



**ARBN# 130 843 177**

**RESULTS FOR ANNOUNCEMENT TO THE MARKET**

For the half-year ended 31 December 2016

The Disclosure provided in this “Results for Announcement to the Market” meets the requirements of the ASX and are based exclusively on the material contained in the Company’s Form 10-Q filed with the Securities and Exchange Commission on 9 February 2017 and in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

<b>Financial results</b>	<b>Half-year ended 31 December,</b>		<b>Change</b>	
	<b>2016</b>	<b>2015</b>	<b>Amount</b>	<b>%</b>
	(In thousands of U.S. Dollars except percentages)			
Revenue from ordinary activities	6,248	992	5,256	530%
Loss from ordinary activities after tax attributable to members	(7,229)	(10,119)	2,890	29%
Net loss for the period attributable to members	(7,229)	(10,119)	2,890	29%

**Dividends**

The Company does not propose to pay any dividends.

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

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**FORM 10-Q**

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- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended December 31, 2016

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

COMMISSION FILE NUMBER 000-51122

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**pSivida Corp.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**26-2774444**  
(I.R.S. Employer  
Identification No.)

**480 Pleasant Street**  
**Watertown, MA**  
(Address of principal executive offices)

**02472**  
(Zip Code)

**(617) 926-5000**  
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). **Yes**  **No**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

**Large accelerated filer**

**Accelerated filer**

**Non-accelerated filer**  (Do not check if a smaller reporting company)

**Smaller reporting company**

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). **Yes**  **No**

There were 34,176,999 shares of the registrant's common stock, \$0.001 par value, outstanding as of February 3, 2017.

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**PSIVIDA CORP. AND SUBSIDIARIES**  
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**PART I. FINANCIAL INFORMATION**

**Item 1. Unaudited Financial Statements**

**PSIVIDA CORP. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Unaudited)  
(In thousands, except share amounts)

	<u>December 31,</u> <u>2016</u>	<u>June 30,</u> <u>2016</u>
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 11,685	\$ 15,313
Marketable securities	5,847	13,679
Accounts and other receivables	457	488
Prepaid expenses and other current assets	<u>546</u>	<u>483</u>
Total current assets	18,535	29,963
Property and equipment, net	231	290
Intangible assets, net	718	1,102
Other assets	112	114
Restricted cash	<u>150</u>	<u>150</u>
<b>Total assets</b>	<u>\$ 19,746</u>	<u>\$ 31,619</u>
<b>Liabilities and stockholders' equity</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 1,110	\$ 1,363
Accrued expenses	3,681	3,583
Deferred revenue	<u>136</u>	<u>147</u>
Total current liabilities	4,927	5,093
Deferred revenue	—	5,585
Deferred rent	<u>57</u>	<u>60</u>
<b>Total liabilities</b>	<u>4,984</u>	<u>10,738</u>
<b>Commitments and contingencies</b>		
<b>Stockholders' equity:</b>		
Preferred stock, \$.001 par value, 5,000,000 shares authorized, none issued and outstanding	—	—
Common stock, \$.001 par value, 60,000,000 shares authorized, 34,176,999 and 34,172,919 shares issued and outstanding at December 31, 2016 and June 30, 2016, respectively	34	34
Additional paid-in capital	313,347	312,208
Accumulated deficit	(299,442)	(292,213)
Accumulated other comprehensive income	<u>823</u>	<u>852</u>
Total stockholders' equity	14,762	20,881
<b>Total liabilities and stockholders' equity</b>	<u>\$ 19,746</u>	<u>\$ 31,619</u>

See notes to condensed consolidated financial statements

**PSIVIDA CORP. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
(Unaudited)  
(In thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2016	2015	2016	2015
<b>Revenues:</b>				
Collaborative research and development	\$ 5,702	\$ 142	\$ 5,736	\$ 322
Royalty income	269	384	512	670
Total revenues	<u>5,971</u>	<u>526</u>	<u>6,248</u>	<u>992</u>
<b>Operating expenses:</b>				
Research and development	3,165	3,721	7,343	7,203
General and administrative	2,900	2,043	6,185	4,011
Total operating expenses	<u>6,065</u>	<u>5,764</u>	<u>13,528</u>	<u>11,214</u>
Loss from operations	(94)	(5,238)	(7,280)	(10,222)
Interest and other income	27	10	51	20
Loss before income taxes	(67)	(5,228)	(7,229)	(10,202)
Income tax benefit	—	42	—	83
Net loss	<u>\$ (67)</u>	<u>\$ (5,186)</u>	<u>\$ (7,229)</u>	<u>\$ (10,119)</u>
Net loss per common share:				
Basic and diluted	<u>\$ —</u>	<u>\$ (0.18)</u>	<u>\$ (0.21)</u>	<u>\$ (0.34)</u>
Weighted average common shares:				
Basic and diluted	<u>34,177</u>	<u>29,437</u>	<u>34,176</u>	<u>29,426</u>
Net loss	<u>\$ (67)</u>	<u>\$ (5,186)</u>	<u>\$ (7,229)</u>	<u>\$ (10,119)</u>
<b>Other comprehensive loss:</b>				
Foreign currency translation adjustments	(15)	(19)	(30)	(47)
Net unrealized (loss) gain on marketable securities	—	(6)	1	(4)
Other comprehensive loss	<u>(15)</u>	<u>(25)</u>	<u>(29)</u>	<u>(51)</u>
Comprehensive loss	<u>\$ (82)</u>	<u>\$ (5,211)</u>	<u>\$ (7,258)</u>	<u>\$ (10,170)</u>

See notes to condensed consolidated financial statements

**PSIVIDA CORP. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(Unaudited)  
(In thousands, except share amounts)

	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Accumulated Deficit</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total Stockholders' Equity</u>
	<u>Number of Shares</u>	<u>Par Value Amount</u>				
Balance at July 1, 2015	29,412,365	\$ 29	\$293,060	\$ (270,666)	\$ 945	\$ 23,368
Net loss	—	—	—	(10,119)	—	(10,119)
Other comprehensive loss	—	—	—	—	(51)	(51)
Exercise of stock options	215,554	—	338	—	—	338
Stock-based compensation	—	—	888	—	—	888
Balance at December 31, 2015	<u>29,627,919</u>	<u>\$ 29</u>	<u>\$294,286</u>	<u>\$ (280,785)</u>	<u>\$ 894</u>	<u>\$ 14,424</u>
Balance at July 1, 2016	34,172,919	\$ 34	\$312,208	\$ (292,213)	\$ 852	\$ 20,881
Net loss	—	—	—	(7,229)	—	(7,229)
Other comprehensive loss	—	—	—	—	(29)	(29)
Exercise of stock options	4,080	—	9	—	—	9
Stock-based compensation	—	—	1,130	—	—	1,130
Balance at December 31, 2016	<u>34,176,999</u>	<u>\$ 34</u>	<u>\$313,347</u>	<u>\$ (299,442)</u>	<u>\$ 823</u>	<u>\$ 14,762</u>

See notes to condensed consolidated financial statements

**PSIVIDA CORP. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)  
(In thousands)

	Six Months Ended December 31,	
	2016	2015
<b>Cash flows from operating activities:</b>		
Net loss	\$ (7,229)	\$(10,119)
Adjustments to reconcile net loss to cash flows from operating activities:		
Amortization of intangible assets	363	382
Depreciation of property and equipment	32	59
Stock-based compensation expense	1,130	888
Amortization of bond (discount) premium on marketable securities	(7)	68
Amortization of noncurrent portion of deferred revenue	(5,585)	—
Changes in current assets and liabilities:		
Accounts receivable and other current assets	(44)	520
Accounts payable and accrued expenses	(141)	548
Deferred revenue	(11)	(17)
Deferred rent	(3)	4
Net cash used in operating activities	<u>(11,495)</u>	<u>(7,667)</u>
<b>Cash flows from investing activities:</b>		
Purchases of marketable securities	(5,053)	(5,843)
Maturities of marketable securities	12,893	5,305
Purchases of property and equipment	(5)	(36)
Proceeds from sale of property and equipment	33	—
Net cash provided by (used in) investing activities	<u>7,868</u>	<u>(574)</u>
<b>Cash flows from financing activities:</b>		
Exercise of stock options	9	338
Net cash provided by financing activities	<u>9</u>	<u>338</u>
Effect of foreign exchange rate changes on cash and cash equivalents	(10)	(8)
<b>Net decrease in cash and cash equivalents</b>	<b>(3,628)</b>	<b>(7,911)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>15,313</b>	<b>19,121</b>
<b>Cash and cash equivalents at end of period</b>	<b><u>\$ 11,685</u></b>	<b><u>\$ 11,210</u></b>

See notes to condensed consolidated financial statements



**PSIVIDA CORP. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. Operations and Basis of Presentation**

The accompanying condensed consolidated financial statements of pSivida Corp. and subsidiaries (the “Company”) as of December 31, 2016 and for the three and six months ended December 31, 2016 and 2015 are unaudited. Certain information in the footnote disclosures of these financial statements has been condensed or omitted in accordance with the rules and regulations of the Securities and Exchange Commission (the “SEC”). These financial statements should be read in conjunction with the Company’s audited consolidated financial statements and footnotes included in its Annual Report on Form 10-K for the fiscal year ended June 30, 2016 (“fiscal 2016”). In the opinion of management, these statements have been prepared on the same basis as the audited consolidated financial statements as of and for the year ended June 30, 2016, and include all adjustments, consisting only of normal recurring adjustments, that are necessary for the fair presentation of the Company’s financial position, results of operations, comprehensive loss and cash flows for the periods indicated. The preparation of financial statements in accordance with U.S. generally accepted accounting principles (“GAAP”) requires management to make assumptions and estimates that affect, among other things, (i) reported amounts of assets and liabilities; (ii) disclosure of contingent assets and liabilities at the date of the consolidated financial statements; and (iii) reported amounts of revenues and expenses during the reporting period. The results of operations for the three and six months ended December 31, 2016 are not necessarily indicative of the results that may be expected for the entire fiscal year or any future period.

The Company currently develops proprietary sustained-release drug products for the treatment of chronic eye diseases. The Company’s products deliver drugs at a controlled and steady rate for months or years. The Company has developed three of only four sustained-release products approved by the U.S. Food and Drug Administration (“FDA”) for treatment of back-of-the-eye diseases. Durasert™ three-year non-erodible fluocinolone acetonide (“FA”) insert for posterior segment uveitis (“Durasert three-year uveitis”) (formerly known as Medidur™), the Company’s lead product candidate, is in pivotal Phase 3 clinical trials, and ILUVIEN® for diabetic macular edema (“ILUVIEN”), the Company’s most recent out-licensed product, is sold directly in the U.S. and three European Union (“EU”) countries. Retisert®, which was approved by the FDA for the treatment of posterior segment uveitis, is sold by Bausch & Lomb Incorporated (“Bausch & Lomb”). The Company’s development programs are focused primarily on developing sustained release products that utilize its Durasert technology platform to deliver approved drugs to treat chronic diseases. The Company’s strategy includes developing products independently while continuing to leverage its technology platforms through collaborations and license agreements.

Durasert three-year uveitis, the Company’s most advanced development product candidate, is designed to treat chronic non-infectious uveitis affecting the posterior segment of the eye (“posterior segment uveitis”) for three years from a single administration. Injected into the eye in an office visit, this product is a tiny micro-insert that delivers a micro-dose of a corticosteroid to the back of the eye on a sustained basis. The Company is developing Durasert three-year uveitis independently.

The first of two Phase 3 clinical trials investigating Durasert three-year uveitis met its primary efficacy endpoint of prevention of recurrence of disease through six months with high statistical significance ( $p < 0.001$ , intent to treat analysis) and with safety data consistent with the known effects of ocular corticosteroid use. The same high statistical significance for efficacy and encouraging safety results were maintained through 12 months of follow-up. Due to the high level of statistical significance achieved, the Company plans to file its EU marketing approval application (“MAA”) based on data from the first Phase 3 clinical trial, rather than two clinical trials. The Company expects to file the MAA in the second quarter of calendar 2017. The second Phase 3 clinical trial completed its target enrollment of 150 patients at the end of September 2016. This clinical trial has the same clinical trial design and the same endpoint as the first Phase 3 clinical trial, and a read-out of its top-line results is expected by the end of the second quarter of calendar 2017. Assuming favorable results, the Company plans to file a new drug application (“NDA”) with the FDA in the second half of calendar 2017. A utilization study of the Company’s new Durasert three-year uveitis inserter with a smaller diameter needle, which is required for both the MAA and NDA, met its primary endpoint of ease of intravitreal administration.

