriced to reduce the exercise price of such option without stockholder approval (except in connection with a change in our capitalization, such as a stock split or a recapitalization, merger or certain other transactions). In addition, no option may be cancelled at a time when its exercise price exceeds the fair market value of the underlying shares of common stock subject to the option in exchange for another option, stock appreciation right, or other award or for a cash payment (except in connection with a change in our capitalization, such as a stock split or a recapitalization, merger or certain other corporate transactions). Notwithstanding the foregoing, canceling an option in exchange for another option, stock appreciation right or other Award with an exercise price, purchase price or base appreciation amount (as defined below) that is equal to or greater than the exercise price of the original option will not be subject to stockholder approval.

Exercise of Option; Form of Consideration. The Administrator determines when options vest and become exercisable, and in its discretion may accelerate the vesting and/or exercisability of any outstanding option. The means of payment for shares issued upon exercise of an option are specified in each option agreement. The Stock Plan permits payment to be made by cash, check, promissory note, other shares of common stock of the Company (with some restrictions), broker assisted same-day sale, withholding of shares subject to the option (with some restrictions) or any other means of consideration permitted by applicable law.

Term of Option. The term of an option may be no more than ten years from the date of grant; provided that the term of an incentive stock option may not be more than five years from the date of grant for an optionee who is also a 10% stockholder. No option may be exercised after the expiration of its term.

Termination of Options. Generally, we have granted options that provide that if an optionee's service to the Company as an employee, consultant or director terminates, such individual's vested options will remain exercisable for periods of between 60 days and a year, with special longer periods of two years for certain director options and for up to seven years for certain options granted in lieu of salary or director fees. The Administrator shall have the authority to extend the period of time for which an option is to remain exercisable following optionee's termination; provided that in no event will an option be exercisable later than the expiration of the term of the option.

Stock Awards

Stock awards may be stock grants, stock purchase rights, stock units or stock appreciation rights. Stock grants are awards of a specific number of shares of our common stock. Stock purchase rights are rights to purchase our common stock. Stock units represent a promise to deliver shares of our common stock, or an amount of cash or property equal to the value of the underlying shares, at a future date. Stock appreciation rights are rights to receive cash and/or shares of our common stock based on the appreciation in the fair market value of a specific number of shares of our common stock. Each stock award is evidenced by a stock award agreement between the Company and the participant. The Stock Plan allows the Administrator broad discretion to determine the terms of individual awards, including the number of shares that such participant shall be entitled to purchase or receive and the price (if any) to be paid by the recipient in connection with the issuance of the shares. Each stock award agreement will contain provisions regarding (i) the number of shares subject to such stock award or a formula for determining such number, (ii) the purchase price of the shares, if any, and the means of payment for the shares, (iii) the performance criteria (including the Qualifying Performance Criteria), if any, and level of achievement versus these criteria that will determine the number of shares granted, issued, retainable and vested, as applicable, (iv) such terms and conditions on the grant, issuance, vesting and forfeiture of the shares, as applicable, as may be determined from time to time by the Administrator, (v) restrictions on

the transferability of the stock award, and (vi) such further terms and conditions, in each case not inconsistent with the Stock Plan, as may be determined from time to time by the Administrator. Shares may be granted under the Stock Plan as stock awards without requiring the participant to pay the Company an amount equal to the fair market value of our common stock as of the Award grant date in order to acquire the Award shares. Notwithstanding the foregoing, stock appreciation rights may not be granted with a base appreciation amount that is less than fair market value on the grant date. The maximum term of stock appreciation rights is ten (10) years.

Newly granted stock grants and stock units may not provide for vesting more rapidly than after one (1) year, with an exception for up to 5% of the shares reserved for issuance under the Stock Plan.

The following actions will be subject to stockholder approval unless such actions are taken in connection with a change in our capitalization, such as a stock split or a recapitalization, merger or certain other corporate transactions: (i) the reduction in the price used to determine the amount payable to a participant upon exercise of any stock appreciation right granted under the Stock Plan (such price referred to herein as the “base appreciation amount”); or (ii) the cancellation of a stock appreciation right at a time when its base appreciation amount exceeds the fair market value of the underlying shares of common stock subject to the stock appreciation right in exchange for another option, stock appreciation right, other award or for a cash payment. Notwithstanding the foregoing, canceling a stock appreciation right in exchange for another option, stock appreciation right or other Award with an exercise price, purchase price or base appreciation amount that is equal to or greater than the base appreciation amount of the original stock appreciation right will not be subject to stockholder approval.

Cash Awards

Each cash award granted under the Stock Plan will be subject to Qualifying Performance Criteria and will be reflected in an agreement containing provisions regarding (1) the target and maximum amount payable to the participant as a cash award, (2) the Qualifying Performance Criteria and level of achievement versus the criteria that will determine the amount of such payment, (3) the period as to which performance shall be measured for establishing the amount of any payment, (4) the timing of any payment earned by virtue of performance, (5) restrictions on the alienation or transfer of the cash award prior to actual payment, (6) forfeiture provisions, and (7) such further terms and conditions, in each case not inconsistent with the Stock Plan, as may be determined from time to time by the Administrator. The maximum amount payable as a cash award that is settled for cash may be a multiple of the target amount payable. Nothing in the Stock Plan prevents the Company from granting cash awards outside of the Stock Plan to any individual.

Adjustments on Changes in Capitalization, Merger or Change of Control

In the event of any stock dividend, stock split, reverse stock split, recapitalization, combination, reclassification or similar change to the capital structure of the Company without receipt of consideration by the Company, or in the event of distribution to the stockholders of cash or stock other than an ordinary cash dividend, appropriate adjustments will be made to (i) the number of shares subject to the Stock Plan, (ii) the number of shares that may be awarded to any individual under the Stock Plan during a single fiscal year, and (iii) the price per share and number of shares under each outstanding Award. Any such adjustments shall be made by the Board, and the decision of the Board shall be final, binding and conclusive.

In the event of a proposed sale of all or substantially all of the Company’s assets or a merger of the Company with or into another corporation, each outstanding Award shall be assumed or an equivalent Award shall be substituted by the successor corporation or a parent or subsidiary of such successor corporation, unless the successor corporation does not agree to assume such Award, in which case such Award shall accelerate immediately prior to the consummation of the transaction.

In the event of a proposed dissolution or liquidation of the Company, each Award will terminate immediately prior to the consummation of the dissolution or liquidation, unless otherwise determined by the Administrator.

Amendment and Termination of the Stock Plan

The Board may amend, alter, suspend or discontinue the Stock Plan. However, the Company shall obtain stockholder approval for any amendment to the Stock Plan to the extent necessary and desirable to comply with applicable laws and listing requirements. Generally, no such action by the Board or stockholders may alter or impair any outstanding Award under the Stock Plan without the written consent of the holder. In addition, without the written consent of the stockholders, no amendment shall be made that would result in a repricing of options or stock appreciation rights by (i) reducing the exercise price or base appreciation amount of outstanding options or stock appreciation rights or (ii) cancelling an outstanding option or stock appreciation right held by a participant and re-granting to the participant a new option with a lower exercise price, a stock appreciation right with a lower base appreciation amount, or another Award or for a cash payment, in either case other than in connection with a change

in the Company's capitalization, merger or certain other corporate transactions. The Stock Plan will terminate in June 2020.

U.S. Federal Income Tax Consequences of Options under the Stock Plan

THE FOLLOWING IS A GENERAL SUMMARY OF THE TYPICAL U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE ISSUANCE AND EXERCISE OF OPTIONS OR OTHER AWARDS UNDER THE STOCK PLAN. IT DOES NOT DESCRIBE STATE OR OTHER TAX CONSEQUENCES OF THE ISSUANCE AND EXERCISE OF OPTIONS OR OF OTHER AWARDS.

Nonstatutory Stock Options. The grant of a nonstatutory stock option under the Stock Plan generally will not result in any federal income tax consequences to the participant or to the Company. Upon exercise of a nonstatutory stock option, the participant generally is subject to income taxes at the rate applicable to ordinary compensation income on the difference between the option exercise price and the fair market value of the shares at the time of exercise. For employees, this income is subject to withholding for federal income and employment tax purposes. The Company is entitled to an income tax deduction in the amount of the income recognized by the participant, subject to possible limitations imposed by Section 162(m) of the Code and so long as the Company withholds the appropriate taxes with respect to such income (if required) and the participant's total compensation is deemed reasonable in amount. Any gain or loss on the participant's subsequent disposition of the shares will receive long or short-term capital gain or loss treatment, depending on whether the shares are held for more than one year following exercise. The Company does not receive a tax deduction for any such gain.

A nonstatutory stock option can be considered non-qualified deferred compensation and subject to Section 409A of the Code. If such a nonstatutory stock option does not meet the requirements of Code Section 409A, the option can result in the acceleration of income recognition, an additional 20% tax obligation, plus penalties and interest.

Incentive Stock Options. The grant of an incentive stock option under the Stock Plan generally will not result in any federal income tax consequences to the participant or to the Company. A participant recognizes no federal taxable income upon exercising an incentive stock option (subject to the alternative minimum tax rules discussed below), and the Company receives no deduction at the time of exercise. In the event of a disposition of stock acquired upon exercise of an incentive stock option, the tax consequences depend upon how long the participant has held the shares. If the participant does not dispose of the shares within two years after the incentive stock option was granted, nor within one year after the incentive stock option was exercised, the participant will recognize a long-term capital gain (or loss) equal to the difference between the sale price of the shares and the exercise price. The Company is not entitled to any deduction under these circumstances.

If the participant fails to satisfy either of the foregoing holding periods (referred to as a "disqualifying disposition"), he or she must recognize ordinary income in the year of the disposition. The amount of ordinary income generally is the lesser of (i) the difference between the amount realized on the disposition and the exercise price or (ii) the difference between the fair market value of the stock at the time of exercise and the exercise price. Any gain in excess of the amount taxed as ordinary income will be treated as a long or short-term capital gain, depending on whether the stock was held for more than one year. The Company, in the year of the disqualifying disposition, is entitled to a deduction equal to the amount of ordinary income recognized by the participant, subject to possible limitations imposed by Section 162(m) of the Code and so long as the participant's total compensation is deemed reasonable in amount.