ILUVIEN is an injectable, sustained-release micro-insert that provides three years of treatment of diabetic macular edema from a single injection. ILUVIEN is based on the same technology as the Durasert three-year uveitis insert, and delivers the same steroid, FA, although it is injected using an inserter with a larger diameter needle.

ILUVIEN was developed in collaboration with, and is licensed to and sold by, Alimera Sciences, Inc. (“Alimera”). The Company is entitled to a share of the net profits (as defined) from Alimera’s sales of ILUVIEN on a quarter-by-quarter, country-by-country basis. ILUVIEN has been sold directly in the United Kingdom (“U.K.”) and Germany since June 2013 and in the U.S. and Portugal since 2015, and also has marketing approvals in 14 other European countries. Alimera has sublicensed distribution, regulatory and reimbursement matters for ILUVIEN in Australia and New Zealand, Canada, Italy and the Middle East.

The Company’s FDA-approved Retisert® is an implant that provides sustained treatment of posterior segment uveitis for 30 months. Administered in a surgical procedure, Retisert delivers the same corticosteroid as the Durasert three-year non-erodible insert, but in a larger dose. Retisert was co-developed with, and is licensed to, Bausch & Lomb, and the Company receives royalties from its sales.

The Company’s development programs are focused primarily on developing sustained release drug products using its proven Durasert technology platform to deliver small molecule drugs to treat uveitis, wet and dry age-related macular degeneration (“AMD”), osteoarthritis and other diseases. A sustained-release surgical implant delivering a corticosteroid to treat pain associated with severe knee osteoarthritis that was jointly developed by the Company and Hospital for Special Surgery is currently being evaluated in an investigator-sponsored safety and tolerability study. In addition, the Company continues to develop its Tethadur™ technology platform designed to deliver large molecules, such as biologics, both locally and systemically.

The Company has financed its operations primarily from sales of equity securities and the receipt of license fees, milestone payments, research and development funding and royalty income from its collaboration partners. The Company has a history of operating losses and, to date, has not had significant recurring cash inflows from revenue. The Company believes that its cash, cash equivalents and marketable securities of \$17.5 million at December 31, 2016, together with expected cash inflows under existing collaboration agreements, will enable the Company to maintain its current and planned operations (including its two Durasert three-year uveitis Phase 3 clinical trials) through approximately the first quarter of fiscal 2018. This estimate excludes any potential receipts under the Alimera agreement. In order to alleviate these conditions and extend the Company’s ability to fund operations beyond the first quarter of fiscal 2018, management’s plans include reducing or deferring operating expenses and accessing equity financing from the sale of its common stock through its at-the-market program (refer to Note 8). The timing and extent of the Company’s implementation of these plans is expected to depend on the amount and timing of cash receipts from Alimera’s commercialization of ILUVIEN, proceeds from any future collaboration or other agreements and/or proceeds from any financing transactions. There is no assurance that the Company will receive significant, if any, revenues from Alimera’s commercialization of ILUVIEN or financing from any other sources.

New accounting pronouncements are issued periodically by the Financial Accounting Standards Board (“FASB”) and are adopted by the Company as of the specified effective dates. Unless otherwise disclosed below, the Company believes that recently issued and adopted pronouncements will not have a material impact on the Company’s financial position, results of operations and cash flows or do not apply to the Company’s operations.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (Topic 606) (“ASU 2014-09”), which requires an entity to recognize revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the transfer of promised goods or services to customers. The standard will replace most existing revenue recognition guidance in U.S. GAAP. In August 2015, the FASB issued ASU 2015-14, which officially deferred the effective date of ASU 2014-09 by one year, while also permitting early adoption. As a result, ASU 2014-09 will become effective on July 1, 2018, with early adoption permitted on July 1, 2017. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the impact the adoption of this standard will have on its consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements – Going Concern*. ASU 2014-15 provides guidance around management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures. For each reporting period, management will be required to evaluate whether there are conditions or events that raise substantial doubt about a company’s ability to continue as a going concern within one year from the date the financial statements are issued. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. The Company is evaluating the impact the adoption of this standard will have on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. The new standard establishes a right-of-use (“ROU”) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. As a result, ASU 2016-02 will become effective on July 1, 2019. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is evaluating the impact the adoption of this standard will have on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. ASU 2016-09 intends to simplify various aspects of how share-based payments are accounted for and presented in the financial statements. The main provisions include: all tax effects related to stock awards will now be recorded through the statement of operations instead of through equity, all tax-related cash flows resulting from stock awards will be reported as operating activities on the cash flow statement, and entities can make an accounting policy election to either estimate forfeitures or account for forfeitures as they occur. The amendments in ASU 2016-09 are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, and may be applied prospectively with earlier adoption permitted. As a result, ASU 2016-09 will become effective on July 1, 2017. The Company is evaluating the impact the amendment of this guidance will have on its consolidated financial statements.

## **2. License and Collaboration Agreements**

### **Alimera**

Under the collaboration agreement with Alimera, as amended in March 2008 (the “Alimera Agreement”), the Company licensed to Alimera the rights to develop, market and sell certain product candidates, including ILUVIEN, and Alimera assumed all financial responsibility for the development of licensed products. In addition, the Company is entitled to receive 20% of any net profits (as defined) on sales of each licensed product (including ILUVIEN) by Alimera, measured on a quarter-by-quarter and country-by-country basis. Alimera may recover 20% of previously incurred and unapplied net losses (as defined) for commercialization of each product in a country, but only by an offset of up to 4% of the net profits earned in that country each quarter, reducing the Company’s net profit share to 16% in each country until those net losses are recouped. In the event that Alimera sublicenses commercialization in any country, the Company is entitled to 20% of royalties and 33% of non-royalty consideration received by Alimera, less certain permitted deductions. The Company is also entitled to reimbursement of certain patent maintenance costs with respect to the patents licensed to Alimera.

Because the Company has no remaining performance obligations under the Alimera Agreement, all amounts received from Alimera are generally recognized as revenue upon receipt or at such earlier date, if applicable, on which any such amounts are both fixed and determinable and reasonably assured of collectability. In instances when payments are received and subject to a contingency, revenue is deferred until such contingency is resolved. See Note 10 regarding net profit share receipts subject to arbitration proceedings.

Revenue under the Alimera Agreement totaled \$14,000 and \$28,000 for the three months ended December 31, 2016 and 2015, respectively, and \$34,000 and \$191,000 for the six months ended December 31, 2016 and 2015, respectively. In addition to patent fee reimbursements in both periods, the Company earned \$157,000 of non-royalty sublicense consideration during the six months ended December 31, 2015.

## **Pfizer**

In June 2011, the Company and Pfizer, Inc. (“Pfizer”) entered into an Amended and Restated Collaborative Research and License Agreement (the “Restated Pfizer Agreement”) to focus solely on the development of a sustained-release bioerodible micro-insert injected into the subconjunctiva designed to deliver latanoprost for human ophthalmic disease or conditions other than uveitis (the “Latanoprost Product”). Pfizer made an upfront payment of \$2.3 million and the Company agreed to provide Pfizer options under various circumstances for an exclusive, worldwide license to develop and commercialize the Latanoprost Product.

The estimated selling price of the combined deliverables under the Restated Pfizer Agreement of \$6.7 million has been partially recognized to date as collaborative research and development revenue over the estimated performance period using the proportional performance method with costs associated with developing the Latanoprost Product reflected in operating expenses in the period in which they have been incurred. No collaborative research and development revenue was recorded during each of the three and six month periods ended December 31, 2015.

On October 25, 2016, the Company notified Pfizer that it had discontinued development of the Latanoprost Product, which provided Pfizer a 60-day option to acquire a worldwide license in return for a \$10.0 million payment and potential sales-based royalties and development, regulatory and sales performance milestone payments. Pfizer did not exercise its option and the Restated Pfizer Agreement automatically terminated on December 26, 2016. The remaining deferred revenue balance of \$5.6 million has been recognized as revenue for the three and six months ended December 31, 2016. Provided that the Company does not conduct any research and development of the Latanoprost Product through calendar 2017, the Company retains the right thereafter to develop and commercialize the Latanoprost Product on its own or with a partner.

Pfizer owned approximately 5.4% of the Company’s outstanding common stock at December 31, 2016.

## **Bausch & Lomb**

Pursuant to a licensing and development agreement, as amended, Bausch & Lomb has a worldwide exclusive license to make and sell Retisert in return for royalties based on sales. Royalty income totaled \$269,000 and \$384,000 for the three months ended December 31, 2016 and 2015, respectively, and \$512,000 and \$670,000 for the six months ended December 31, 2016 and 2015, respectively. Accounts receivable from Bausch & Lomb totaled \$269,000 at December 31, 2016 and \$288,000 at June 30, 2016.

## **OncoSil Medical**

The Company entered into an exclusive, worldwide royalty-bearing license agreement in December 2012, amended and restated in March 2013, with OncoSil Medical UK Limited (f/k/a Enigma Therapeutics Limited), a wholly owned subsidiary of OncoSil Medical Ltd (“OncoSil”) for the development of BrachySil, the Company’s BioSilicon product candidate for the treatment of pancreatic and other types of cancer. The Company received an upfront fee of \$100,000 and is entitled to 8% sales-based royalties, 20% of sublicense consideration and milestone payments based on aggregate product sales. OncoSil is obligated to pay an annual license maintenance fee of \$100,000 by the end of each calendar year, the most recent of which was received in December 2016. For each calendar year commencing with 2014, the Company is entitled to receive reimbursement of any patent maintenance costs, sales-based royalties and sub-licensee sales-based royalties earned, but only to the extent such amounts, in the aggregate, exceed the \$100,000 annual license maintenance fee. The Company has no consequential performance obligations under the OncoSil license agreement and, accordingly, any amounts to which the Company is entitled under the agreement are recognized as revenue on the earlier of receipt or when collectability is reasonably assured. Revenue related to the OncoSil agreement totaled \$100,000 for the three and six month periods ended December 31, 2016 and 2015, respectively. As of December 31, 2016, no deferred revenue was recorded for this agreement.

## **Evaluation Agreements**

The Company from time to time enters into funded agreements to evaluate the potential use of its technology systems for sustained release of third party drug candidates in the treatment of various diseases. Consideration received is generally recognized as revenue over the term of the feasibility study agreement. Revenue recognition for consideration, if any, related to a license option right is assessed based on the terms of any such future license agreement or is otherwise recognized at the completion of the evaluation agreement. Revenues under evaluation agreements totaled \$3,000 and \$9,000 for the three-months ended December 31, 2016 and 2015, respectively, and \$11,000 and \$17,000 for the six months ended December 31, 2016 and 2015, respectively.

### 3. Intangible Assets

The reconciliation of intangible assets for the six months ended December 31, 2016 and for the year ended June 30, 2016 was as follows (in thousands):

	<u>Six Months Ended December 31, 2016</u>	<u>Year Ended June 30, 2016</u>
<b>Patented technologies</b>		
Gross carrying amount at beginning of period	\$ 36,196	\$ 39,710
Foreign currency translation adjustments	(1,591)	(3,514)
Gross carrying amount at end of period	<u>34,605</u>	<u>36,196</u>
Accumulated amortization at beginning of period	(35,094)	(37,785)
Amortization expense	(363)	(756)
Foreign currency translation adjustments	1,570	3,447
Accumulated amortization at end of period	<u>(33,887)</u>	<u>(35,094)</u>
Net book value at end of period	<u>\$ 718</u>	<u>\$ 1,102</u>

The Company amortizes its intangible assets with finite lives on a straight-line basis over their respective estimated useful lives. Amortization of intangible assets totaled \$180,000 and \$190,000 for the three months ended December 31, 2016 and 2015, respectively and \$363,000 and \$382,000 for the six months ended December 31, 2016 and 2015, respectively. The carrying value of intangible assets at December 31, 2016 of \$718,000 (approximately \$529,000 attributable to the Durasert technology and \$189,000 attributable to the Tethadur technology) is expected to be amortized on a straight-line basis over the remaining estimated useful life of one year.