The "spread" under an incentive stock option—i.e., the difference between the fair market value of the shares at exercise and the exercise price—is classified as an item of adjustment in the year of exercise for purposes of the alternative

minimum tax. If a participant's alternative minimum tax liability exceeds such participant's regular income tax liability, the participant will owe the larger amount of taxes. In order to avoid the application of alternative minimum tax with respect to incentive stock options, the participant must sell the shares within the calendar year in which the incentive stock options are exercised. However, such a sale of shares within the year of exercise will constitute a disqualifying disposition, as described above.

Stock Appreciation Rights. Recipients of stock appreciation rights ("SARs") generally should not recognize income until the SAR is exercised (assuming there is no ceiling on the value of the right). Upon exercise, the recipient will normally recognize taxable ordinary income for federal income tax purposes equal to the amount of

cash and fair market value of the shares, if any, received upon such exercise. Recipients who are employees will be subject to withholding for federal income and employment tax purposes with respect to income recognized upon exercise of a SAR. Recipients will recognize gain upon the disposition of any shares received on exercise of a SAR equal to the excess of (i) the amount realized on such disposition over (ii) the ordinary income recognized with respect to such shares under the principles set forth above. That gain will be taxable as long or short-term capital gain depending on whether the shares were held for more than one year. The Company will be entitled to a tax deduction to the extent and in the year that ordinary income is recognized by the recipient, subject to possible limitations imposed by Section 162(m) of the Code and so long as we withhold the appropriate taxes with respect to such income (if required) and the recipient's total compensation is deemed reasonable in amount.

A SAR can be considered non-qualified deferred compensation and subject to Section 409A of the Code. If such a SAR does not meet the requirements of Code Section 409A, the SAR can result in the acceleration of income recognition, an additional 20% tax obligation, plus penalties and interest.

Restricted Stock and Stock Purchase Rights. The grant of restricted stock and stock purchase rights will subject the recipient to ordinary compensation income on the difference between the amount paid for the shares subject to the Award and the fair market value of the shares on the date that the restrictions lapse. For employees, this income is subject to withholding for federal income and employment tax purposes. The Company is entitled to an income tax deduction in the amount of the ordinary income recognized by the recipient, subject to possible limitations imposed by Section 162(m) of the Code and so long as the Company withholds the appropriate taxes with respect to such income (if required) and the participant's total compensation is deemed reasonable in amount. Any gain or loss on the recipient's subsequent disposition of the shares will receive long or short-term capital gain or loss treatment depending on how long the stock has been held since the restrictions lapsed. The Company does not receive a tax deduction for any such gain.

Recipients of restricted stock and stock purchase rights may make an election under Section 83(b) of the Code ("Section 83(b) Election") to recognize as ordinary compensation income in the year that such restricted stock is granted or stock purchase right is exercised, the amount equal to the spread between the amount paid for such stock and the fair market value on the date of the issuance of the stock. If such an election is made, the recipient recognizes no further amounts of compensation income upon the lapse of any restrictions and any gain or loss on subsequent disposition will be long or short-term capital gain to the recipient. The Section 83(b) Election must be made within thirty days from the time the restricted stock is granted or the time when restricted stock is purchased through a stock purchase right.

Restricted Stock Units. Recipients of restricted stock units generally should not recognize income until such units are converted into cash or shares. Upon conversion, the recipient will normally recognize taxable ordinary income for federal income tax purposes equal to the amount of cash and fair market value of the shares, if any, received upon such conversion. Recipients who are employees will be subject to withholding for federal income and employment tax purposes with respect to income recognized upon conversion of the restricted stock units. Participants will recognize gain upon the disposition of any shares received upon conversion of the restricted stock units equal to the excess of (i) the amount realized on such disposition over (ii) the ordinary income recognized with respect to such shares under the principles set forth above. That gain will be taxable as long or short-term capital gain depending on whether the shares were held for more than one year. The Company will be entitled to a tax deduction to the extent and in the year that ordinary income is recognized by the recipient, subject to possible limitations imposed by Section 162(m) of the Code and so long as the Company withholds the appropriate taxes with respect to such income (if required) and the recipient's total compensation is deemed reasonable in amount.

Restricted stock units also can be considered non-qualified deferred compensation and subject to Section 409A of the Code. If such an Award of restricted stock units does not meet the requirements of Code Section 409A, the restricted stock units will result in an additional 20% tax obligation, plus penalties and interest to such recipient.

Cash Awards. Upon receipt of cash, the recipient will have taxable ordinary income, in the year of receipt, equal to the cash received. Any cash received will be subject to tax withholding by the Company. Unless limited by Section 162(m) of the Code, the Company will be entitled to a tax deduction in the amount and at the time the recipient recognizes compensation income.

Recommendation of the Board:

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE AMENDMENT TO
THE 2000 STOCK PLAN TO INCREASE THE NUMBER OF SHARES OF OUR COMPANY'S
COMMON STOCK AVAILABLE FOR ISSUANCE BY 7,500,000 SHARES.

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PROPOSAL NO. 4

ADVISORY VOTE ON EXECUTIVE COMPENSATION

The Dodd-Frank Wall Street Reform and Consumer Protection Act added Section 14A to the Securities Exchange Act of 1934 requiring that we provide our stockholders with the opportunity to vote to approve, on a nonbinding, advisory basis, the compensation of our named executive officers as disclosed in this proxy statement in accordance with the compensation disclosure rules of the Securities and Exchange Commission.

As described in greater detail under the heading “Compensation Discussion and Analysis,” we seek to closely align the interests of our named executive officers with the interests of our stockholders. Our compensation programs are designed to reward our named executive officers for the achievement of short-term and long-term strategic and operational goals and the achievement of increased total stockholder return, while at the same time avoiding the encouragement of unnecessary or excessive risk-taking.

This vote is advisory, which means that the vote on executive compensation is not binding on the Company, our Board of Directors or the Compensation Committee of the Board of Directors. The vote on this resolution is not intended to address any specific element of compensation, but rather relates to the overall compensation of our named executive officers, as described in this proxy statement in accordance with the compensation disclosure rules of the Securities and Exchange Commission. To the extent there is a significant vote against our named executive officer compensation as disclosed in this proxy statement, the Compensation Committee will evaluate whether any actions are necessary to address our stockholders’ concerns.

The affirmative vote of a majority of the shares present or represented and entitled to vote either in person or by proxy is required to approve this Proposal 4. Accordingly, we ask our stockholders to vote on the following resolution at the Annual Meeting:

“RESOLVED, that the Company’s stockholders approve, on an advisory basis, the compensation of the named executive officers, as disclosed in the Company’s Proxy Statement for the 2018 Annual Meeting of Stockholders pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, the Summary Compensation Table and the other related tables and disclosure.”

Recommendation of the Board:

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR

THE APPROVAL OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS, AS

DISCLOSED IN THIS PROXY STATEMENT.

PROPOSAL NO. 5

RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED

PUBLIC ACCOUNTING FIRM

The Audit Committee has recommended, and the Board has approved, the appointment of Ernst & Young LLP as our independent registered public accounting firm for fiscal year 2018. Ernst & Young LLP has served as our independent registered public accounting firm since 1998. In the event that ratification of this selection of auditors is not approved by the affirmative vote of a majority of the shares present in person or represented by proxy at the Annual Meeting, the Board will review its future selection of auditors.

A representative of Ernst & Young LLP is expected to be present at the Annual Meeting. This representative will have an opportunity to make a statement and will be available to respond to appropriate questions.

Recommendation of the Board:

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR

RATIFICATION OF ERNST & YOUNG LLP AS THE COMPANY'S

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR FISCAL YEAR 2018.

COMMON STOCK OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table presents information concerning the beneficial ownership of the shares of our common stock as of April 24, 2018 by:

- each person whom we know to beneficially own more than 5% of our common stock;
- each of our directors;
- each of our Named Executive Officers; and
- all of our directors and executive officers as a group.

The number and percentage of shares beneficially owned are based on [] shares of common stock outstanding as of April 24, 2018. Beneficial ownership is determined under the rules and regulations of the SEC. Shares of common stock subject to options, warrants and conversion privileges that are currently exercisable or exercisable within 60 days of April 24, 2018 are deemed to be outstanding and beneficially owned by the person holding the options, warrants or convertible securities for the purpose of computing the number of shares beneficially owned and the percentage ownership of that person, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person. Except as indicated in the footnotes to this table, and subject to applicable community property laws, these persons have sole voting and investment power with respect to all shares of our common stock shown as beneficially owned by them.

Name and Address	Amount and Nature of Beneficial Ownership	Percent of Common Stock
Holders of 5% or more of our common stock		
First Eagle Investment Management, LLC and affiliates (1) 1345 Avenue of Americas, New York, NY 10105	22,476,546	[]
BlackRock, Inc. (2) 55 East 52 nd Street, New York, NY 10055	9,747,128	[]
Ingalls & Synder LLC (3) 1325 Avenue of Americas, New York, NY 10019	8,486,721	[]
Directors and Named Executive Officers		
James E. Brown, D.V.M. (4)	5,136,980	[]
Felix Theeuwes, D.Sc. (5)	6,192,143	[]
Matthew J. Hogan, M.B.A. (6)	1,603,225	[]
Judy R. Joice (7)	1,194,945	*
Simon X. Benito (8)	444,982	*
Terrence F. Blaschke, M.D. (9)	390,982	*
David R. Hoffmann (10)	769,513	*
Armand P. Neukermans, Ph.D. (11)	519,232	*
Jon S. Saxe (12)	432,792	*
All executive officers and directors as a group	16,684,794	[]

(9 persons) (13)

* Less than 1% of the outstanding shares of common stock. Except as otherwise noted, the address of each person listed in the table is c/o DURECT Corporation, 10260 Bubb Road, Cupertino, California 95014.