### 4. Marketable Securities

The amortized cost, unrealized loss and fair value of the Company's available-for-sale marketable securities at December 31, 2016 and June 30, 2016 were as follows (in thousands):

	<u>December 31, 2016</u>		
	<u>Amortized Cost</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>
Corporate bonds	\$ 1,556	\$ (1)	\$ 1,555
Commercial paper	4,292	—	4,292
Total marketable securities	<u>\$ 5,848</u>	<u>\$ (1)</u>	<u>\$ 5,847</u>

  

	<u>June 30, 2016</u>		
	<u>Amortized Cost</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>
Corporate bonds	\$ 5,999	\$ (2)	\$ 5,997
Commercial paper	7,682	—	7,682
Total marketable securities	<u>\$ 13,681</u>	<u>\$ (2)</u>	<u>\$ 13,679</u>

During the six months ended December 31, 2016, \$5.1 million of marketable securities were purchased and \$12.9 million of such securities matured. At December 31, 2016, the marketable securities had maturities ranging from 10 days to 4.3 months, with a weighted average maturity of 2.1 months.

## 5. Fair Value Measurements

The Company accounts for certain assets and liabilities at fair value. The hierarchy below lists three levels of fair value based on the extent to which inputs used in measuring fair value are observable in the market. The Company categorizes each of its fair value measurements in one of these three levels based on the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

- Level 1 – Inputs are quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets and liabilities.
- Level 2 – Inputs are directly or indirectly observable in the marketplace, such as quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities with insufficient volume or infrequent transaction (less active markets).
- Level 3 – Inputs are unobservable estimates that are supported by little or no market activity and require the Company to develop its own assumptions about how market participants would price the assets or liabilities.

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash, cash equivalents and marketable securities. At December 31, 2016, substantially all of the Company's interest-bearing cash equivalent balances were concentrated in one U.S. Government money market fund that has investments consisting primarily of U.S. Government Agency debt, U.S. Treasury Repurchase Agreements and U.S. Government Agency Repurchase Agreements. At June 30, 2016, substantially all of the Company's interest-bearing cash equivalent balances were concentrated in one institutional money market fund that had investments consisting primarily of certificates of deposit, commercial paper, time deposits, U.S. government agencies, treasury bills and treasury repurchase agreements. These deposits may be redeemed upon demand and, therefore, generally have minimal risk.

The Company's cash equivalents and marketable securities are classified within Level 1 or Level 2 on the basis of valuations using quoted market prices or alternative pricing sources and models utilizing market observable inputs, respectively. Certain of the Company's corporate debt securities were valued based on quoted prices for the specific securities in an active market and were therefore classified as Level 1. The remaining marketable securities have been valued on the basis of valuations provided by third-party pricing services, as derived from such services' pricing models. Inputs to the models may include, but are not limited to, reported trades, executable bid and ask prices, broker/dealer quotations, prices or yields of securities with similar characteristics, benchmark curves or information pertaining to the issuer, as well as industry and economic events. The pricing services may use a matrix approach, which considers information regarding securities with similar characteristics to determine the valuation for a security, and have been classified as Level 2. The following tables summarize the Company's assets carried at fair value measured on a recurring basis at December 31, 2016 and June 30, 2016 by valuation hierarchy (in thousands):

	December 31, 2016			
	Total carrying value	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Cash equivalents	\$ 10,315	\$ 9,915	\$ 400	\$ —
Marketable securities				
Corporate bonds	1,556	1,056	500	—
Commercial paper	4,291	—	4,291	—
	<u>\$ 16,162</u>	<u>\$ 10,971</u>	<u>\$ 5,191</u>	<u>\$ —</u>

	June 30, 2016			
	Total carrying value	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Assets:</b>				
Cash equivalents	\$ 13,856	\$ 12,957	\$ 899	\$ —
Marketable securities				
Corporate bonds	5,997	4,596	1,401	—
Commercial paper	7,682	—	7,682	—
	<u>\$ 27,535</u>	<u>\$ 17,553</u>	<u>\$ 9,982</u>	<u>\$ —</u>

## 6. Accrued Expenses

Accrued expenses consisted of the following at December 31, 2016 and June 30, 2016 (in thousands):

	December 31, 2016	June 30, 2016
Clinical trial costs	\$ 1,618	\$ 1,678
Personnel costs	1,327	1,314
Professional fees	679	535
Other	57	56
	<u>\$ 3,681</u>	<u>\$ 3,583</u>

## 7. Restructuring

In July 2016, the Company announced its plan to consolidate all of its research and development activities in its U.S. facility. Following employee consultations under local U.K. law, the Company determined to close its U.K. research facility and terminated the employment of all of its U.K. employees. The U.K. facility lease, set to expire on August 31, 2016, was extended through November 30, 2016 to facilitate an orderly transition and the required restoration of the premises. A summary reconciliation of the restructuring costs is as follows (in thousands):

	Balance at June 30, 2016	Charged to Expense	Payments	Balance at December 31, 2016
Termination benefits	\$ 118	\$ 273	\$ (391)	\$ —
Facility closure	40	73	(73)	40
Other	29	126	(155)	—
	<u>\$ 187</u>	<u>\$ 472</u>	<u>\$ (619)</u>	<u>\$ 40</u>

The Company recorded approximately \$472,000 of restructuring costs during the six months ended December 31, 2016. These costs consisted of (i) \$273,000 of additional employee severance for discretionary termination benefits upon notification of the affected employees in accordance with ASC 420, *Exit or Disposal Cost Obligations*; and (ii) \$199,000 of professional fees, travel and lease extension costs.

In addition, for the six months ended December 31, 2016, the Company recorded \$99,000 of non-cash stock-based compensation expense in connection with the extension of the exercise period for all vested stock options held by the U.K. employees at July 31, 2016 and a \$133,000 credit to stock-based compensation expense to account for forfeitures of all non-vested stock options at that date.

The Company does not expect to incur any additional restructuring charges. The Company expects that substantially all of the restructuring costs associated with the plan of consolidation will be paid by March 31, 2017.

## **8. Stockholders' Equity**

In December 2013, the Company entered into an at-the-market ("ATM") program pursuant to which the Company could sell shares up to a specified aggregate offering price. During the six month periods ended December 31, 2016 and 2015, the Company did not sell any shares under this program.

In February 2017, the Company entered into a new ATM program pursuant to which, under its Form S-3 shelf registration statement, the Company may, at its option, offer and sell shares of its common stock from time to time for an aggregate offering price of up to \$20.0 million. The Company will pay the sales agent a commission of up to 3.0% of the gross proceeds from the sale of such shares. The Company's ability to sell shares under the ATM program is subject to an Australian Securities Exchange ("ASX") rule limiting the number of shares the Company may issue in any 12-month period without shareholder approval, as well as other applicable rules and regulations of ASX and the NASDAQ Global Market.

### **Warrants to Purchase Common Shares**

During the six months ended December 31, 2016, a total of 623,605 warrants to purchase common shares were outstanding and exercisable at a price of \$2.50. At December 31, 2016, the remaining term of these warrants was approximately 7 months. During the six months ended December 31, 2015, a total of 1,176,105 warrants to purchase common shares were outstanding and exercisable at a weighted-average price of \$3.67. Of these warrants, 552,500 with an exercise price of \$5.00 expired in January 2016.

### **2016 Long Term Incentive Plan**

On December 12, 2016 the Company's shareholders approved the adoption of the 2016 Incentive Plan, which was approved by the Board of Directors on October 3, 2016 and subsequently amended by the Compensation Committee of the Board of Directors on February 3, 2017 to change the name of the plan to the 2016 Long Term Incentive Plan (the "2016 Plan"). The 2016 Plan provides for the issuance of stock options and other awards to employees and directors of, and consultants and advisors to, the Company. The 2016 Plan provides for the issuance of (i) up to 3,000,000 shares of common stock reserved for issuance under the 2016 Plan; plus (ii) 489,241 shares of common stock that were previously available for grant under the pSivida Corp. 2008 Incentive Plan, as amended (the "2008 Plan"); plus (iii) 6,257,891 shares of common stock that would otherwise have become available for grant under the 2008 Plan after the date on which the Board of Directors adopted the 2016 Plan (the "Adoption Date") as a result of the termination or forfeiture of awards under the 2008 Plan.

Through December 31, 2016, no equity awards have been made under the 2016 Plan. At December 31, 2016, a total of 3,489,241 were available for grant under the 2016 Plan.

### **2008 Plan**

The 2008 Plan provides for the issuance of stock options and other stock awards to directors, employees and consultants. As of December 12, 2016, which was the effective date of the 2016 Plan, there were 336,741 shares available for grant of future awards, which were carried over to the 2016 Plan. Effective as of such date, the Compensation Committee terminated the 2008 Plan in all respects, other than with respect to previously-granted



awards, and no additional stock options and other stock awards will be issued under the 2008 Plan. The following table provides a reconciliation of stock option activity under the 2008 Plan for the six months ended December 31, 2016:

	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life</u> (in years)	<u>Aggregate Intrinsic Value</u> (in thousands)
Outstanding at July 1, 2016	4,981,421	\$ 3.60		
Granted	1,535,300	3.24		
Exercised	(4,080)	2.14		
Forfeited	(454,750)	4.04		
Outstanding at December 31, 2016	<u>6,057,891</u>	<u>\$ 3.47</u>	<u>4.83</u>	<u>\$ 174</u>
Outstanding at December 31, 2016 – vested or unvested and expected to vest	<u>5,933,185</u>	<u>\$ 3.47</u>	<u>4.74</u>	<u>\$ 174</u>
Exercisable at December 31, 2016	<u>4,178,657</u>	<u>\$ 3.49</u>	<u>2.86</u>	<u>\$ 174</u>

During the six months ended December 31, 2016, the Company granted 1,405,300 options to employees with ratable annual vesting over 4 years, 90,000 options to non-executive directors with 1-year cliff vesting and 40,000 options to a newly appointed non-executive director with ratable vesting over 3 years. All option grants have a 10-year term. The weighted-average grant date fair value of these options was \$1.95 per share. A total of 962,503 options vested during the six months ended December 31, 2016. In determining the grant date fair value of options, the Company uses the Black-Scholes option pricing model. The Company calculated the Black-Scholes value of options awarded under the 2008 Plan during the six months ended December 31, 2016 based on the following key assumptions:

Option life (in years)	5.50 - 6.25
Stock volatility	70% - 72%
Risk-free interest rate	1.23% - 2.08%
Expected dividends	0%

### Inducement Option Grant

In connection with the September 15, 2016 hire of the Company's President and CEO, the Company granted, as an inducement award, 850,000 options to purchase common stock with ratable vesting over 4 years, an exercise price of \$3.63 and a 10-year term. Although these stock options were not awarded under the 2008 Plan, these stock options are subject to and governed by the terms and conditions of the 2008 Plan. The grant date fair value of \$0.84 per share, measured at the Adoption Date, was determined based upon assumptions of an option life of 6.25 years, historical stock volatility of 70%, a risk-free interest rate of 2.13% and expected dividends of 0%.

### Restricted Stock Units

During the six months ended December 31, 2016, the Company issued 700,000 market-based Restricted Stock Units ("market-based RSUs") to two employees, which included 500,000 as an inducement grant to the Company's President and CEO, and 200,000 issued under the 2008 Plan. The market-based RSUs vest based upon a relative percentile rank of the 3-year change in the closing price of the Company's common stock compared to that of the companies that make up the NASDAQ Biotechnology Index ("NBI"). The Company estimated the fair value of the market-based RSUs using a Monte Carlo valuation model on the respective dates of grant, using the following key assumptions:

Grant date stock price	\$1.91 - \$3.63
Stock volatility	50% - 60%
Risk-free interest rate	0.87% - 0.98%
Expected dividends	0%

The weighted-average grant date fair value of the market-based RSUs was \$1.35 per share.

## Stock-Based Compensation Expense

The Company's statements of comprehensive loss included total compensation expense from stock-based payment awards for the three and six months ended December 31, 2016 and 2015, as follows (in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
Compensation expense included in:				
Research and development	\$ 300	\$ 196	\$ 536	\$ 341
General and administrative	96	287	594	547
	<u>\$ 396</u>	<u>\$ 483</u>	<u>\$ 1,130</u>	<u>\$ 888</u>

In connection with termination benefits provided to the Company's former Chief Executive Officer, the vesting of certain non-vested options was accelerated in accordance with the terms of the options, the exercise period for all vested options was extended through September 14, 2017, and all remaining non-vested options were forfeited. Additionally, in connection with the U.K. restructuring, the exercise period of all vested options held by U.K. employees was extended through June 30, 2017 and all non-vested options were forfeited. These option modifications and forfeitures were accounted for in the quarter ended September 30, 2016, the net effect of which resulted in an approximate \$274,000 increase of stock-based compensation expense included in general and administrative and an approximate \$35,000 reduction of stock-based compensation expense included in research and development for the six months ended December 31, 2016 in the table above.

In connection with termination benefits provided to the Company's former Vice President, Corporate Affairs and General Counsel, the vesting of certain non-vested options was accelerated in accordance with the terms of the options, the exercise period for all vested options was extended through June 28, 2018 and all remaining non-vested options were forfeited. The option modification and forfeitures were accounted for in the quarter ended December 31, 2016, the net effect of which resulted in an approximate \$117,000 reduction of stock-based compensation expense included in general and administrative for the three and six months ended December 31, 2016 in the table above.

At December 31, 2016, there was approximately \$4.2 million of unrecognized compensation expense related to unvested stock options under the 2008 Plan, the inducement stock option grant to the Company's President and CEO and the market-based RSUs, which is expected to be recognized as expense over a weighted average period of approximately 2.2 years.

## 9. Income Taxes

The Company recognizes deferred tax assets and liabilities for estimated future tax consequences of events that have been recognized in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities using the enacted tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance is established if, based on management's review of both positive and negative evidence, it is more likely than not that all or a portion of the deferred tax assets will not be realized. Because of its historical losses from operations, the Company established a valuation allowance for the net deferred tax assets. The Company recorded an income tax benefit of \$42,000 for the three months ended December 31, 2015, and \$83,000 for the six months ended December 31, 2015. The tax benefits for the three and six months ended December 31, 2015 represented earned foreign research and development tax credits, which were not available to the Company in fiscal 2017.

For the three and six months ended December 31, 2016 and 2015, the Company had no significant unrecognized tax benefits. At December 31, 2016 and June 30, 2016, the Company had no accrued penalties or interest related to uncertain tax positions.

## 10. Commitments and Contingencies

### Operating Leases

The Company leases approximately 13,650 square feet of combined office and laboratory space in Watertown, Massachusetts under a lease with a term from March 2014 through April 2019, with a five-year renewal option at market rates. The Company provided a cash-collateralized \$150,000 irrevocable standby letter of credit as security for the Company's obligations under the lease. In addition to base rent, the Company is obligated to pay its proportionate share of building operating expenses and real estate taxes in excess of base year amounts.

In addition, the Company occupied approximately 2,200 square feet of laboratory and office space in Malvern, U.K. under a lease with a term that was to expire on August 31, 2016. The lease term was extended through November 2016 to facilitate an orderly transition of the closure of a substantial portion of the U.K. facility in connection with consolidation of the Company's research and development activities in its U.S. laboratory facilities. The Company has entered into a new lease in Malvern for 420 square feet of office space under a 3-year lease term effective December 1, 2016, with termination rights by the Company upon 30 days advance notice.

### Legal Proceedings

In December 2014, the Company exercised its right under the Alimera Agreement to conduct an audit by an independent accounting firm of Alimera's commercialization reporting for ILUVIEN for calendar 2014. In April 2016, the independent accounting firm issued its report, which concluded that Alimera under-reported net profits payable to the Company for 2014 by \$136,000. In June 2016, Alimera remitted \$354,000 to the Company, which consisted of the under-reported net profits plus interest and reimbursement of the audit costs of \$204,000. In July 2016, Alimera filed a demand for arbitration with the American Arbitration Association ("AAA") in Boston, Massachusetts to dispute the audit findings and requested a full refund of the \$354,000 previously paid to the Company. The Company filed a motion to dismiss Alimera's demand for arbitration on grounds that Alimera did not object to the independent accounting firm's findings within the time period provided for in the Alimera Agreement and voluntarily paid the amounts due. The arbitrator denied the Company's motion on December 12, 2016. Shortly thereafter, the parties agreed to a 60-day stay of the arbitration proceedings through February 28, 2017 in order to allow time for the parties to attempt in good faith to resolve the dispute. Pending the arbitration outcome, \$136,000 of net profits participation has been recorded as deferred revenue and the remaining \$218,000 as accrued expenses at each of December 31, 2016 and June 30, 2016.

The Company is subject to various other routine legal proceedings and claims incidental to its business, which management believes will not have a material effect on the Company's financial position, results of operations or cash flows.

## 11. Net Loss per Share

Basic net loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. For periods in which the Company reports net income, diluted net income per share is determined by adding to the basic weighted average number of common shares outstanding the total number of dilutive common equivalent shares using the treasury stock method, unless the effect is anti-dilutive. Potentially dilutive shares were not included in the calculation of diluted net loss per share for each of the three and six months ended December 31, 2016 and 2015 as their inclusion would be anti-dilutive.

Potential common stock equivalents excluded from the calculation of diluted earnings per share because the effect would have been anti-dilutive were as follows:

	<u>Three Months Ended December 31,</u>		<u>Six Months Ended December 31,</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Options outstanding	6,907,891	5,078,421	6,907,891	5,078,421
Warrants outstanding	623,605	1,176,105	623,605	1,176,105
RSUs outstanding	700,000	—	700,000	—
	<u>8,231,496</u>	<u>6,254,526</u>	<u>8,231,496</u>	<u>6,254,526</u>

## Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

### Note Regarding Forward-Looking Statements

Various statements made in this Quarterly Report on Form 10-Q are forward-looking and involve risks and uncertainties. All statements that address activities, events or developments that we intend, expect or believe may occur in the future are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Such statements give our current expectations or forecasts of future events and are not statements of historical or current facts. These statements include, among others, statements about:

- the sufficiency of our cash and cash equivalents to fund our operations through approximately the first quarter of fiscal 2018;
- our ability to obtain additional capital in sufficient amounts and on terms acceptable to us, and the consequences of failing to do so;
- future expenses and capital expenditures;
- our expectations regarding the timing and design of our clinical development plans;
- the timing of regulatory filings, both in the United States of America (“U.S.”) and the European Union (“EU”)
- our expectation to submit a marketing approval application (“MAA”) to the EU for Durasert™ three-year non-erodible fluocinolone acetonide (“FA”) insert for posterior segment uveitis (“Durasert three-year uveitis”) (formerly known as Medidur™) in the second quarter of calendar 2017;
- our expectation to submit a new drug application (“NDA”) to the U.S. Food and Drug Administration (“FDA”) for Durasert three-year uveitis in the second half of calendar 2017;
- the implication of results from pre-clinical and clinical trials and our other research activities;
- our intentions regarding our research into the use and application of our Durasert and Tethadur™ technology platforms;
- the impact of changes in foreign exchange rates for the currencies in which we operate on our operating expenses and stockholders’ equity;
- our expectation that we will continue to incur significant expenses and that our operating losses and our net cash outflows to fund operations will continue for the foreseeable future;
- the potential advantages of our product candidates and technologies;
- the scope and duration of intellectual property protection; and
- the effect of legal and regulatory developments.

Forward-looking statements also include statements other than statements of current or historical fact, including, without limitation, all statements related to any expectations of revenues, expenses, cash flows, earnings or losses from operations, cash required to maintain current and planned operations, capital or other financial items; any statements of the plans, strategies and objectives of management for future operations; any plans or expectations with respect to product research, development and commercialization, including regulatory approvals; any other statements of expectations, plans, intentions or beliefs; and any statements of assumptions underlying any of the foregoing. We often, although not always, identify forward-looking statements by using words or phrases such as “likely”, “expect”, “intend”, “anticipate”, “believe”, “estimate”, “plan”, “project”, “forecast” and “outlook”.

The following are some of the factors that could cause actual results to differ materially from the anticipated results or other expectations expressed, anticipated or implied in our forward-looking statements: uncertainties with respect to: our ability to achieve profitable operations and access to needed capital; fluctuations in our operating results; further impairment of our intangible assets; successful commercialization of, and receipt of revenues from, ILUVIEN® for diabetic macular edema (“ILUVIEN”), which depends on Alimera’s ability to continue as a going concern and the effect of pricing and reimbursement decisions on sales of ILUVIEN; safety and efficacy results of the second Durasert three-year uveitis Phase 3 clinical trial and the number of clinical trials and data required for the Durasert three-year uveitis marketing approval applications in the U.S. and EU; our ability to file and the timing of filing and acceptance of the Durasert three-year uveitis marketing approval applications in the U.S. and EU; our ability to use data in a U.S. NDA from clinical trials outside the U.S.; maintenance of European orphan designation for Durasert three-year uveitis; our ability to successfully commercialize Durasert three-year uveitis, if approved; the outcome of a dispute with Alimera regarding commercialization expenses; potential off-label sales of ILUVIEN for uveitis; consequences of FA side effects; potential declines in Retisert® royalties; our ability to develop Tethadur to successfully deliver large biologic molecules and develop products using it; efficacy and our future development of

an implant to treat severe osteoarthritis; our ability to successfully develop product candidates, initiate and complete clinical trials and receive regulatory approvals; our ability to market and sell products; the success of current and future license agreements; termination or breach of current license agreements; our dependence on contract research organizations (“CROs”), vendors and investigators; effects of competition and other developments affecting sales of products; market acceptance of products; effects of guidelines, recommendations and studies; protection of intellectual property and avoiding intellectual property infringement; retention of key personnel; product liability; industry consolidation; compliance with environmental laws; manufacturing risks; risks and costs of international business operations; effects of the potential U.K. exit from the EU; legislative or regulatory changes; volatility of stock price; possible dilution; absence of dividends; and other factors described in our filings with the Securities and Exchange Commission (the “SEC”). You should read and interpret any forward-looking statements in light of these risks. Should known or unknown risks materialize, or should underlying assumptions prove inaccurate, actual results could differ materially from past results and those anticipated, estimated or projected in the forward-looking statements. You should bear this in mind as you consider any forward-looking statements. Our forward-looking statements speak only as of the dates on which they are made. We do not undertake any obligation to publicly update or revise our forward-looking statements even if experience or future changes makes it clear that any projected results expressed or implied in such statements will not be realized.

## **Our Business**

We currently develop proprietary sustained-release pharmaceutical products for the treatment of chronic eye diseases. Our products deliver drugs at a controlled and steady rate for months or years. We have developed three of only four sustained-release products approved by the FDA for treatment of back-of-the-eye diseases. Durasert three-year uveitis, our lead product candidate, is in pivotal Phase 3 clinical trials, and ILUVIEN, our most recent out-licensed product, is sold in the U.S. and three EU countries. Retisert, which was approved by the FDA for the treatment of posterior segment uveitis, is sold by Bausch & Lomb Incorporated (“Bausch & Lomb”). Our product development programs are focused primarily on utilizing our Durasert technology platform to deliver drugs to treat chronic diseases. Our strategy includes developing products independently while continuing to leverage our technology platforms through collaborations and license agreements.

Durasert three-year uveitis, our most advanced development product candidate, is designed to treat chronic non-infectious uveitis affecting the posterior segment of the eye (“posterior uveitis”) for three years from a single administration. Injected into the eye in an office visit, this product is a tiny micro-insert that delivers a micro-dose of a corticosteroid, FA, to the back of the eye on a sustained basis. We are developing Durasert three-year uveitis independently.

The first of two Phase 3 clinical trials investigating Durasert three-year uveitis met its primary efficacy endpoint of prevention of recurrence of disease through six months with high statistical significance ( $p < 0.001$ , intent to treat analysis) and with safety data consistent with the known effects of ocular corticosteroid use. The same high statistical significance for efficacy and encouraging safety results were maintained through 12 months of follow-up. Due to the high level of statistical significance achieved, we plan to file our EU MAA based on data from the first Phase 3 clinical trial, rather than two clinical trials. We expect to file the MAA in the second quarter of calendar 2017. The second Phase 3 clinical trial investigating Durasert three-year uveitis completed its target enrollment of 150 patients at the end of September 2016. This clinical trial has the same clinical trial design and the same endpoint as the first Phase 3 clinical trial, and a read-out of its top-line results is expected by the end of the second quarter of calendar 2017. Assuming favorable results, we plan to file an NDA with the FDA in the second half of calendar 2017. A utilization study of our new Durasert three-year uveitis inserter with a smaller diameter needle, which is required for both the MAA and NDA, met its primary endpoint of ease of intravitreal administration.

ILUVIEN is an injectable, sustained-release micro-insert that provides three years of treatment of diabetic macular edema from a single injection. ILUVIEN is based on the same technology as the Durasert three-year uveitis insert, and delivers the same corticosteroid, FA, although it is injected using an inserter with a larger diameter needle. ILUVIEN was developed in collaboration with, and is licensed to and sold by Alimera Sciences, Inc. (“Alimera”). We are entitled to a share of the net profits (as defined) from Alimera’s sales of ILUVIEN on a quarter-by-quarter, country-by-country basis. ILUVIEN has been sold directly in the United Kingdom and Germany since June 2013 and in the U.S. and Portugal since 2015, and also has marketing approvals in 14 other European countries. Distribution, regulatory and reimbursement matters for ILUVIEN in Australia and New Zealand, Canada, Italy and the Middle East have been sublicensed. In the event that Alimera sublicenses commercialization in any country, we are entitled to 20% of royalties and 33% of non-royalty consideration received by Alimera, less certain permitted deductions. We are also entitled to reimbursement of certain patent maintenance costs with respect to the patents licensed to Alimera.