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- (1) Based upon a Schedule 13G/A filed by First Eagle Investment Management, LLC on February 6, 2017. First Eagle Investment Management, LLC (“FEIM”) is deemed to be the beneficial owner of 22,476,546 shares as a result of acting as investment advisor to various clients. Clients of FEIM have the right to receive and the ultimate power to direct the receipt of dividends from, or the proceeds of the sale of, such securities. 21 April Fund, Ltd., a Cayman Islands company for which FEIM acts as investment adviser, may be deemed to beneficially own 13,367,709 of these 22,476,546 shares.
- (2) Based upon a Schedule 13G/A filed by BlackRock, Inc. on January 29, 2018. These securities are beneficially owned by BlackRock Inc., which has sole voting power over 9,456,417 shares and sole dispositive power over 9,747,128 shares.
- (3) Based upon a Schedule 13G filed by Ingalls & Snyder LLC on February 9, 2018. These securities are beneficially owned by Ingalls & Snyder LLC, which has sole voting power over zero shares and sole dispositive power over 8,486,721 shares.
- (4) Includes 1,764,530 shares held by James E. Brown, 560,000 shares held by the James & Karen Brown 1998 Trust U/A and 70,000 shares held by the James & Karen Brown 2006 Trust U/A. Also includes 2,742,450 shares issuable upon exercise of options exercisable within 60 days of April 24, 2018.
- (5) Includes 3,331,814 shares held by the Felix and Marie-Therese Theeuwes Family Trust. Also includes 2,860,329 shares issuable upon exercise of options exercisable within 60 days of April 24, 2018.
- (6) Includes 2,000 shares held by Matthew J. Hogan and 10,000 shares held by the Matthew and Maureen Hogan Trust U/A dated March 12, 1999. Also includes 1,591,225 shares issuable upon exercise of options exercisable within 60 days of April 24, 2018.
- (7) Includes 12,255 shares held by Judy R. Joice. Also includes 1,182,690 shares issuable upon exercise of options exercisable within 60 days of April 24, 2018.
- (8) Includes 85,000 shares held by Simon X. Benito. Also includes 359,982 shares issuable upon exercise of options exercisable within 60 days of April 24, 2018.
- (9) Includes 28,000 shares held by Terrence F. Blaschke and 3,000 shares held by the Terrence and Jeannette Blaschke Trust U/A dated November 11, 1993. Also includes 359,982 shares issuable upon exercise of options exercisable within 60 days of April 24, 2018.
- (10) Includes 363,000 shares held by David R. Hoffmann Trustee under the Trust of David R. Hoffmann and Judy A. Hoffmann U/A dated November 14, 1979 and 5,000 shares held in a Non-Exempt Marital Trust, David R. Hoffmann Trustee under the David R. Hoffmann and Judy A. Hoffmann Trust U/A dated November 14, 1979. Also includes 401,513 shares issuable upon exercise of options exercisable within 60 days of April 24, 2018.
- (11) Includes 95,000 shares held by the Neukermans Family Trust, 38,000 shares held by a partnership and 1,250 shares held by Armand P. Neukermans. Also includes 384,982 shares issuable upon exercise of options exercisable within 60 days of April 24, 2018.
- (12) Includes 27,810 shares held by Jon S. Saxe and 20,000 shares held by the Jon S. Saxe and Myrna G. Marshall 1997 Trust. Also includes 384,982 shares issuable upon exercise of options exercisable within 60 days of April 24, 2018.
- (13) Includes an aggregate of 10,268,135 shares issuable pursuant to the exercise of outstanding stock options exercisable within 60 days of April 24, 2018.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

The Compensation Committee (for purposes of this analysis, the “Committee”) of the Board has responsibility for establishing, implementing and continually monitoring adherence with our compensation practices. The Committee makes all compensation decisions for our Chief Executive Officer (our “CEO”) and Chief Financial Officer (our “CFO”), as well as the other individuals included in the Summary Compensation Table below (our “Named Executive Officers”) and all of our Vice Presidents. In this proxy, we refer to those persons as our “Officers.”

Philosophy and Elements

All of our compensation programs are designed to attract and retain key employees, motivating them to achieve and rewarding them appropriately for their performance. Different programs are geared to short and longer-term performance with the goal of increasing stockholder value over the long term. Executive compensation programs impact all employees by setting general levels of compensation and helping to create an environment of goals, rewards and expectations. Because we believe the performance of every employee is important to our success, we consider the effect of executive compensation and incentive programs on all of our employees.

We believe that the compensation of our Officers should reflect the extent of their success as a management team and in addition, their individual performance, in attaining key operating objectives, such as advancing our product pipeline, entering into strategic collaborative agreements and maintaining our financial strength, and ultimately, increasing stockholder value. We believe that the performance of our Officers in managing the Company, considered in light of general economic and specific Company, industry and competitive conditions, should be the basis for determining their overall compensation. We also believe that their compensation should not be based on the short-term performance of our stock, whether favorable or unfavorable, but rather that the price of our stock will, in the long-term, reflect our operating performance, and ultimately, the management of the Company by our Officers. We seek to have the long-term performance of our stock reflected in executive compensation through our stock option and other equity incentive programs.

Elements of compensation for our executives include: salary, bonus, stock incentive awards and perquisites. We choose to pay each element of compensation in order to attract and retain the necessary executive talent, reward performance and provide incentive for their balanced focus on long-term strategic goals as well as short-term performance. The amount of each element of compensation is determined by or under the direction of the Committee, which uses the following factors to determine the amount of salary and other benefits to pay each executive:

- performance against corporate and individual objectives for the previous year;
- value of their unique skills and capabilities to support our long-term performance;
- performance of their general management responsibilities;
- contribution as a member of our executive management team;
- difficulty of achieving desired results in the coming year and years to follow; and
- compensation paid by companies deemed by the Committee to be comparable to us.

These elements fit into our overall compensation objectives by helping to secure the future potential of our products and operations, continuing to meet our business objectives, providing proper compliance and regulatory guidance, and helping to create an effective and cohesive team. Our policy for allocating between long-term and currently paid compensation is to ensure adequate base compensation to attract and retain personnel, while providing incentives to maximize long-term value for us and our stockholders. Likewise, we provide cash compensation in the form of base salary to meet competitive salary norms and reward performance on an annual basis and in the form of bonus compensation to reward superior performance against specific annual goals. We provide non-cash compensation (i.e.,

stock options) to reward superior performance against specific objectives and

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long-term strategic goals. Our compensation package for our Named Executive Officers for fiscal year 2017 ranged from 38% to 68% in cash compensation and 32% to 62% in non-cash compensation, including benefits and equity-related awards. We believe that this structure is competitive within the marketplace and appropriate to fulfill our stated policies. There is no pre-established policy or target for the allocation between either cash and non-cash or short-term and long-term incentive compensation. Rather, the Committee reviews information from relevant peer companies, and such other information as it considers appropriate, to determine the appropriate level and mix of incentive compensation.

Setting Officer Compensation

Process

At one or more meetings at the end of each fiscal year (usually in December) or early in the following fiscal year (usually in January or February), the Committee reviews our performance during the fiscal year against established corporate objectives, individual Officer performance and history of all the elements of each Officer's total compensation in comparison with the compensation of executive officers in an appropriate peer group as described below. After due consideration of the foregoing, the Committee:

- sets the base salaries for our Officers for the following fiscal year;
 - approves individual Officer bonus payments for performance for the prior fiscal year;
 - approves stock options that will be granted to each Officer for performance for the prior fiscal year;
 - adopts the management incentive plan (including objectives and weighting) for the following fiscal year; and
 - decides upon general compensation guidelines and overall salary, bonus and stock option budgets for all employees.
- The specific basis for the determination of base salaries, bonuses and stock option grants to Officers is detailed below.

Role of Executive Officers

The CEO and the Chairman and Chief Scientific Officer (the "CSO") annually review the performance of each Officer (other than the CEO and the CSO, whose performance is reviewed by the Committee) with the assistance and input from our head of Human Resources. The conclusions reached and recommendations made based on these reviews, including with respect to salary adjustments and annual award amounts, are presented to the Committee. Officers, other than the CEO and the CSO, are not present at the time of these deliberations. The Committee can exercise its discretion in modifying any recommended adjustments or awards to executives and ultimately makes the final decision with respect to the compensation of all our Officers. The CEO and the CSO are not present during the Committee's deliberations and discussion on their individual compensation.

Benchmarking

To assist the Committee in benchmarking executive compensation, the Committee from 2013 to 2017 retained Setren, Smallberg & Associates, Inc., an independent compensation consulting firm, to collect and synthesize data from several sources as detailed below.

To benchmark our Officer cash bonuses and equity awards for performance in fiscal year 2017 and base salaries for fiscal year 2018, the Committee reviewed compensation information as reported in the definitive proxies for fiscal year 2016 from the following public life sciences companies: Ardelyx, Cascadian Therapeutics, Cidara Therapeutics, Codexis, Conatus Pharmaceuticals, Corium International, Corvus Pharmaceuticals, Curis, Fate Therapeutics, Idera Pharmaceuticals, Immune Design Corporation, Kura Oncology, Peregrine Pharmaceuticals, Protagonist Therapeutics, Rigel Pharmaceuticals, Stemline Therapeutics, Syndax Pharmaceuticals and Voyager Therapeutics (the "Peer

Companies”). The Committee selected the Peer Companies as a relevant comparison group for us based on various criteria including similarity of business, employee headcount, market capitalization and

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revenue, and reviewed the proposed Peer Companies with Setren, Smallberg & Associates, Inc. for appropriateness as a comparison group. Where such source did not provide sufficient information with respect to the bonus and equity compensation of certain officer positions, the Committee used compensation information from The Radford Global Life Sciences Survey (2017) (the “2017 Radford Survey”) as a supplement. The Committee took into consideration the summarized compensation data from the Peer Companies along with the data from the 2016 Radford Survey when setting base salaries applicable for fiscal year 2018 and the cash bonuses and stock options awards to our Officers for performance in fiscal year 2017.

Base Salary

It is the goal of the Committee to establish salary compensation for our Officers that is competitive with comparable peer companies. In setting Officer base salaries for fiscal year 2018 (which were set in January 2018), the Committee reviewed the salary compensation of officers with comparable qualifications, experience and responsibilities as reported in the 2017 Radford Survey and definitive proxies from the Peer Companies. It is not our policy to pay our CEO or other Officers at the highest level relative to their respective counterparts at the Peer Companies. The Committee generally targets compensation for our Officers at the 50th percentile of compensation paid to similarly situated executives at the Peer Companies. Variations to this objective may occur as dictated by the experience and performance level of the individual and market factors. We believe that this gives us the opportunity to attract and retain talented managerial employees both at the senior executive level and below, yet conserves our financial resources, to the benefit of our stockholders.