Our FDA-approved Retisert is an implant that provides sustained release treatment of posterior segment uveitis for 30 months. Administered in a surgical procedure, Retisert delivers the same corticosteroid as the Durasert three-year uveitis insert, but in a larger dose. Retisert was co-developed with, and licensed to, Bausch & Lomb, and we receive royalties from its sales.

Our development programs are focused primarily on developing sustained release drug products using our proven Durasert technology platform to deliver small molecule drugs to treat uveitis, wet and dry age-related macular degeneration (“AMD”), osteoarthritis and other diseases. A sustained-release surgical implant delivering a corticosteroid to treat pain associated with severe knee osteoarthritis that was jointly developed by the Company and Hospital for Special Surgery is currently being evaluated in an investigator-sponsored safety and tolerability study. In addition, we continue to develop our Tethadur technology platform designed to deliver large molecules, such as biologics, both locally and systemically.

Durasert™, BioSilicon™ and Tethadur™ are our trademarks, Retisert® is Bausch & Lomb’s trademark, and ILUVIEN® is Alimera’s trademark.

All information in this Form 10-Q with respect to ILUVIEN, including regulatory and marketing information, and Alimera’s plans and intentions, reflects information reported by Alimera.

### **Critical Accounting Policies and Estimates**

The preparation of consolidated financial statements in conformity with GAAP requires that we make certain estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. We base our estimates, judgments and assumptions on historical experience, anticipated results and trends, and on various other factors that we believe are reasonable under the circumstances at the time. By their nature, these estimates, judgments and assumptions are subject to an inherent degree of uncertainty. Actual results may differ from our estimates under different assumptions or conditions. In our Annual Report on Form 10-K for the fiscal year ended June 30, 2016 (the “2016 Annual Report”), we set forth our critical accounting policies and estimates, which included revenue recognition and recognition of expense in outsourced clinical trial agreements. There have been no material changes to our critical accounting policies from the information provided in our 2016 Annual Report.

## Results of Operations

### Three Months Ended December 31, 2016 Compared to Three Months Ended December 31, 2015:

	Three Months Ended December 31,		Change	
	2016	2015	Amounts	%
(In thousands except percentages)				
<b>Revenues:</b>				
Collaborative research and development	\$5,702	\$ 142	\$ 5,560	3,915%
Royalty income	269	384	(115)	(30)%
Total revenues	<u>5,971</u>	<u>526</u>	<u>5,445</u>	<u>1,035%</u>
<b>Operating expenses:</b>				
Research and development	3,165	3,721	(556)	(15)%
General and administrative	2,900	2,043	857	42%
Total operating expenses	<u>6,065</u>	<u>5,764</u>	<u>301</u>	<u>5%</u>
Loss from operations	(94)	(5,238)	5,144	98%
Interest and other income	27	10	17	170%
Loss before income taxes	(67)	(5,228)	5,161	99%
Income tax benefit	—	42	(42)	(100)%
Net loss	<u>\$ (67)</u>	<u>\$(5,186)</u>	<u>\$ 5,119</u>	<u>99%</u>

### Revenues

Collaborative research and development revenues totaled \$5.7 million for the three months ended December 31, 2016 compared to \$142,000 for the three months ended December 31, 2015. This increase was attributable to the \$5.6 million of revenue recognized upon the termination of the Amended and Restated Collaborative Research and License Agreement with Pfizer, Inc. (the “Restated Pfizer Agreement”) in December 2016.

We are entitled to share in the net profits, on a quarter-by-quarter and country-by-country basis, from sales of ILUVIEN by our licensee, Alimera, and are also entitled to 20% of royalties and 33% of non-royalty consideration received by Alimera wherever it sublicenses commercialization of ILUVIEN. We did not receive any net profit share from Alimera’s direct sales of ILUVIEN in the three months ended December 31, 2016 and 2015. We do not know when and if we will receive future net profit payments with respect to any country where Alimera sells ILUVIEN or payments with respect to countries where Alimera sublicenses the sale of ILUVIEN.

Royalty income from sales of Retisert decreased by \$115,000, or 30%, to \$269,000 for the three months ended December 31, 2016 compared to \$384,000 for the three months ended December 31, 2015.

### Research and Development

Research and development expenses decreased by \$556,000, or 15%, to \$3.2 million for the three months ended December 31, 2016 from \$3.7 million for the same quarter a year earlier, primarily attributable to decreases of approximately (i) \$775,000 for CRO costs for the Durasert three-year uveitis clinical development program, (ii) \$250,000 of costs of our U.K. subsidiary primarily resulting from the previously announced U.K. restructuring and (iii) approximately \$180,000 of U.S. pre-clinical and other third party research costs, partially offset by approximately \$330,000 of increased regulatory and clinical professional services for our Durasert three-year uveitis Phase 3 clinical development program and planned MAA and NDA filings and \$310,000 of U.S.-based personnel and related costs, including stock-based compensation, primarily due to the August 2016 hire of our Chief Medical Officer and a significant increase in fiscal 2017 employee stock option grants. We expect to continue to incur significant research and development expense for Durasert three-year uveitis during the remainder of fiscal 2017 and in future periods until completion of its clinical development.

### **General and Administrative**

General and administrative expenses increased by \$857,000, or 42%, to \$2.9 million for the three months ended December 31, 2016 from \$2.0 million for the same period in the prior year, primarily attributable to approximately \$710,000 of personnel and related costs, primarily related to termination costs for our former Vice President, Corporate Affairs and General Counsel, and a \$325,000 increase in professional services fees, partially offset by a \$190,000 decrease in stock-based compensation expense.

### **Income Tax Benefit**

Income tax benefit of \$0 for the three months ended December 31, 2016 compared to \$42,000 for the three months ended December 31, 2015. Refundable foreign research and development tax credits were not recognized for the three months ended December 31, 2016 as a result of the consolidation of our research and development activities in the U.S. during the quarter ended September 30, 2016.

### **Six Months Ended December 31, 2016 Compared to Six Months Ended December 31, 2015:**

	Six Months Ended December 31,		Change	
	2016	2015	Amounts	%
	(In thousands except percentages)			
Revenues:				
Collaborative research and development	\$ 5,736	\$ 322	\$ 5,414	1,681%
Royalty income	512	670	(158)	(24)%
Total revenues	<u>6,248</u>	<u>992</u>	<u>5,256</u>	<u>530%</u>
Operating expenses:				
Research and development	7,343	7,203	140	2%
General and administrative	<u>6,185</u>	<u>4,011</u>	<u>2,174</u>	<u>54%</u>
Total operating expenses	<u>13,528</u>	<u>11,214</u>	<u>2,314</u>	<u>21%</u>
Loss from operations	(7,280)	(10,222)	2,942	29%
Interest and other income	51	20	31	155%
Loss before income taxes	(7,229)	(10,202)	2,973	29%
Income tax benefit	—	83	(83)	100%
Net loss	<u>\$ (7,229)</u>	<u>\$ (10,119)</u>	<u>\$ 2,890</u>	<u>29%</u>

### **Revenues**

Collaborative research and development revenues totaled \$5.7 million for the six months ended December 31, 2016 compared to \$322,000 for the six months ended December 31, 2015. This increase was primarily attributable to \$5.6 million of revenue recognized upon the termination of the Restated Pfizer Agreement in December 2016, partially offset by the absence of \$157,000 of non-royalty sublicense consideration earned under the Alimera agreement in the prior-year period. We did not receive any net profit share from Alimera's direct sales of ILUVIEN in the six months ended December 31, 2016 and 2015.

Royalty income from sales of Retisert decreased by \$158,000, or 24%, to \$512,000 for the six months ended December 31, 2016 compared to \$670,000 for the six months ended December 31, 2015.



## ***Research and Development***

Research and development expenses increased by \$140,000, or 2%, to \$7.3 million for the six months ended December 31, 2016 from \$7.2 million for the prior year-to-date period. This increase was primarily attributable to approximately (i) \$485,000 of regulatory and clinical professional services for our Durasert three-year uveitis Phase 3 clinical development program and planned MAA and NDA filings of Durasert three-year uveitis, (ii) \$300,000 of personnel and related costs primarily due to the August 2016 hire of our Chief Medical Officer and (iii) \$300,000 of stock-based compensation, partially offset by decreases of (i) \$605,000 of CRO costs for our Durasert three-year uveitis clinical development, (ii) \$225,000 of U.S. pre-clinical studies and other third party research costs primarily due to prior year studies of potential tyrosine kinase inhibitor (“TKI”) compounds and purchases of lab and clinical supplies for our Durasert three-year uveitis inserter utilization study; and (iii) \$90,000 of U.K. costs, primarily related to the effect of the U.K. restructuring.

## ***General and Administrative***

General and administrative expenses increased by \$2.2 million, or 54%, to \$6.2 million for the six months ended December 31, 2016 from \$4.0 million for the same period in the prior year, primarily attributable to approximately \$1.5 million of severance costs and professional fees associated with the CEO transition and elimination of the position of Vice President, Corporate Affairs and General Counsel, as well as an approximate \$515,000 increase in other professional fees, primarily due to patent legal fees and legal fees for the ongoing arbitration proceedings with Alimera.

## ***Income Tax Benefit***

Income tax benefit of \$0 for the six months ended December 31, 2016 compared to \$83,000 for the six months ended December 31, 2015. Refundable foreign research and development tax credits were not recognized for the six months ended December 31, 2016 as a result of the consolidation of our research and development activities in the U.S. during the quarter ended September 30, 2016.

## ***Liquidity and Capital Resources***

Our fiscal 2017 year-to-date operations were financed primarily from existing capital resources at June 30, 2016. At December 31, 2016, our principal sources of liquidity were cash, cash equivalents and marketable securities that totaled \$17.5 million.

With the exception of net income for the fiscal year ended June 30, 2015 resulting from the \$25.0 million ILUVIEN FDA-approval milestone, we have generally incurred operating losses since inception, and at December 31, 2016, we had a total accumulated deficit of \$299.4 million. We have financed our operations primarily from the proceeds of sales of our equity securities and receipt of license fees, milestone payments, research and development funding and royalty income from our collaboration partners. We do not currently have any assured sources of future revenue and we expect negative cash flows from operations in subsequent quarters unless and until such time as we receive sufficient revenues from Alimera’s commercialization of ILUVIEN or one or more of our other product candidates achieve regulatory approval and provide us sufficient revenues. We believe that our capital resources at December 31, 2016, together with expected cash inflows under existing collaboration agreements, will enable us to fund our operations as currently planned through approximately the first quarter of fiscal 2018. This estimate excludes any potential receipts under the Alimera agreement. Our ability to fund operations beyond the first quarter of fiscal 2018 may require us to reduce or defer operating expenses and access financing through our at-the-market (“ATM”) program. The timing and extent of our implementation of these plans is expected to depend on the amount and timing of cash receipts from Alimera’s commercialization of ILUVIEN, proceeds from any future collaboration or other agreements and/or proceeds from any financing transactions. There is no assurance that we will receive significant, if any, revenues from future sales of ILUVIEN or cash from any other sources.

The additional capital we will require will be influenced by many factors, including, but not limited to:

- whether, when and to what extent we receive future revenues with respect to the commercialization of ILUVIEN;
- the timing and cost of development, regulatory approval and commercialization of Durasert three-year uveitis and the manner in which we commercialize the product;

- whether and to what extent we internally fund, whether and when we initiate, and how we conduct product development programs;
- the amount of Retisert royalties and other payments we receive under collaboration agreements;
- whether and when we are able to enter into strategic arrangements for our product candidates and the nature of those arrangements;
- timely and successful development, regulatory approval and commercialization of our products and product candidates;
- the costs involved in preparing, filing, prosecuting and maintaining patents, and defending and enforcing patent claims;
- changes in our operating plan, resulting in increases or decreases in our need for capital; and
- our views on the availability, timing and desirability of raising capital.

We do not know if additional capital will be available when needed or on terms favorable to us or our stockholders. Collaboration, licensing and other agreements may not be available on favorable terms, or at all. We do not know when or if we will receive any substantial funds from Alimera's commercialization of ILUVIEN. If we seek to sell shares under our ATM program or in another offering, we do not know whether and to what extent we will be able to do so, or on what terms. Further, the rules and regulations of the Australian Securities Exchange ("ASX") and the NASDAQ Global Market require us to obtain shareholder approval for sales of equity securities under certain circumstances, which could delay or prevent us from raising capital from such sales. Also, the state of the economy and financial and credit markets at the time or times we seek additional financing may make it more difficult and more expensive to obtain. If available, additional equity financing may be dilutive to stockholders, debt financing may involve restrictive covenants or other unfavorable terms and dilute our existing stockholders' equity, and funding through collaboration agreements may be on unfavorable terms, including requiring us to relinquish rights to certain of our technologies or products. If adequate financing is not available if and when needed, we may delay, reduce the scope of, or eliminate research or development programs, potential independent commercialization of Durasert three-year uveitis or other new products, if any, and postpone or cancel the pursuit of product candidates, including pre-clinical and clinical trials and new business opportunities, reduce staff and operating costs, or otherwise significantly curtail our operations to reduce our cash requirements and extend our capital.

Our consolidated statements of historical cash flows are summarized as follows (in thousands):

	<b>Six Months Ended</b>		
	<b>December 31,</b>		
	<u>2016</u>	<u>2015</u>	<u>Change</u>
Net loss:	\$ (7,229)	\$(10,119)	\$ 2,890
Changes in current assets and liabilities	(199)	1,055	(6,839)
Other adjustments to reconcile net loss to cash flows from operating activities	(4,067)	1,397	121
Net cash used in operating activities	<u>\$(11,495)</u>	<u>\$ (7,667)</u>	<u>\$(3,828)</u>
Net cash provided by (used in) investing activities	<u>\$ 7,868</u>	<u>\$ (574)</u>	<u>\$ 8,442</u>
Net cash provided by financing activities	<u>\$ 9</u>	<u>\$ 338</u>	<u>\$ (329)</u>

For the six months ended December 31, 2016, net cash used in operating activities increased by \$3.8 million on a comparative basis to the six months ended December 31, 2015 and consisted of an approximate \$3.5 million increase in operating cash outflows and an approximate \$290,000 decrease of collaborative research and development and royalty operating cash inflows. Higher operating cash outflows consisted primarily of increases of approximately (i) \$1.5 million of personnel costs, which consisted primarily of severance compensation paid to our former CEO and U.K. employees, payment of higher incentive compensation awards, and previously announced current year additions to our executive management team; (ii) \$1.3 million of professional fees for uveitis market assessment and commercialization strategies, our CEO transition, arbitration proceedings with Alimera, regulatory and clinical consulting services associated with our Durasert three-year uveitis Phase 3 clinical development program and planned MAA and NDA filings, our U.K. restructuring and higher patent legal fees; and (iii) \$700,000

of CRO payments associated with our Durasert three-year uveitis clinical development, primarily due to the timing and amounts of contractual milestone payments. Lower operating cash inflows resulted primarily from the prior year receipt of \$157,000 of sublicense consideration under the Alimera agreement and a \$120,000 decrease in the receipt of Retisert royalties.

Net cash provided by investing activities consisted predominantly of \$7.8 million of maturities of marketable securities, net of purchases, during the six months ended December 31, 2016 compared to \$538,000 of purchases of marketable securities, net of maturities, during the six months ended December 31, 2015.

Net cash provided by financing activities for the six months ended December 31, 2016 and 2015 consisted of \$9,000 and \$338,000, respectively, of proceeds from the exercise of stock options.

We had no borrowings or line of credit facilities as of December 31, 2016.

### **Off-Balance Sheet Arrangements**

We had no off-balance sheet arrangements as of December 31, 2016 that have, or are reasonably likely to have, a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that would be material to investors.

## **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

### **Foreign Currency Exchange Rates**

We conduct operations in two principal currencies, the U.S. dollar and the Pound Sterling (£). The U.S. dollar is the functional currency for our U.S. operations, and the Pound Sterling is the functional currency for our U.K. operations. Changes in the foreign exchange rate of the U.S. dollar and Pound Sterling impact the net operating expenses of our U.K. operations. The strengthening of the U.S. dollar during the three months ended December 31, 2016 compared to the prior year's quarter resulted in a net decrease in research and development expenses of \$38,000. For every incremental 5% strengthening or weakening of the weighted average exchange rate of the U.S. dollar in relation to the Pound Sterling, our research and development expense for the three months ended December 31, 2016 would have decreased or increased by \$9,000, respectively. All cash and cash equivalents, and most other asset and liability balances, are denominated in each entity's functional currency and, accordingly, we do not consider our statement of comprehensive loss exposure to realized and unrealized foreign currency gains and losses to be significant.

Changes in the foreign exchange rate of the Pound Sterling to the U.S. dollar also impacted total stockholders' equity. As reported in the statement of comprehensive loss, the relative strengthening of the U.S. dollar in relation to the Pound Sterling at December 31, 2016 compared to June 30, 2016 resulted in \$30,000 of other comprehensive loss for the six months ended December 31, 2016 due to the translation of £209,000 of net assets of our U.K. operations, predominantly the Tethadur technology intangible asset, into U.S. dollars. For every incremental 5% strengthening or weakening of the U.S. dollar at December 31, 2016 in relation to the Pound Sterling, our stockholders' equity at December 31, 2016 would have decreased or increased, respectively, by \$13,000.

## **Item 4. Controls and Procedures**

### **Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2016. The term "disclosure controls and procedures", as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure, particularly during the period in which this Quarterly Report on Form 10-Q was being prepared. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their desired objectives, and our management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of December 31, 2016, our principal executive officer and principal financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

## Changes in Internal Control over Financial Reporting

During the quarter ended December 31, 2016, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II: OTHER INFORMATION

### Item 1A. Risk Factors

There have been no material changes to the risk factors previously disclosed in Part I, “Item 1A. Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended June 30, 2016 filed with the Securities and Exchange Commission (the “SEC”) on September 13, 2016.

### Item 6. Exhibits

- 4.1+ pSivida Corp. 2016 Long Term Incentive Plan, as amended
- 10.1+ Amended and Restated Performance-Based Restricted Stock Unit Award Agreement, dated December 21, 2016, by and between pSivida Corp. and Nancy Lurker (incorporated herein by reference to Exhibit 10.1 to the Registrant’s Current Report on Form 8-K filed on December 23, 2016)
- 10.2+ Amended and Restated Performance-Based Restricted Stock Unit Award Agreement, dated December 21, 2016, by and between pSivida Corp. and Deb Jorn (incorporated herein by reference to Exhibit 10.2 to the Registrant’s Current Report on Form 8-K filed on December 23, 2016)
- 10.3+ Cooperation Agreement dated December 25, 2016, by and between pSivida Corp. and Lori Freedman (incorporated herein by reference to Exhibit 10.1 to the Registrant’s Current Report on Form 8-K filed on December 30, 2016)
- 31.1 Certification of Principal Executive Officer required by Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Principal Financial Officer required by Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of the Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of the Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101 The following materials from pSivida Corp.’s Quarterly Report on Form 10-Q for the quarter ended December 31, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets; (ii) Condensed Consolidated Statements of Comprehensive Loss; (iii) Condensed Consolidated Statement of Stockholders’ Equity; (iv) Condensed Consolidated Statements of Cash Flows; and (v) Notes to Condensed Consolidated Financial Statements

+ Indicates management contract or compensatory plan

## SIGNATURES

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

### **pSivida Corp.**

Date: February 9, 2017

By: /s/ Nancy Lurker

Name: Nancy Lurker

Title: President and Chief Executive Officer

**PSIVIDA CORP.**  
**2016 LONG TERM INCENTIVE PLAN**

**1. DEFINED TERMS**

Exhibit A, which is incorporated by reference, defines the terms used in the Plan and includes certain operational rules related to those terms.

**2. PURPOSE**

The Plan has been established to advance the interests of the Company by providing for the grant to Participants of Stock, Stock-based and other incentive Awards.

**3. ADMINISTRATION**

The Administrator has discretionary authority, subject only to the express provisions of the Plan, to interpret the Plan; determine eligibility for and grant Awards; determine, modify or waive the terms and conditions of any Award; determine the form of settlement of Awards (whether in cash, shares of Stock, or other property); prescribe forms, rules and procedures relating to the Plan and Awards; and otherwise do all things necessary or desirable to carry out the purposes of the Plan. Determinations of the Administrator made under the Plan will be conclusive and will bind all persons.

**4. LIMITS ON AWARDS UNDER THE PLAN**

(a) **Number of Shares.** Subject to adjustment as provided in Section 7(b), the maximum number of shares of Stock that may be issued in satisfaction of Equity Awards under the Plan is 3,000,000, plus up to 800,000 shares of Stock that remain available for grant under the 2008 Plan as of the Date of Adoption, plus any shares of Stock that would otherwise have become available for grant under the 2008 Plan after the Date of Adoption as a result of the termination or forfeiture of awards under 2008 Plan. Up to the total number of shares of Stock set forth in the preceding sentence may be issued in satisfaction of ISOs, but nothing in this Section 4(a) will be construed as requiring that any, or any fixed number of, ISOs be awarded under the Plan. For purposes of this Section 4(a), the number of shares of Stock issued in satisfaction of Equity Awards will be determined (i) by including shares of Stock withheld by the Company in payment of the exercise price or purchase price of the Award or in satisfaction of tax withholding requirements with respect to the Award, (ii) by including the full number of shares covered by a SAR any portion of which is settled in Stock (and not only the number of shares of Stock delivered in settlement), and (iii) by excluding any shares of Stock underlying Awards that expire, become unexercisable, terminate or are forfeited to or repurchased by the Company without the issuance of Stock. For the avoidance of doubt, the number of shares of Stock available for delivery under the Plan will not be increased by any shares of Stock delivered under the Plan that are subsequently repurchased using proceeds directly attributable to Stock Option exercises. The limits set forth in this Section 4(a) will be construed to comply with Section 422. To the extent consistent with the requirements of Section 422 and the regulations thereunder, and other applicable legal requirements (including applicable stock exchange requirements), Stock issued under Substitute Awards will not reduce the number of shares

available for Awards under the Plan. The number of shares of Stock that may be delivered under Substitute Awards will be in addition to the limitations set forth in this Section 4(a) on the number of shares available for issuance under the Plan, and such Substitute Awards will not be subject to the per-Participant Award limits described in Section 4(c) below.

**(b) Type of Shares.** Stock delivered by the Company under the Plan may be authorized but unissued Stock or previously issued Stock acquired by the Company. No fractional shares of Stock will be delivered under the Plan.

**(c) Section 162(m) Limits.** Subject to Section 4(d) below, the following additional limits will apply to Awards of the specified type granted or, in the case of Cash Awards, payable to any person in any calendar year:

- (1)** Stock Options: 3,000,000 shares of Stock.
- (2)** SARs: 3,000,000 shares of Stock.
- (3)** Awards other than Stock Options, SARs or Cash Awards: 3,000,000 shares of Stock.
- (4)** Cash Awards: \$5,000,000.

In applying the foregoing limits, (i) all Awards of the specified type granted to the same person in the same calendar year will be aggregated and made subject to one limit; (ii) the limits applicable to Stock Options and SARs refer to the number of shares of Stock underlying those Awards; (iii) the share limit under clause (3) refers to the maximum number of shares of Stock that may be delivered, or the value of which could be paid in cash or other property, under an Award or Awards of the type specified in clause (3) assuming a maximum payout; (iv) Awards other than Cash Awards that are settled in cash will count against the applicable share limit under clause (1), (2) or (3) and not against the dollar limit under clause (4); and (v) the dollar limit under clause (4) refers to the maximum dollar amount payable under an Award or Awards of the type specified in clause (4) assuming a maximum payout. The foregoing provisions will be construed in a manner consistent with Section 162(m), including, without limitation, where applicable, the rules under Section 162(m) pertaining to permissible deferrals of exempt awards.

**(d) Limitations on Awards to Directors.** The aggregate value of all compensation granted or paid to any Director with respect to any calendar year, including all Awards granted under the Plan and any other fees or compensation paid to such Director outside of the Plan for his or her services as a Director during such calendar year, will not exceed \$350,000 in the aggregate, calculating the value of any Awards in accordance with FASB ASC Topic 718 (or any successor provision), assuming maximum performance (if applicable). The Board may make an exception to such limit for any Director in extraordinary circumstances, as the Board may determine in its discretion, provided that any Director who is granted or paid such additional compensation may not participate in the decision to grant or pay such additional compensation. The limitations applicable to Director Awards will not apply to any Award or shares of Stock granted pursuant to a Director's election to receive an Award or shares of Stock in lieu of cash retainers or other fees (to the extent such Award or shares of Stock have a fair value equal to the value of such cash retainers or other fees).