For fiscal year 2018, the Officers did not receive any salary increase. For fiscal year 2017, the Officers except for our Named Executive Officers received a 3% merit increase in base salary effective July 1, 2017. In addition, the Compensation Committee awarded Mr. Hogan and Ms. Joice a 3% merit increase in their base salary effective April 1, 2017, but Mr. Hogan and Ms. Joice subsequently declined this increase. For fiscal year 2016, the Officers did not receive any salary increase, except for Ms. Joice who received a 3% merit increase in her base salary effective April 1, 2016. For fiscal year 2015, Officers received a 3% merit increase in base salary effective April 1, 2015. Further, to preserve cash and continue aligning the interests of the Company’s officers with the interests of the Company’s stockholders, for the sixth year in a row, certain Officers volunteered to receive a reduction in the portion of their salary paid in cash, with the reduction being paid in options. For 2017, five Officers volunteered to receive a reduction in the portion of their 2017 salary paid in cash ranging from approximately 4% to 39%, with the total foregone annualized salary equaling \$255,000 and the total number of options granted equaling 233,080. For 2016, five Officers volunteered to receive a reduction in the portion of their 2016 salary paid in cash ranging from approximately 4% to 39%, with the total foregone annualized salary equaling \$255,000 and the total number of options granted equaling 247,115. For 2015, five Officers volunteered to receive a reduction in the portion of their salary paid in cash ranging from approximately 4% to 39%, with the total foregone salary equaling \$310,000 and the total number of options granted equaling 200,150. Annual notional salaries for our Named Executive Officers are currently \$531,289 for Dr. Brown, \$345,015 for Mr. Hogan and \$302,357 for Ms. Joice. Dr. Theeuwes’ notional salary became \$125,000 effective February 1, 2018 and will become \$90,000 effective July 1, 2018.

Bonus (Non-Equity Incentive Plan Compensation)

The cash bonus element of our executive compensation is designed to reward our Officers for the achievement of shorter-term corporate goals, measurable on an annual basis, as well as, with certain exceptions noted below for the CEO and CSO, individual Officer performance. Our general process for determining the bonus element of our Officer compensation for fiscal years 2017 and 2018 performance is set forth below.

In setting the target bonus for which each Officer would be eligible for fiscal 2017 and 2018 performance, the Committee reviewed the data from the then-current peer companies (and the most recent available Radford Survey where applicable) with respect to the bonuses of officers with comparable qualifications, experience and responsibilities at companies in their recommended peer groups. Based on the foregoing, for performance in fiscal year 2017, the Committee set the target bonus for the CEO and CSO (Distinguished Scientist as of February 2018) at 60% of such individual's base salary, and for all other Officers at 30%–40% of such individual's base salary. For performance in fiscal year 2018, the Committee set the target bonus for the CEO at 60% and CSO (Distinguished Scientist as of February 2018) at 40% of such individual's base notional salary, and for all other Officers at 30%–40% of such individual's base notional salary. The two factors used by the Committee to determine the percentage of the target amount to be awarded to any individual Officer other than the CEO and CSO (Distinguished Scientist as of February 2018) are the individual performance of such Officer during the relevant fiscal year and the Company's performance as a whole against pre-set corporate objectives for such fiscal year (the "Corporate Objectives"). The Committee retains the discretion to adjust actual bonus payments based on other factors, as discussed below.

The Corporate Objectives for each fiscal year are typically established by the Committee in consultation with our Officers at the end of the previous fiscal year or in the first quarter of such fiscal year. The Corporate Objectives comprise product development, financial, business development and operational goals with varying degrees of difficulty and have associated target dates for accomplishment. Each objective is weighted based on the importance of the accomplishment of the objective to the Company's overall value. At the end of each fiscal year, the Committee makes a determination of the overall percentage of the Corporate Objectives accomplished by the Company as a whole during the fiscal year. The Committee exercises its reasonable discretion in determining the percentage of Corporate Objectives accomplished by the Company, including, for example, taking into account the achievement of any listed objective above expectations or the accomplishments of the Company that were not listed in the Corporate Objectives.

For fiscal year 2017, the Corporate Objectives against which Officer performance was evaluated consisted of, among others, the following goals.

Financial

- oThe first financial goal was to operate within a corporate budget entailing cash utilization of no more than \$30 million
- oThe second financial goal was to generate sufficient funds from financings or licensing activities to support the strategic objectives

Product Development

- oDUR-928: The primary goals related to completing studies required to enable Phase 2 studies in the US for both oral and IV routes of administration, starting dosing or having INDs open for Phase 2 trials, and finalizing lead topical formulations for a psoriasis Phase 2 study
 - oPOSIMIR®: The primary goals related to establishing a licensing agreement for commercialization, completing enrollment and meeting the primary efficacy endpoint in the PERSIST trial, and completing certain activities related to preparing for an NDA resubmission
 - oPartnered Programs: The primary goals related to providing assistance to our licensees Pain Therapeutics, Orient Pharma and Santen in ways particular to each program as well as goals related to certain feasibility programs.
- After evaluating the Company's performance against the Corporate Objectives established for 2017, the Committee determined that the overall percentage of Corporate Objectives accomplished by the Company as a whole for fiscal year 2017 was 55.5%.

The Committee believes that the accomplishments of the Company as a whole are an important measure of the performance of all of our Officers, including the effectiveness of their leadership and teamwork. In particular, the percentage of the total eligible amount that is normally awarded to the CEO and CSO as a bonus is based entirely on the Company's overall performance and accomplishment of the Corporate Objectives because the Committee believes that the paramount duty of these individuals is leadership. Thus, the bonus awarded to the CEO and the CSO for fiscal year 2017 was computed by multiplying 55.5% (the percentage determined by the Committee based

on Corporate Objectives accomplished and the Company's overall performance) by 60% of the CEO or CSO's base notional salary in fiscal year 2017 (the target bonus amount that such individual is eligible to receive as set by the Committee). For fiscal year 2017, the Committee applied a weighting of Corporate Objectives (from 80% to 90% or 95%, depending on the Officer) and applied a weighting of individual performance (from 20% to 10% or 5%, depending on the Officer) for Officers other than the CEO and CSO.

The bonus awarded to the CEO and the CSO for fiscal year 2016 was computed by multiplying 42.5% (the percentage determined by the Committee based on Corporate Objectives accomplished and the Company's overall performance) by 60% of the CEO or CSO's base notional salary in fiscal year 2016 (the target bonus amount that such individual is eligible to receive as set by the Committee). For fiscal year 2016, the Committee applied a weighting of Corporate Objectives (from 80% to 90% or 95%, depending on the Officer) and applied a weighting of individual performance (from 20% to 10% or 5%, depending on the Officer) for Officers other than the CEO and CSO.

The bonus awarded to the CEO and the CSO for fiscal year 2015 was computed by multiplying 69.5% (the percentage determined by the Committee based on Corporate Objectives accomplished and the Company's overall performance) by 60% of the CEO or CSO's base notional salary in fiscal year 2015 (the target bonus amount that such individual is eligible to receive as set by the Committee). For fiscal year 2015, the Committee applied a weighting of Corporate Objectives (from 80% to 90% or 95%, depending on the Officer) and applied a weighting of individual performance (from 20% to 10% or 5%, depending on the Officer) for Officers other than the CEO and CSO.

The individual performance of each Officer, except for the CEO and CSO (Distinguished Scientist as of February 1, 2018), is assessed as part of an annual written performance appraisal performed typically at the end of each fiscal year. At the end of each fiscal year or early in the following fiscal year, each Officer, together with his or her supervisor (e.g., the CEO or CSO), agrees upon a written set of objectives for the following fiscal year pertinent to the Officer individually (which includes goals for the functional area or business managed by such Officer). The supervisor also assesses the accomplishments of the Officer in such fiscal year against the applicable pre-established objectives for that Officer in such year, and arrives at a percentage of goals accomplished. For performance in fiscal year 2015, 2016 and 2017, the bonus of each Officer other than the CEO or CSO was determined as follows:

Bonus Amount = (A% * B% + C% * D%) * E% * Base Salary

A = the percentage (5%, 10% or 20%) of individual performance applicable to the Officer

B = the percentage of personal objectives accomplished by the Officer as determined by the Officer's supervisor

C = the percentage (80%, 90% or 95%) of weighting of Corporate Objectives

D = the percentage of Corporate Objectives accomplished and overall performance by the Company as determined by the Committee

E = the percentage (30%, 35% or 40%) of the base salary set as the maximum bonus target applicable to the Officer
Notwithstanding the general practice with respect to determination of Officer bonuses set forth above, the Committee retains complete discretion to adjust the result obtained using the general approach for individual variations in performance or business considerations.

In order to preserve cash and to more closely align the interests of the Company's shareholders, management recommended and the Committee agreed that the total calculated bonus award for fiscal year 2017 performance would be paid 100% in options to employees relative to 2017 performance. The total shares subject to each bonus option were determined by using a standard Black-Scholes option-pricing model. Options to purchase 963,933 shares subject to the bonus options that fully vested upon grant were granted to our Officers in January 2018.

In order to preserve cash and to more closely align the interests of the Company's shareholders, management recommended and the Committee agreed that the total calculated bonus award for fiscal year 2016 performance

would be paid 100% in options to employees relative to 2016 performance. The total shares subject to each bonus option were determined by using a standard Black-Scholes option-pricing model. Options to purchase 796,434 shares subject to the bonus options that fully vested upon grant were granted to our Officers in January 2017.

In order to preserve cash and to more closely align the interests of the Company's shareholders, management recommended and the Committee agreed that the total calculated bonus award for fiscal year 2015 performance would be reduced by 20% and then that 25% of that bonus award would be paid in cash and 75% of that bonus award would be paid in options to employees relative to 2015 performance. With respect to Dr. Brown and Dr. Theeuwes, the Committee determined that all of their bonus award would be paid in options and none would be paid in cash for their 2015 performance. Options to purchase 711,128 shares subject to the bonus options that fully vested upon grant were granted to our Officers in January 2016.

Equity Incentive Program

We intend that our equity incentive program is the primary vehicle for offering long-term incentives and rewarding our Officers and key employees. We also regard our equity incentive program as a key retention tool. This is a very important factor in our determination of the type of award to grant and the number of underlying shares that are granted in connection with that award. Because of the direct relationship between the value of an option and the market price of our common stock, we have always believed that granting stock options is the best method of motivating our Officers to manage the Company in a manner that is consistent with our interests and those of our stockholders. It is our typical practice to grant stock options to our Officers and all employees annually in connection with our annual employee performance appraisal.

At the same meeting(s) during which the Committee determines our Officer base salaries for the following fiscal year and bonuses for performance in the previous fiscal year, the Committee also determines the ranges of stock options for which our Officers are eligible by rank. The Committee sets these ranges after consideration of (a) the value of equity incentive awards of officers with comparable qualifications, experience and responsibilities at the then-current peer companies, (b) the dilution that would be created by the stock options awards for that fiscal year (the "Burn Rate") and (c) the overall value of equity held by our employees as a retention incentive. The Committee's general philosophy is that the value of our equity incentive awards to our Officers should be competitive with the then-current peer companies subject to the Company maintaining a Burn Rate for its equity incentive programs that is not overly dilutive to our stockholders and comparable to other companies in the then-current peer group.

For our annual stock option grant in connection with the Company's fiscal year 2017 performance appraisal, the date of grant which was January 26, 2018, the Committee targeted a Burn Rate (computed as total shares subject to the annual option grants to all employees including Officers for the 2017 fiscal year divided by total outstanding shares as of December 31, 2017) of approximately 1.2%. For our annual stock option grant in connection with the Company's fiscal year 2016 performance appraisal, the date of grant which was January 9, 2017, the Committee targeted a Burn Rate (computed as total shares subject to the annual option grants to all employees including Officers for the 2016 fiscal year divided by total outstanding shares as of December 31, 2016) of approximately 1.2%. For our annual stock option grant in connection with the Company's fiscal year 2015 performance appraisal, the date of grant which was January 28, 2016, the Committee targeted a Burn Rate (computed as total shares subject to the annual option grants to all employees including Officers for the 2015 fiscal year divided by total outstanding shares as of December 31, 2015) of approximately 1.4%.

The factors used by the Committee to determine the specific number of shares underlying any stock option grant to any individual Officer other than the CEO and the CSO (Distinguished Scientist as of February 1, 2018) are the individual performance of such Officer during the relevant fiscal year and the performance of the Company as a whole against the Corporate Objectives. As with bonuses, the specific number of shares underlying the stock option grants to

our CEO and CSO (Distinguished Scientist as of February 1, 2018) is determined based on the performance of the Company as a whole against the Corporate Objectives.

In addition, our Board of Directors and Compensation Committee may grant equity compensation to our Officers and employees at any time for incentive and retention purposes in keeping with our non-cash equity compensation practices outlined below.

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Perquisites

Except as otherwise described in this Proxy Statement, our Officers are entitled to no benefits that are not otherwise available to all of our employees. In this regard it should be noted that we do not provide pension arrangements (other than our 401(k) plan), post-retirement health coverage or similar benefits for our Officers or employees.

The perquisites we provided in fiscal 2017 were as follows. We provide life insurance to all employees who work at least 30 hours per week (including Officers) with a limit of three times the employee's salary (up to \$250,000 of insurance per employee). The premium on over \$50,000 of life insurance is treated as taxable income and is reported on W-2 forms of all employees. In addition, we offer medical, dental and vision insurance, and provide accidental death and dismemberment insurance, short-term and long-term disability insurance to all employees who work at least 30 hours per week. We pay for approximately 85% of the total premium for medical, dental and vision insurance, respectively, and 100% of the total premium for accidental death and dismemberment insurance, short-term and long-term disability insurance. Our Officers, as with our employees, are eligible to participate in our 2000 Employee Stock Purchase Plan.

Post-Employment Compensation

Pension Benefits

We do not provide pension arrangements or post-retirement health coverage for our executives or employees. Our executive officers, as with all eligible employees, are eligible to participate in our 401(k) plan. We do not provide matching contributions for any of our employees including our Officers.

Nonqualified Deferred Compensation

We do not provide any nonqualified deferred contribution or other deferred compensation plans.

Other Post-Employment Payments

All of our employees, including our Officers, are employees-at-will and as such do not have employment contracts with us. We also do not provide post-employment health coverage or other benefits, except in connection with the change of control agreements, details of which are included below under "Change of Control Agreements."

Stock Option Practices

Overview

It is our practice to grant stock options to all of our employees. Stock options award levels are determined based on market data and vary among individuals based on their positions within the Company and their individual performance. Stock Options are generally granted in connection with:

- the hiring of employees (including Officers);
- the promotion of employees (including Officers);
- the annual performance appraisal of employees (including Officers);
- rewarding certain employees (including Officers) for exceptional accomplishments;
- periodically in lieu of cash bonuses or voluntary reductions in salary; and
- from time to time for incentive and retention purposes.

We also, from time-to-time, and on an infrequent basis, grant stock options to certain consultants with specialized skills who provide important services to us. All of our stock options are granted under and pursuant to the terms of our 2000 Stock Plan (the "Plan").

Authority

The Board has delegated the authority to grant stock options under specified terms and conditions to a committee consisting of our CEO, CSO (Distinguished Scientist as of February 1, 2018) and CFO (the “Officer Committee”) in connection with the hiring and promotion of non-Officer employees and the rewarding of non-Officer employees for exceptional performance. Other than as expressly delegated by the Committee or the Board in accordance with the Stock Plan, the authority to grant stock options and other equity compensation resides exclusively with the Committee or the Board. In particular, the Committee or the Board has the exclusive authority to grant stock options to Directors and Officers.

Timing of Grants

Options to newly hired Officers are approved by action of our Board or the Committee by meeting or unanimous written consent prior to and granted effective as of the first day of employment of such Officer, typically at the same time as the ratification of their employment. Options to newly hired employees who are not Officers and where the number of shares underlying the stock option grant does not exceed 50,000 shares are granted by unanimous written consent of the Officer Committee on the tenth business day of the subsequent calendar month of their hire, and the Officer Committee meets or acts by unanimous written consent on or before the tenth business day of the calendar month to approve the option grants to be made on the tenth business day of the calendar month.

Annual grants of stock options to our employees and Officers are made usually in January or February of each year after the conclusion of our annual Company-wide performance appraisal of all employees for the previous fiscal year. Even though the Committee may complete the evaluation of the performance of Officers prior to the completion of the performance appraisal process for the entire Company, it has been our practice in the last several years to grant the stock options to Officers simultaneously with the grant of stock options to our employees.

Other than as described above with respect to newly hired employees, it is our practice to grant stock options (such as in connection with promotions, rewarding exceptional accomplishments and grants to consultants) effective on the date of the Board, Committee or Officer Committee’s action by meeting or unanimous written consent.

We do not have a policy that precludes the granting of stock options when the Company or the Board is in possession of material nonpublic information or at certain periods in relation to our earnings releases. Although the Committee has considered whether such a policy would be advisable, the Committee does not feel that adoption of such policy is warranted at present since we grant stock options based on timelines in the normal course of business independent of the occurrence of these types of events (e.g., at a pre-established date each month for newly hired employees, on the first date of employment for newly hired Officers or upon the completion of the Company’s annual performance appraisal with respect to the annual grant). The Committee will periodically review the need for any such type of policy on timing, but at present, reserves the right to grant stock options at any time consistent with our policies, the Stock Plan and applicable laws and regulations.

Exercise Price and Other Terms

The exercise price for stock options we grant is the fair market value of our common stock as defined in the Stock Plan, which is the closing price on the day of the grant of our common stock on the NASDAQ Global Market. Stock options granted to our employees (including Officers) typically have a term of 10 years. Annual grants of stock options in 2016, 2017 and 2018 generally vest on a quarterly basis over four years following the date of grant. Options in lieu of cash bonus generally vest immediately on the date of grant. Options in lieu of salary generally vest quarterly over one (1) year following the date of grant. On an infrequent basis, the Board or the Committee has granted stock options to employees (including Officers) with different vesting patterns consistent with the Stock Plan. The term and

vesting of options granted to consultants vary depending on the circumstances.

Stock options, subject to required vesting, are exercisable for the term of the option so long as the optionee maintains continuous status as an employee or consultant with the Company. Generally, we have granted options that provide that if an optionee's service to the Company as an employee, consultant or director terminates, such individual's vested options will remain exercisable for periods of between 60 days and a year, with special longer periods of two years for certain director options and for up to seven years for certain options granted in lieu of salary

or director fees. The Administrator shall have the authority to extend the period of time for which an option is to remain exercisable following optionee’s termination; provided that in no event will an option be exercisable later than the expiration of the term of the option.

Hedging and Stock Ownership Policies

Our insider trading policy provides that all employees and Officers may not engage in any transactions that suggest speculation in our stock (that is, an attempt to profit in short-term movements, either increases or decreases, in the stock price). The policy notes that many “hedging” transactions, such as “collar” transactions, contingent or forward sales, and other similar or related arrangements, are prohibited. Specifically, our insider trading policy precludes any employee or Officer from engaging in any “short” sale, “sale against the box” or any equivalent transaction involving our stock (or the stock of any of our business partners in any of the situations described above).

We do not have a stock ownership policy.

Most Recent Advisory Vote on Executive Compensation

The Committee noted that at the 2017 Annual Meeting held on June 19, 2017, the Company’s executive compensation was approved on a non-binding, advisory basis based upon the following votes:

			Broker
For	Against	Abstain	Non-Vote
81,770,371	1,519,134	302,817	42,770,387

The Board of Directors and the Committee reviewed these final vote results and determined that, given the significant level of support, no changes to our executive compensation philosophy, policies and decisions were necessary based solely on the vote results.