**(c) Award Vesting/Exercisability/Payment/Distribution Limitations.** (i) No portion of any grant of Restricted Stock shall be scheduled to vest prior to the date that is one (1) year following the date the Restricted Stock is granted; (ii) no portion of any grant of a Stock Option or SAR shall be scheduled to become exercisable prior to the date that is one (1) year following the date the Stock Option or SAR is granted; and (iii) no portion of any grant of a Restricted Stock Unit or Cash Award shall be scheduled to vest or be settled, paid or distributed prior to the date that is one (1) year following the date the applicable Restricted Stock Unit or Cash Award is granted; provided; however, that Awards that result in the issuance (as determined in accordance with the rules set forth in Section 4(a)) of an aggregate of up to five percent (5%) of the shares of Stock reserved for issuance under Section 4(a) may be granted to eligible persons without regard to the minimum vesting, exercisability, settlement, payment and distribution provisions of this Section 4(e).

## **5. ELIGIBILITY AND PARTICIPATION**

The Administrator will select Participants from among key Employees and Directors of, and consultants and advisors to, the Company and its Affiliates. Eligibility for ISOs is limited to individuals described in the first sentence of this Section 5 who are employees of the Company or of a “parent corporation” or “subsidiary corporation” of the Company as those terms are defined in Section 424 of the Code. Eligibility for SARs and Stock Options other than ISOs is limited to individuals described in the first sentence of this Section 5 who are providing direct services on the date of grant of the Award to the Company or a subsidiary of the Company that would be described in the first sentence of Treas. Regs. §1.409A-1(b)(5)(iii)(E) or to other individuals who the Company reasonably anticipates will begin providing direct services to the Company or a subsidiary of the Company within twelve (12) months following an Award’s date of grant.

## **6. RULES APPLICABLE TO AWARDS**

### **(a) All Awards.**

**(1) Award Provisions.** The Administrator will determine the terms of all Awards, subject to the limitations provided herein. By accepting (or, under such rules as the Administrator may prescribe, being deemed to have accepted) an Award, the Participant will be deemed to have agreed to the terms of the Award and the Plan. Notwithstanding any provision of this Plan to the contrary, Substitute Awards may contain terms and conditions that are inconsistent with the terms and conditions specified herein, as determined by the Administrator.

**(2) Term of Plan.** No Awards may be made after 10 years from the Date of Adoption, but previously granted Awards may continue beyond that date in accordance with their terms.

**(3) Transferability.** Neither ISOs nor, except as the Administrator otherwise expressly provides in accordance with the third sentence of this Section 6(a)(3), other Awards may be transferred other than by will or by the laws of descent and distribution. During a Participant’s lifetime, ISOs and, except as the Administrator otherwise expressly provides in accordance with the third sentence of this Section 6(a)(3), SARs and NSOs may be exercised



only by the Participant. The Administrator may permit the gratuitous transfer (*i.e.*, transfer not for value) of Awards other than ISOs, subject to applicable securities and other laws and such limitations as the Administrator may impose.

**(4) Vesting, etc.** The Administrator will determine the time or times at which an Award will vest or become exercisable and the terms on which a Stock Option or SAR will remain exercisable. Without limiting the foregoing, the Administrator may at any time accelerate the vesting or exercisability of an Award, regardless of any adverse or potentially adverse tax or other consequences resulting from such acceleration. Unless the Administrator expressly provides otherwise, however, the following rules will apply if a Participant's Employment ceases:

**(A)** Except as provided in (B) and (C) below, immediately upon the cessation of the Participant's Employment each Stock Option and SAR that is then held by the Participant or by the Participant's permitted transferees, if any, will cease to be exercisable and will terminate and all other Awards that are then held by the Participant or by the Participant's permitted transferees, if any, to the extent not already vested will be forfeited.

**(B)** Subject to (C) and (D) below, all Stock Options and SARs held by the Participant or the Participant's permitted transferees, if any, immediately prior to the cessation of the Participant's Employment, to the extent then exercisable, will remain exercisable for the lesser of (i) a period of three months or (ii) the period ending on the latest date on which such Stock Option or SAR could have been exercised without regard to this Section 6(a)(4), and will thereupon immediately terminate.

**(C)** Subject to (D) below, all Stock Options and SARs held by a Participant or the Participant's permitted transferees, if any, immediately prior to the Participant's death, to the extent then exercisable, will remain exercisable for the lesser of (i) the one year period ending with the first anniversary of the Participant's death or (ii) the period ending on the latest date on which such Stock Option or SAR could have been exercised without regard to this Section 6(a)(4), and will thereupon immediately terminate.

**(D)** All Stock Options and SARs (whether or not exercisable) held by a Participant or the Participant's permitted transferees, if any, immediately prior to the cessation of the Participant's Employment will immediately terminate upon such cessation of Employment if the termination is for Cause or occurs in circumstances that in the sole determination of the Administrator would have constituted grounds for the Participant's Employment to be terminated for Cause.

**(5) Recovery of Compensation.** The Administrator may provide in any case that outstanding Awards (whether or not vested or exercisable) and the proceeds from the exercise or disposition of Awards or Stock acquired under Awards will be subject to forfeiture and disgorgement to the Company, with interest and other related earnings, if the Participant to whom the Award was granted violates (i) a non-competition, non-solicitation, confidentiality or other restrictive covenant by which he or she is bound, or (ii) any Company policy applicable to

the Participant that provides for forfeiture or disgorgement with respect to incentive compensation that includes Awards under the Plan. In addition, the Administrator may require forfeiture and disgorgement to the Company of outstanding Awards and the proceeds from the exercise or disposition of Awards or Stock acquired under Awards, with interest and other related earnings, to the extent required by law or applicable stock exchange listing standards, including, without limitation, Section 10D of the Securities Exchange Act of 1934, as amended, and any related Company policy. Each Participant, by accepting or being deemed to have accepted an Award under the Plan, agrees to cooperate fully with the Administrator, and to cause any and all permitted transferees of the Participant to cooperate fully with the Administrator, to effectuate any forfeiture or disgorgement required hereunder. Neither the Administrator nor the Company nor any other person, other than the Participant and his or her permitted transferees, if any, will be responsible for any adverse tax or other consequences to a Participant or his or her permitted transferees, if any, that may arise in connection with this Section 6(a)(5).

(6) **Taxes.** The delivery, vesting and retention of Stock, cash or other property under an Award are conditioned upon full satisfaction by the Participant of all tax withholding requirements with respect to the Award. The Administrator will prescribe such rules for the withholding of taxes with respect to any Award as it deems necessary. The Administrator may hold back shares of Stock from an Equity Award or permit a Participant to tender previously owned shares of Stock in satisfaction of tax withholding requirements (but not in excess of the maximum statutory rates for the applicable jurisdictions or such greater amount as would not result in adverse accounting consequences to the Company under FASB ASC Topic 718 (or any successor provision)).

(7) **Dividend Equivalents, Etc.** The Administrator may provide for the payment of amounts (on terms and subject to conditions established by the Administrator) in lieu of cash dividends or other cash distributions with respect to Stock subject to an Award whether or not the holder of such Award is otherwise entitled to share in the actual dividend or distribution in respect of such Award. Any entitlement to dividend equivalents or similar entitlements will be established and administered either consistent with an exemption from, or in compliance with, the requirements of Section 409A. Dividends or dividend equivalent amounts payable in respect of Awards that are subject to restrictions may be subject to such limits or restrictions as the Administrator may impose.

(8) **Rights Limited.** Nothing in the Plan will be construed as giving any person the right to be granted an Award or to continued employment or service with the Company or its Affiliates, or any rights as a shareholder except as to shares of Stock actually issued under the Plan. The loss of existing or potential profit in Awards will not constitute an element of damages in the event of termination of Employment for any reason, even if the termination is in violation of an obligation of the Company or any Affiliate to the Participant.

(9) **Section 162(m).** In the case of any Performance Award (other than a Stock Option or SAR) intended to qualify for the performance-based compensation exception under Section 162(m), the Administrator shall establish the Performance Criterion (or Criteria) applicable to the Award within the time period required under Section 162(m) and the grant, vesting or payment, as the case may be, of the Award will be conditioned upon the satisfaction of the Performance Criterion (or Criteria) as certified by the Administrator. The Administrator

shall grant and administer such Performance Awards pursuant to the requirements of Section 162(m), unless the Administrator subsequently determines that such Awards are not, or are no longer, intended to qualify as “performance-based compensation” under Section 162(m). For the avoidance of doubt, in the case of an Award otherwise intended to qualify for the performance-based compensation exception under Section 162(m), the Administrator may provide for payment or vesting under the Award in the event of the death or disability of the Participant or a change in ownership or control of the Company without regard to the conditions that would apply to so qualify the Award, including the requirement of this Section 6(a)(9) that payment or vesting be conditioned upon the satisfaction of Performance Criterion (or Criteria) and including the limits set forth in Section 4(c).

**(10) Coordination with Other Plans.** Awards under the Plan may be granted in tandem with, or in satisfaction of or substitution for, other Awards under the Plan or awards made under other compensatory plans or programs of the Company or its Affiliates. For example, but without limiting the generality of the foregoing, awards under other compensatory plans or programs of the Company or its Affiliates may be settled in Stock (including, without limitation, Unrestricted Stock) under the Plan if the Administrator so determines, in which case the shares delivered will be treated as awarded under the Plan (and will reduce the number of shares thereafter available under the Plan in accordance with the rules set forth in Section 4). In any case where an award is made under another plan or program of the Company or its Affiliates and is intended to qualify for the performance-based compensation exception under Section 162(m), and such award is settled by the delivery of Stock or another Award under the Plan, the applicable Section 162(m) limitations under both the other plan or program and under the Plan will be applied to the Plan as necessary (as determined by the Administrator) to preserve the availability of the Section 162(m) performance-based compensation exception with respect thereto.

**(11) Section 409A.**

**(A)** Without limiting Section 11(b) hereof, each Award will contain such terms as the Administrator determines, and will be construed and administered, such that the Award either qualifies for an exemption from the requirements of Section 409A or satisfies such requirements.

**(B)** If a Participant is deemed on the date of the Participant’s termination of Employment to be a “specified employee” within the meaning of that term under Section 409A(a)(2)(B), then, with regard to any payment that is considered nonqualified deferred compensation under Section 409A, to the extent applicable, payable on account of a “separation from service”, such payment will be made or provided on the date that is the earlier of (i) the expiration of the six-month period measured from the date of such “separation from service” and (b) the date of the Participant’s death (the “Delay Period”). Upon the expiration of the Delay Period, all payments delayed pursuant to this Section 6(a)(11) (whether they would have otherwise been payable in a single lump sum or in installments in the absence of such delay) will be paid on the first business day following the expiration of the Delay Period in a lump sum and any remaining payments due under the Award will be paid in accordance with the normal payment dates specified for them in the applicable Award agreement.

(C) For purposes of Section 409A, each payment made under this Plan shall be treated as a separate payment.

**(b) Stock Options and SARs.**

**(1) Time and Manner of Exercise.** Unless the Administrator expressly provides otherwise, no Stock Option or SAR will be deemed to have been exercised until the Administrator receives a physical or electronic notice of exercise in a form acceptable to the Administrator that is signed by the appropriate person and accompanied by any payment required under the Award. Any attempt to exercise a Stock Option or SAR by any person other than the Participant will not be given effect unless the Administrator has received such evidence as it may require that the person exercising the Award has the right to do so.

**(2) Exercise Price.** The exercise price (or the base value from which appreciation is to be measured) of each Award requiring exercise will be no less than 100% (in the case of an ISO granted to a 10-percent shareholder within the meaning of subsection (b)(6) of Section 422, 110%) of the Fair Market Value of the Stock subject to the Award, determined as of the date of grant, or such higher amount as the Administrator may determine in connection with the grant.

**(3) Payment of Exercise Price.** Where the exercise of an Award is to be accompanied by payment, payment of the exercise price must be by cash or check acceptable to the Administrator or, if so permitted by the Administrator and if legally permissible, (i) through the delivery of previously acquired unrestricted shares of Stock, or the withholding of unrestricted shares of Stock otherwise deliverable upon exercise, in either case that have a Fair Market Value equal to the exercise price, (ii) through a broker-assisted exercise program acceptable to the Administrator, (iii) by other means acceptable to the Administrator, or (iv) by any combination of the foregoing permissible forms of payment. The delivery of previously acquired shares in payment of the exercise price under clause (i) above may be accomplished either by actual delivery or by constructive delivery through attestation of ownership, subject to such rules as the Administrator may prescribe.