Tax and Accounting Implications

Deductibility of Executive Compensation

Prior to December 22, 2017, when the Tax Cuts and Jobs Act of 2017 (“TCJA”) was signed into law, Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Code”), generally disallowed a tax deduction to public companies for compensation in excess of \$1 million paid during a single year to certain executive officers, unless the compensation qualified as “performance-based” under Section 162(m) of the Code. Under the TCJA, the “performance-based” exception under Section 162(m) of the Code is repealed and the \$1 million deduction limit generally applies to anyone serving as our chief executive officer or our chief financial officer at any time during a taxable year and our top three other highest compensated executive officers serving at fiscal year-end. These changes generally apply to taxable years beginning after December 31, 2017, but generally do not apply to remuneration provided pursuant to a written binding contract in effect on November 2, 2017, that is not modified in any material respect after that date. We will continue to monitor developments under the TCJA and will continue to consider steps that might be in our best interests to comply with Section 162(m) of the Code, including the impact from the TJCA. We reserve the right to use our judgment to authorize compensation payments that are subject to limitations on deductibility when we believe that such payments are appropriate and in the best interests of the stockholders.

Accounting for Stock-Based Compensation

Stock-based compensation is estimated at the date of grant based on the stock award's fair value using the Black-Scholes option-pricing model and is recognized as expense ratably over the requisite period in a manner similar to other forms of compensation paid to employees and directors. Our financial statements include more information regarding accounting for stock-based compensation.

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COMPENSATION OF EXECUTIVE OFFICERS

The following table shows for the fiscal years ended December 31, 2017, 2016 and 2015, compensation awarded to or paid to, or earned by, our Chief Executive Officer, Chief Financial Officer, our two other most highly compensated executive officers at December 31, 2017.

In 2017, 2016 and 2015, we did not grant any stock awards and we do not currently offer pension or nonqualified deferred compensation plans.

Summary Compensation Table for Fiscal 2017

Name and Principal Position	Year	Salary (\$)	Bonus (1)(\$)	Awards (2)(\$)	Non-Equity		Total (\$)
					Option Compensation (\$)	Incentive Plan Compensation (3)(\$)	
James E. Brown, D.V.M (4) President and Chief Executive Officer	2017	531,289	—	345,382	—	25,037	901,708
	2016	531,289	—	310,740	—	28,846	870,875
	2015	527,420	—	165,543	—	28,240	721,203
Matthew J. Hogan, M.B.A. (5) Chief Financial Officer	2017	345,015	—	167,440	—	16,599	529,054
	2016	345,015	—	132,426	—	10,241	487,682
	2015	342,815	—	128,118	19,604	12,613	503,150
Felix Theeuwes, D.Sc. (6) Chairman and Chief Scientific Officer	2017	316,760	—	237,939	—	—	554,699
	2016	316,760	—	212,303	—	—	529,063
	2015	333,674	—	132,592	—	8,567	474,833
Judy R. Joice (7) Senior Vice President, Operations and Corporate Quality Assurance	2017	302,357	—	129,777	—	17,843	449,977
	2016	300,155	—	100,296	—	10,698	411,149
	2015	291,413	—	98,331	14,785	10,470	414,999

- (1) Our cash bonuses are paid under an incentive plan and therefore are reported in the column “Non-Equity Incentive Plan Compensation.”
- (2) Amounts shown represent the aggregate grant date fair value of the stock option grant in the year indicated, except that all stock options granted in lieu of salary are reflected in the “Salary” column and described as noted in footnotes 4, 5 and 6 below. For more information, please see Note 8 of the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2017 regarding assumptions underlying the valuation of equity awards.
- (3) Includes amounts associated with insurance premiums we pay for Accidental Death and Dismemberment (AD&D), Life, Medical, Dental, Vision, short-term and long-term disability insurance and medical insurance waiver incentives, which are available to all employees.
- (4) There were no changes to Dr. Brown’s notional salary in fiscal years 2018, 2017 and 2016 compared to his notional salary effective April 1, 2015 (i.e., \$531,289). Dr. Brown’s notional salary increased by 3% to \$531,289 effective April 1, 2015, compared to \$515,814 effective April 1, 2014. To more closely align the interests of the Company’s Named Executive Officers with the interests of the Company’s stockholders, Dr. Brown volunteered to receive a reduced portion of his salary in cash and accordingly his cash salary was reduced by \$50,000 to \$481,289 effective

June 19, 2017, April 1, 2016 and 2015. In lieu of this cash compensation, he was granted a stock option to purchase 47,170, 48,077 and 37,037 shares of the Company's common stock in June 2017, March 2016 and March 2015, respectively. The vesting associated with these options is as follows: one-fourth (1/4) of the total shares subject to the option shall vest quarterly over one (1) year following the date of grant, subject to continued service. In the event of Dr. Brown's termination of service with the Company for a reason other than Cause, the post-termination exercise period for the options shall be seven (7) years, subject to the ten (10) year term of the option.

(5) There was no change to Mr. Hogan's notional salary in fiscal years 2018, 2017 and 2016 compared to his notional salary effective April 1, 2015 (i.e., \$345,015). Mr. Hogan's notional salary increased by 3% to \$345,015 effective April 1, 2015 compared to \$334,966 effective April 1, 2014. To more closely align the interests of the Company's Named Executive Officers with the interests of the Company's stockholders, Mr. Hogan volunteered to receive a reduced portion of his salary in cash and accordingly his cash salary was reduced by \$18,000 to \$327,015 effective June 19, 2017, April 1, 2016 and 2015. In lieu of this cash compensation, he was granted a stock option to purchase 16,981, 17,308 and 13,333 shares of the Company's

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common stock in June 2017, March 2016 and March 2015, respectively. The vesting associated with these options is as follows: one-fourth (1/4) of the total shares subject to the option shall vest quarterly over one (1) year following the date of grant, subject to continued service. In the event of Mr. Hogan's termination of service with the Company for a reason other than Cause, the post-termination exercise period for the options shall be seven (7) years, subject to the ten (10) year term of the option. In 2017, the Compensation Committee awarded Mr. Hogan a 3% merit increase in his base salary effective April 1, 2017, but he subsequently declined this increase.

(6) There was no change to Dr. Theeuwes' notional salary in fiscal year 2017 and 2016 compared to his notional salary effective April 1, 2015 (i.e., \$316,760). Dr. Theeuwes' notional salary was \$316,760 effective April 1, 2015 compared to \$384,417 effective April 1, 2014. This decrease reflected a transition to 60% time from 75% time, effective April 1, 2015. In addition, in order to preserve cash and to more closely align the interests of the Company's Named Executive Officers with the interests of the Company's shareholders, Dr. Theeuwes volunteered to receive a reduction by \$125,000 in the portion of his salary to be paid in cash to \$191,760 effective June 19, 2017, April 1, 2016 and 2015, respectively. In lieu of this cash compensation, he was granted a stock option to purchase 117,925, 120,192 and 92,593 shares of the Company's common stock in June 2017, March 2016 and March 2015, respectively. The vesting associated with these options is as follows: one-fourth (1/4) of the total shares subject to the option shall vest quarterly over one (1) year following the date of grant, subject to continued service. In the event of Dr. Theeuwes' termination of service with the Company for a reason other than Cause, the post-termination exercise period for the options shall be seven (7) years, subject to the ten (10) year term of the option. Effective February 1, 2018, Dr. Theeuwes adjusted his schedule from three days per week to one day per week. Dr. Theeuwes' notional salary became \$125,000 effective February 1, 2018 and will become \$90,000 effective July 1, 2018.

(7) There was no change to Ms. Joice's salary in fiscal years 2018 and 2017 compared to her salary in fiscal year 2016. Ms. Joice's salary increased by 3% to \$302,357 effective April 1, 2016 compared to \$293,550 effective April 1, 2015. In 2017, the Compensation Committee awarded Ms. Joice a 3% merit increase in her base salary effective April 1, 2017, but she subsequently declined this increase.

CEO Pay Ratio Disclosure

Pursuant to SEC rules, we are required to disclose in this proxy statement the ratio of the annual total compensation of Dr. Brown, our President and CEO, to the median of the annual total compensation of all of our employees (excluding Dr. Brown). We determined that Dr. Brown's 2017 annual total compensation was \$901,708, the median of the 2017 annual total compensation of all of our employees (excluding Dr. Brown) was \$133,071, and the ratio of these amounts was 7 to 1.

To identify the "median employee" for purposes of this disclosure (i.e., the individual employee whose compensation was at the median level among our entire employee group), we used a determination date of December 31, 2017 and analyzed, for all of the individuals employed by us on that date, the compensation that we paid to each of those individuals for the 12-month period ending on that date. We considered each employee's "compensation" to consist of (i) the employee's total gross earnings for the 12-month period ending December 31, 2017, plus (ii) the fair value of the stock options granted during the year ended December 31, 2017. The compensation for employees, other than temporary employees, who were not employed by us for the entire 12-month period was annualized to reflect compensation for the entire 12-month period. For purposes of calculating the ratio above, the value of employer provided non-discriminatory health benefits was included in the compensation of each of Dr. Brown and the median employee.

GRANTS OF PLAN-BASED AWARDS

The following table shows, certain information regarding grants of plan-based awards to our Named Executive Officers for the fiscal year ended December 31, 2017:

Grants of Plan-Based Awards in Fiscal 2017

Name	Grant Date	All Other		
		Option Awards:	Grant Date	
		Number of	Exercise or	Fair Value of
		Securities	Base Price of	Stock and
		Underlying	Option Awards	Option Awards
Name	Grant Date	Options(#)	(1)(\$/Share)	(2)(\$)
James E. Brown (3)	1/9/17	225,000(4)	1.31	210,938
	1/9/17	145,676(5)	1.31	134,444
	6/19/17	47,170(6)	1.40	49,156
Matthew J. Hogan (7)	1/9/17	112,500(4)	1.31	105,469
	1/9/17	67,148(5)	1.31	61,971
	6/19/17	16,981(6)	1.40	17,696
Felix Theeuwes (8)	1/9/17	168,300(4)	1.31	157,781
	1/9/17	86,854(5)	1.31	80,158
	6/19/17	117,925(6)	1.40	122,890
Judy R. Joice (9)	1/9/17	85,500(4)	1.31	80,156
	1/9/17	53,766(5)	1.31	49,621

- (1) The exercise price per share of such option grant was the closing price of our common stock on the NASDAQ Global Market on the date of grant.
- (2) Amounts shown represent the fair value per share as of the grant date of the award multiplied by the number of shares. For more information, please see Note 8 of the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2017 regarding assumptions underlying the valuation of equity awards.
- (3) Dr. Brown received a stock option grant of 225,000 shares for his performance in fiscal year 2016, which vest as described in footnote 4 and an additional stock option grant in lieu of cash bonus of 145,676 shares which vested immediately in January 2017. In June 2017, Dr. Brown received a stock option grant in lieu of cash salary compensation to purchase 47,170 shares of the Company's common stock which vest as described in footnote 6. For Dr. Brown's performance in fiscal year 2017, he received in January 2018 a stock option grant of 250,000 shares, which vest as described in footnote 4 and an additional stock option grant in lieu of cash bonus of 188,212 shares which vested immediately.
- (4) All options were granted under our 2000 Stock Plan. The vesting associated with the option is as follows: one-sixteenth (1/16) of the total shares subject to the option shall vest quarterly over four (4) years following the date of grant, subject to continued service.

- (5) All options were granted under our 2000 Stock Plan. The shares subject to the bonus options are fully vested upon grant.
- (6) Represents options in lieu of base salary granted by the Compensation Committee on June 19, 2017. All options were granted under our 2000 Stock Plan. The vesting associated with the option is as follows: one-fourth (1/4) of the total shares subject to the option shall vest quarterly over one (1) year following the date of grant, subject to continued service.
- (7) Mr. Hogan received a stock option grant of 112,500 shares for his performance in fiscal year 2016, which vest as described in footnote 4 and an additional stock option grant in lieu of cash bonus of 67,148 shares which vested immediately in January 2017. In June 2017, Mr. Hogan received a stock option grant in lieu of cash salary compensation to purchase 16,981 shares of the Company's common stock which vest as described in footnote 6. For Mr. Hogan's performance in fiscal year 2017, he received in January 2018 a stock option grant of 110,000 shares, which vest as described in footnote 4 and an additional stock option grant in lieu of cash bonus of 84,455 shares which vested immediately.

(8) Dr. Theeuwes received a stock option grant of 168,300 shares for his performance in fiscal year 2016, which vest as described in footnote 4 and an additional stock option grant in lieu of cash bonus of 86,854 shares which vested immediately in January 2017. In June 2017, Dr. Theeuwes received a stock option grant to purchase 117,925 shares of the Company's common stock in lieu of cash salary compensation which vest as described in footnote 6. For Dr. Theeuwes' performance in fiscal year 2017, he received in January 2018 a stock option grant of 55,000 shares, which vest as described in footnote 4 and an additional stock option grant in lieu of cash bonus of 112,214 shares which vested immediately.

(9) Ms. Joice received a stock option grant of 85,500 shares for her performance in fiscal year 2016, which vest as described in footnote 4 and an additional stock option grant in lieu of cash bonus of 53,766 shares which vested immediately in January 2017. For Ms. Joice's performance in fiscal year 2017, she received in January 2018 a stock option grant of 85,000 shares, which vest as described in footnote 4 and an additional stock option grant in lieu of cash bonus of 65,465 shares which vested immediately.

With respect to Non-Equity Incentive Plan Awards for fiscal year 2017, the Compensation Committee set specific corporate targets and goals as described in "Compensation Discussion and Analysis—Bonus (Non-Equity Incentive Plan Compensation)" above.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR—EXECUTIVE OFFICERS

The following table shows for the fiscal year ended December 31, 2017, certain information regarding outstanding option awards at fiscal year-end for our Named Executive Officers. All options were granted under our 2000 Stock Plan. In addition, there were no stock awards outstanding for the individuals named below at December 31, 2017.

Outstanding Option Awards At December 31, 2017

Name	Equity Incentive Plan Awards:		Number of Securities Underlying Unexercised Options (#)			
	Exercisable	Unexercisable	Options (#)	Price (\$)	Grant Date	Expiration Date
James E. Brown	175,000	—	—	5.89	1/18/2008(1)	1/18/2018
	210,000	—	—	3.11	1/27/2009(2)	1/27/2019
	113,000	—	—	2.09	5/21/2009(2)	5/21/2019
	210,000	—	—	2.18	1/22/2010(2)	1/22/2020
	79,432	—	—	2.18	1/22/2010(3)	1/22/2020
	210,000	—	—	3.26	1/20/2011(2)	1/20/2021
	130,000	—	—	0.78	2/3/2012(4)	2/3/2022
	96,306	—	—	0.78	2/3/2012(5)	2/3/2022
	130,000	—	—	1.21	2/5/2013(4)	2/5/2023
	63,391	—	—	1.21	2/5/2013(5)	2/5/2023
	150,237	—	—	1.21	2/5/2013(3)	2/5/2023
	140,625	9,375	—	2.09	1/31/2014(4)	1/31/2024
	117,068	—	—	2.09	1/31/2014(3)	1/31/2024
	48,077	—	—	1.36	3/28/2014(5)	3/28/2024
	171,875	78,125	—	0.88	1/09/2015(4)	1/09/2025
	37,037	—	—	1.75	3/26/2015(5)	3/26/2025
	87,500	112,500	—	1.16	1/28/2016(4)	1/28/2026
	48,077	—	—	1.35	3/31/2016(5)	3/31/2026
	167,206	—	—	1.16	1/28/2016(3)	1/28/2026
	145,676	—	—	1.31	1/9/17(3)	1/9/2027
42,187	182,813	—	1.31	1/9/17(4)	1/9/2027	
23,585	23,585	—	1.40	6/19/17(5)	6/19/2027	

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Matthew J. Hogan	110,000	—	—	5.89	1/18/2008(1)	1/18/2018
	125,000	—	—	3.11	1/27/2009(2)	1/27/2019
	66,000	—	—	2.09	5/21/2009(2)	5/21/2019
	140,000	—	—	2.18	1/22/2010(2)	1/22/2020
	39,284	—	—	2.18	1/22/2010(3)	1/22/2020
	140,000	—	—	3.26	1/20/2011(2)	1/20/2021
	105,000	—	—	0.78	2/3/2012(4)	2/3/2022
	27,191	—	—	0.78	2/3/2012(3)	2/3/2022
	30,359	—	—	0.78	2/3/2012(5)	2/3/2022
	115,000	—	—	1.21	2/5/2013(4)	2/5/2023
	19,984	—	—	1.21	2/5/2013(5)	2/5/2023
	66,902	—	—	1.21	2/5/2013(3)	2/5/2023
	117,187	7,813	—	2.09	1/31/2014(4)	1/31/2024
	51,236	—	—	2.09	1/31/2014(3)	1/31/2024
	16,106	—	—	1.36	3/28/2014(5)	3/28/2024
	13,333	—	—	0.88	1/09/2015(5)	1/09/2025
	69,613	—	—	0.88	1/09/2015(3)	1/09/2025
	85,937	39,063	—	0.88	1/09/2015(4)	1/09/2025
	43,750	56,250	—	1.16	1/28/2016(4)	1/28/2026
	17,308	—	—	1.35	3/31/2016(5)	3/31/2026
	55,482	—	—	1.16	1/28/2016(3)	1/28/2026
	67,148	—	—	1.31	1/9/17(3)	1/9/2027
	21,093	91,407	—	1.31	1/9/17(4)	1/9/2027
	8,490	8,491	—	1.40	6/19/17(5)	6/19/2027
Felix Theeuwes	175,000	—	—	5.89	1/18/2008(1)	1/18/2018

210,000	—	—3.11	1/27/2009(2)	1/27/2019	
113,000	—	—2.09	5/21/2009(2)	5/21/2019	
210,000	—	—2.18	1/22/2010(2)	1/22/2020	
81,443	—	—2.18	1/22/2010(3)	1/22/2020	
210,000	—	—3.26	1/20/2011(2)	1/20/2021	
130,000	—	—0.78	2/3/2012(4)	2/3/2022	
240,385	—	—0.78	2/3/2012(5)	2/3/2022	
130,000	—	—1.21	2/5/2013(4)	2/5/2023	
158,228	—	—1.21	2/5/2013(5)	2/5/2023	
111,966	—	—1.21	2/5/2013(3)	2/5/2023	
57,248	7,813	—2.09	1/31/2014(4)	1/31/2024	
87,247	—	—2.09	1/31/2014(3)	1/31/2024	
120,912	—	—1.36	3/28/2014(5)	3/28/2024	
137,500	62,500	—0.88	1/09/2015(4)	1/09/2025	
92,593	—	—1.75	3/26/2015(5)	3/26/2025	
65,450	84,150	—1.16	1/28/2016(4)	1/28/2026	
120,192	—	—1.35	3/31/2016(5)	3/31/2026	
99,690	—	—1.16	1/28/2016(3)	1/28/2026	
86,854	—	—1.31	1/9/17(3)	1/9/2027	
31,556	136,744	—1.31	1/9/17(4)	1/9/2027	
58,962	58,963	—1.40	6/19/17(5)	6/19/2027	
Judy R. Joice	20,712	—	—5.89	1/18/2008(1)	1/18/2018
	25,000	—	—3.87	7/7/2008(1)	7/7/2018
	96,000	—	—3.11	1/27/2009(2)	1/27/2019
	51,000	—	—2.09	5/21/2009(2)	5/21/2019
	100,000	—	—2.18	1/22/2010(2)	1/22/2020
	23,723	—	—2.18	1/22/2010(3)	1/22/2020
	5,000	—	—3.01	3/31/2010(6)	3/31/2020
	90,000	—	—3.26	1/20/2011(2)	1/20/2021
	75,000	—	—0.78	2/3/2012(4)	2/3/2022
	22,957	—	—0.78	2/3/2012(3)	2/3/2022
	20,000	—	—0.73	4/11/2012(4)	4/11/2022
	90,000	—	—1.21	2/5/2013(3)	2/5/2023
	46,097	—	—1.21	2/5/2013(4)	2/5/2023
	93,750	6,250	—2.09	1/31/2014(4)	1/31/2024
	30,452	—	—2.09	1/31/2014(3)	1/31/2024
	37,500	2,500	—1.36	3/28/2014(4)	3/28/2024
	54,420	—	—0.88	1/09/2015(3)	1/09/2025
	65,312	29,688	—0.88	1/09/2015(4)	1/09/2025
	33,250	42,750	—1.16	1/28/2016(4)	1/28/2026
	53,766	—	—1.31	1/9/17(3)	1/9/2027
	16,031	69,469	—1.31	1/9/17(4)	1/9/2027

- (1) The vesting associated with these option grants are as follows: one-fourth (1/4) of the total shares subject to such option shall vest on each one-year anniversary of the date of grant.
- (2) The vesting associated with these option grants are as follows: one-fourth (1/4) of the total shares subject to such option shall vest on the one-year anniversary of the date of grant, and one-sixteenth (1/16) of the total shares subject to the option shall vest quarterly over three (3) years following the one-year anniversary.

- (3) The vesting associated with these option grants are as follows: 100% of the total shares subject to such option shall vest on the date of grant.
- (4) The vesting associated with these option grants are as follows: one-sixteenth (1/16) of the total shares subject to the option shall vest quarterly over four (4) years following the date of grant, subject to continued service.
- (5) The vesting associated with these option grants are as follows: one-fourth (1/4) of the total shares subject to the option shall vest quarterly over one (1) year following the date of grant, subject to continued service.
- (6) The vesting associated with these option grants are as follows: 100% of the total shares subject to such option shall vest on the one year anniversary following the date of grant, subject to continued service.

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EXERCISES

The following table shows for the fiscal year ended December 31, 2017, certain information regarding option exercises and stock vested during the last fiscal year with respect to our Named Executive Officers:

Option Exercises in Fiscal 2017 (1)

Name	Option Awards	
	Number of	Shares
	Acquired on	Realized on
	Exercise (#)	Exercise (\$)
James E. Brown	—	—
Matthew J. Hogan	—	—
Felix Theeuwes	—	—
Judy R. Joice	—	—

(1) We do not currently utilize stock awards as part of our compensation plan. As such, we do not include information regarding stock awards that would otherwise appear as blank columns in this table.

CHANGE OF CONTROL AGREEMENTS

In April 2004, our Board of Directors adopted a change of control policy applicable to our officers who hold the rank of Vice President and above (who are not party to any other change of control agreement with us) which provides that, in the event that such officer's employment is terminated without cause or constructively terminated, in connection with and prior to a change in our control, or within twenty-four months following a change in our control, then: (1) the unvested portion of any stock option held by such officer shall automatically accelerate so as to become completely vested as of the effective date of the termination, and (2) such officer shall receive a cash payment equal to one year of such officer's then current notional salary, provided that such cash payment will be equal to two years of such officer's then current notional salary in the case of James E. Brown or Felix Theeuwes. Any such benefits are conditioned upon such officer delivering to us an effective release releasing us or our successor from any and all claims the officer may have against such entities related to or arising in connection with his or her employment, term of such employment and termination thereof, and the officer agreeing, for the period during which she or he is receiving or has received payment of cash severance (but not exceeding two years), he or she will not, directly or indirectly, act as a partner, joint venturer, consultant, officer, director, employee, agent, independent contractor or stockholder of any company or business organization (including any unit or division of any company or organization) whose business is the development and marketing of products and services that are directly competitive with the products and services being developed and marketed by us immediately prior to our change of control. In September 2008, we amended the policy for compliance with Section 409A of the Code such that any such cash payment shall be payable in equal installments over the twelve month period, subject to a six month delay as required to avoid adverse tax consequences to "specified employees" under Code Section 409A. In December 2013, we further amended the policy to conform with Code Section 409A and other legal requirements.

In April 2004, our Board of Directors adopted a change of control policy applicable to all employees other than officers who hold the rank of Vice President and above which provides that, in the event that such employee's employment is terminated without cause or constructively terminated, in connection with and prior to a change in our control, or within twenty-four months following a change in our control, then: (1) the unvested portion of any stock option held by such employee shall automatically accelerate so as to become completely vested as of the effective date of the termination, and (2) such employee shall receive a payment of 2 weeks of such employee's then current salary for each full year of employment with us (taking into consideration the period of employment by the surviving entity as employment with us), up to a maximum total severance payment equal to 12 months of such employee's then current salary. Had a change in control occurred during fiscal 2017 and had their employment been terminated on December 31, 2017, our Named Executive Officers would have been eligible to receive the payments set forth in the columns under the heading "Terminations Within 24 Months of a Change in Control" in the table below.

Terminations Within 24 Months of a Change in Control		
	Value of	
	Accelerated	
	Severance	Unvested
Name	Payments (\$)	Options (1)(\$)
James E. Brown	1,062,578	3,125
Matthew J. Hogan	345,015	1,563

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Felix Theeuwes	633,520	2,500
Judy R. Joice	302,357	1,188

(1) The value of accelerated vesting of the options is based solely on the excess, if any, of \$0.92 per share, the closing market price on December 31, 2017, over the exercise price of the unvested portion (as of December 31, 2017) of our Named Executive Officers' stock options. Because many of our stock options have exercise prices higher than our current stock price, if our stock value was higher at the time of any actual termination of employment, additional stock options could have considerable value.

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DIRECTOR COMPENSATION

Overview of Compensation and Procedures

The Compensation Committee reviews the level of compensation of our non-employee directors on an annual basis. To determine how appropriate the current level of compensation for our non-employee directors is, we have historically obtained data from a number of different sources including:

- publicly available data describing director compensation in peer companies;
- survey data collected by our human resources department; and
- information obtained directly from other companies.

In 2017, the Compensation Committee retained Setren, Smallberg & Associates, Inc., an independent compensation consulting firm, to analyze the director compensation programs. Subsequent to this review, no board compensation practices changed. The number of options granted to each non-employee director when he or she first becomes a director is 70,000.

We compensate non-employee members of the board through a mixture of cash and equity-based compensation. Each non-employee director is eligible to receive an attendance fee of \$1,500 for each Board meeting attended and \$500 for each telephonic Board meeting, and a cash retainer fee equal to \$30,000 per year, which was increased to \$34,000 in June 2017, paid on a quarterly basis in arrears. In addition, for each Board committee on which a non-employee director serves, he or she shall be eligible to receive an attendance fee of \$1,000 for each committee meeting attended and a cash retainer fee equal to \$8,000, \$6,000 and \$5,000 per year for serving on the Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee respectively paid on a quarterly basis in arrears; provided that the cash retainer to be received by the chairperson of the Audit Committee, the Compensation Committee, and the Nominating and Corporate Governance Committee is \$22,500, \$15,000 and \$12,000 per year, respectively, each paid on a quarterly basis in arrears.

In June 2017, to preserve cash and more closely align the interests of the Company's directors with the interests of the Company's stockholders, the non-employee directors also agreed to receive a portion of their retainers in stock options. The total shares subject to each option in lieu of cash retainer was determined by using a standard Black-Scholes option-pricing model. The exercise price per share of the options was \$1.40, the closing price of the Company's common stock on the NASDAQ Global Market on the date of grant. The vesting associated with the options is as follows: one-fourth (1/4) of the total shares subject to the option shall vest quarterly over one (1) year following the date of grant, subject to continued service. In the event of the optionee's termination of service with the Company for a reason other than Cause, the post-termination exercise period for the options shall be seven (7) years, subject to the ten (10) year term of the option.

Name	Amount of	Option Awards
	Retainers Provided As	(Number of Shares

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	Options (\$)	subject to option grant)
Simon X. Benito	15,000	16,038
Terrence F. Blaschke, M.D.	15,000	16,038
David R. Hoffmann	37,500	39,151
Armand P. Neukermans, Ph.D.	15,000	16,038
Jon S. Saxe	15,000	16,038

All of our current non-employee directors receive stock option grants as part of their compensation for their service. When each non-employee director first becomes a director, he or she receives nonstatutory options to purchase shares of our common stock, which by approval of the Board of Directors was increased by 5,000 shares to

a total of 35,000 shares in December 2009 and was increased again by 35,000 shares to a total of 70,000 shares in September 2013 as a result of the review by our independent compensation consultant. These options have a ten-year term and become exercisable in installments of one-third of the total number of shares granted on each anniversary of the grant. Additionally, each director who has served for at least 6 months will receive options to purchase an additional 20,000 shares of our common stock on the date of the annual stockholder meeting (Annual Grant), which by approval of the Board of Directors was increased by 5,000 shares to a total of 25,000 shares in December 2009, was increased by 10,000 shares to a total of 35,000 shares in April 2013 and was increased again by 20,000 shares to a total of 55,000 shares in June 2017, and such Annual Grant vests on the day before the first anniversary of the date of grant of the Annual Grant. These options are for a ten-year term. In each case, the size of the option grants would be adjusted to reflect any stock splits, stock dividends, combinations or similar transactions. The exercise price of the options granted under our Directors' Plan must be at least 100% of the closing price of our common stock on the NASDAQ Global Market on the date the option is granted. Options granted on or after June 24, 2013 may be exercised only (1) while the individual is serving as a director on the Board, (2) within 12 months after termination by death or disability or (3) within 24 months after the individual's term as director ends for any other reason. Stock options to directors had been granted under our Directors' Plan until the expiration of the plan in September 2010, after which stock options to directors have been granted under our 2000 Stock Plan.

Employee directors receive no additional compensation for serving on our Board of Directors.

The following table sets forth certain information regarding the compensation of each non-employee member of our Board of Directors for the fiscal year ended December 31, 2017.

Director Compensation for Fiscal 2017

Name	Fees Earned		Option Awards	All Other Compensation	Total (\$)
	or Paid in Cash (\$)	(1)(\$)			
Simon X. Benito	57,317	71,669	—	—	128,986
Terrence F. Blaschke, M.D.	32,817	71,669	—	—	104,486
David R. Hoffmann	39,625	95,755	—	—	135,380
Armand P. Neukermans, Ph.D.	50,317	71,669	—	—	121,986
Jon S. Saxe	43,317	71,669	—	—	114,986

(1) Amounts shown represent the aggregate grant date fair value of the stock option awards. In June 2017, options to purchase 103,303 shares of our common stock at \$1.40 per share were granted under our 2000 Stock Plan to Drs. Blaschke and Neukermans and Messrs. Benito, Hoffmann, and Saxe in lieu of cash retainer. For more information, please see "Director Compensation." In June 2017, an option to purchase 55,000 shares of our common stock at \$1.40 per share was granted under our 2000 Stock Plan to each of Drs. Blaschke and Neukermans and Messrs. Benito, Hoffmann and Saxe. For more information, please see Note 8 of the Notes to Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2017 regarding the assumptions underlying

the valuation of equity awards.