**(4) Maximum Term.** The maximum term of Stock Options and SARs may not exceed 10 years from the date of grant (or five years from the date of grant in the case of an ISO granted to a 10-percent shareholder described in Section 6(b)(2) above).

**(5) No Repricing.** Except in connection with a corporate transaction involving the Company (which term includes, without limitation, any stock dividend, stock split, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination, or exchange of shares) or as otherwise contemplated by Section 7 below, the Company may not, without obtaining shareholder approval, (A) amend the terms of outstanding Stock Options or SARs to reduce the exercise price or base value of such Stock Options or SARs, (B) cancel outstanding Stock Options or SARs in exchange for Stock Options or SARs with an exercise price or base value that is less than the exercise price or base value of the original Stock Options or SARs, or (C) cancel outstanding Stock Options or SARs that have an exercise price or base value greater than the Fair Market Value of a share of Stock on the date of such cancellation in exchange for cash or other consideration.

## 7. EFFECT OF CERTAIN TRANSACTIONS

(a) **Mergers, etc.** Except as otherwise expressly provided in an Award agreement, the following provisions will apply in the event of a Covered Transaction:

(1) **Assumption or Substitution.** If the Covered Transaction is one in which there is an acquiring or surviving entity, the Administrator may provide for (A) the assumption or continuation of some or all outstanding Awards or any portion thereof or (B) the grant of new awards in substitution therefor by the acquiror or survivor or an affiliate of the acquiror or survivor.

(2) **Cash-Out of Awards.** Subject to Section 7(a)(5), below the Administrator may provide for payment (a “cash-out”), with respect to some or all Awards or any portion thereof, equal in the case of each affected Equity Award or portion thereof to the excess, if any, of (A) the Fair Market Value of one share of Stock times the number of shares of Stock subject to the Award or such portion, over (B) the aggregate exercise or purchase price, if any, under the Award or such portion (in the case of a SAR, the aggregate base value above which appreciation is measured), in each case on such payment terms (which need not be the same as the terms of payment to holders of Stock) and other terms, and subject to such conditions, as the Administrator determines; *provided, however*, for the avoidance of doubt, that if the exercise or purchase price (or base value) of an Equity Award is equal to or greater than the Fair Market Value of one share of Stock, the Award may be cancelled with no payment due hereunder or otherwise in respect of such Equity Award.

(3) **Acceleration of Certain Awards.** Subject to Section 7(a)(5) below, the Administrator may provide that any Award requiring exercise will become exercisable, in full or in part, and/or that the delivery of any shares of Stock remaining deliverable under any outstanding Award of Stock Units (including Restricted Stock Units and Performance Awards to the extent consisting of Stock Units) will be accelerated, in full or in part, in each case on a basis that gives the holder of the Award a reasonable opportunity, as determined by the Administrator, following exercise of the Award or the delivery of the shares, as the case may be, to participate as a shareholder in the Covered Transaction.

(4) **Termination of Awards upon Consummation of Covered Transaction.** Except as the Administrator may otherwise determine in any case, each Award will automatically terminate (and in the case of outstanding shares of Restricted Stock, will automatically be forfeited) immediately upon consummation of the Covered Transaction, other than (A) any Award assumed pursuant to Section 7(a)(1) above, and (B) any Cash Award that by its terms, or as a result of action taken by the Administrator, continues following the Covered Transaction.

(5) **Additional Limitations.** Any share of Stock and any cash or other property delivered pursuant to Section 7(a)(2) or Section 7(a)(3) above with respect to an Award may, in the discretion of the Administrator, contain such restrictions, if any, as the Administrator deems appropriate to reflect any performance or other vesting conditions to which the Award was subject and that did not lapse (and were not satisfied) in connection with the Covered Transaction. For purposes of the immediately preceding sentence, a cash-out under Section 7(a)(2)

above or an acceleration under Section 7(a)(3) above will not, in and of itself, be treated as the lapsing (or satisfaction) of a performance or other vesting condition. In the case of Restricted Stock that does not vest and is not forfeited in connection with the Covered Transaction, the Administrator may require that any amounts delivered, exchanged or otherwise paid in respect of such Stock in connection with the Covered Transaction be placed in escrow or otherwise made subject to such restrictions as the Administrator deems appropriate to carry out the intent of the Plan.

**(b) Changes in and Distributions with Respect to Stock.**

**(1) Basic Adjustment Provisions.** In the event of a stock dividend, stock split or combination of shares (including a reverse stock split), recapitalization or other change in the Company's capital structure that constitutes an equity restructuring within the meaning of FASB ASC Topic 718 (or any successor provision), the Administrator shall make appropriate adjustments to the maximum number of shares of Stock specified in Section 4(a) that may be issued under the Plan, and shall make appropriate adjustments to the number and kind of shares of stock or securities underlying Equity Awards then outstanding or subsequently granted, any exercise or purchase prices (or base values) relating to Awards and any other provision of Awards affected by such change.

**(2) Certain Other Adjustments.** The Administrator may also make adjustments of the type described in Section 7(b)(1) above to take into account distributions to shareholders other than those provided for in Section 7(a) and 7(b)(1), or any other event, if the Administrator determines that adjustments are appropriate to avoid distortion in the operation of the Plan, having due regard for the qualification of ISOs under Section 422, the requirements of Section 409A, and the performance-based compensation rules of Section 162(m), to the extent applicable.

**(3) Continuing Application of Plan Terms.** References in the Plan to shares of Stock will be construed to include any stock or securities resulting from an adjustment pursuant to this Section 7.

**8. LEGAL CONDITIONS ON DELIVERY OF STOCK**

The Company will not be obligated to deliver any shares of Stock pursuant to the Plan or to remove any restriction from shares of Stock previously delivered under the Plan until: (i) the Company is satisfied that all legal matters in connection with the issuance and delivery of such shares have been addressed and resolved; (ii) if the outstanding Stock is at the time of delivery listed on any stock exchange or national market system, the shares to be delivered have been listed or authorized to be listed on such exchange or system upon official notice of issuance; and (iii) all conditions of the Award have been satisfied or waived. The Company may require, as a condition to the exercise of an Award or the delivery of shares of Stock under an Award, such representations or agreements as counsel for the Company may consider appropriate to avoid violation of the Securities Act of 1933, as amended, or any applicable state or non-U.S. securities law. Any Stock required to be issued to Participants under the Plan will be evidenced in such manner as the Administrator may deem appropriate, including book-entry registration or delivery of stock certificates. In the event that the Administrator determines that stock certificates will be

issued to Participants under the Plan, the Administrator may require that certificates evidencing Stock issued under the Plan bear an appropriate legend reflecting any restriction on transfer applicable to such Stock, and the Company may hold the certificates pending lapse of the applicable restrictions.

## 9. AMENDMENT AND TERMINATION

The Administrator may at any time or times amend the Plan or any outstanding Award for any purpose which may at the time be permitted by law, and may at any time terminate the Plan as to any future grants of Awards; *provided, however*, that except as otherwise expressly provided in the Plan the Administrator may not, without the Participant's consent, alter the terms of an Award so as to affect materially and adversely the Participant's rights under the Award, unless the Administrator expressly reserved the right to do so at the time the Award was granted. Any amendments to the Plan will be conditioned upon shareholder approval only to the extent, if any, such approval is required by law (including the Code) or applicable stock exchange requirements, as determined by the Administrator.

## 10. OTHER COMPENSATION ARRANGEMENTS

The existence of the Plan or the grant of any Award will not affect the Company's right to award a person bonuses or other compensation in addition to Awards under the Plan.

## 11. MISCELLANEOUS

(a) **Waiver of Jury Trial.** By accepting or being deemed to have accepted an Award under the Plan, each Participant waives any right to a trial by jury in any action, proceeding or counterclaim concerning any rights under the Plan and any Award, or under any amendment, waiver, consent, instrument, document or other agreement delivered or which in the future may be delivered in connection therewith, and agrees that any such action, proceedings or counterclaim will be tried before a court and not before a jury. By accepting or being deemed to have accepted an Award under the Plan, each Participant certifies that no officer, representative, or attorney of the Company has represented, expressly or otherwise, that the Company would not, in the event of any action, proceeding or counterclaim, seek to enforce the foregoing waivers. Notwithstanding anything to the contrary in the Plan, nothing herein is to be construed as limiting the ability of the Company and a Participant to agree to submit disputes arising under the terms of the Plan or any Award made hereunder to binding arbitration or as limiting the ability of the Company to require any eligible individual to agree to submit such disputes to binding arbitration as a condition of receiving an Award hereunder.

(b) **Limitation of Liability.** Notwithstanding anything to the contrary in the Plan, neither the Company, nor any Affiliate, nor the Administrator, nor any person acting on behalf of the Company, any Affiliate, or the Administrator, will be liable to any Participant, to any permitted transferee, to the estate or beneficiary of any Participant or any permitted transferee, or to any other holder of an Award by reason of any acceleration of income, or any additional tax (including any interest and penalties), asserted by reason of the failure of an Award to satisfy the requirements of Section 422 or Section 409A or by reason of Section 4999 of the Code, or otherwise asserted with respect to the Award.

## 12. ESTABLISHMENT OF SUB-PLANS

The Administrator may at any time and from time to time establish one or more sub-plans under the Plan (for local-law compliance purposes or other administrative reasons determined by the Administrator) by adopting supplements to the Plan containing, in each case, such limitations on the Administrator's discretion under the Plan, and such additional terms and conditions, as the Administrator deems necessary or desirable. Each supplement so established will be deemed to be part of the Plan but will apply only to Participants within the group to which the supplement applies (as determined by the Administrator).

## 13. GOVERNING LAW

(a) **Certain Requirements of Corporate Law.** Equity Awards will be granted and administered consistent with the requirements of applicable Delaware law relating to the issuance of stock and the consideration to be received therefor, and with the applicable requirements of the stock exchanges or other trading systems on which the Stock is listed or entered for trading, in each case as determined by the Administrator.

(b) **Other Matters.** Except as otherwise provided by the express terms of an Award agreement, under a sub-plan described in Section 12 or as provided in Section 13(a) above, the provisions of the Plan and of Awards under the Plan and all claims or disputes arising out of or based upon the Plan or any Award under the Plan or relating to the subject matter hereof or thereof will be governed by and construed in accordance with the domestic substantive laws of the Commonwealth of Massachusetts without giving effect to any choice or conflict of laws provision or rule that would cause the application of the domestic substantive laws of any other jurisdiction.

(c) **Jurisdiction.** By accepting an Award, each Participant will be deemed to (a) have submitted irrevocably and unconditionally to the jurisdiction of the federal and state courts located within the geographic boundaries of the United States District Court for the District of Massachusetts for the purpose of any suit, action or other proceeding arising out of or based upon the Plan or any Award; (b) agree not to commence any suit, action or other proceeding arising out of or based upon the Plan or an Award, except in the federal and state courts located within the geographic boundaries of the United States District Court for the District of Massachusetts; and (c) waive, and agree not to assert, by way of motion as a defense or otherwise, in any such suit, action or proceeding, any claim that it is not subject personally to the jurisdiction of the above-named courts that its property is exempt or immune from attachment or execution, that the suit, action or proceeding is brought in an inconvenient forum, that the venue of the suit, action or proceeding is improper or that the Plan or an Award or the subject matter thereof may not be enforced in or by such court.



## EXHIBIT A

### Definition of Terms

The following terms, when used in the Plan, will have the meanings and be subject to the provisions set forth below:

**“2008 Plan”**: The pSivida Corp. 2008 Incentive Plan, as from time to time amended and in effect.

**“Administrator”**: The Compensation Committee, except that the Compensation Committee may delegate (i) to one or more of its members (or one or more other members of the Board, including the full Board) such of its duties, powers and responsibilities as it may determine; (ii) to one or more officers of the Company the power to grant Awards to the extent permitted by Section 157(c) of the Delaware General Corporation Law; and (iii) to such Employees or other persons as it determines such ministerial tasks as it deems appropriate. In the event of any delegation described in the preceding sentence, the term “Administrator” will include the person or persons so delegated to the extent of such delegation.

**“Affiliate”**: Any corporation or other entity that stands in a relationship to the Company that would result in the Company and such corporation or other entity being treated as one employer under Section 414(b) and Section 414(c) of the Code.

**“Award”**: Any or a combination of the following:

- (i) Stock Options.
- (ii) SARs.
- (iii) Restricted Stock.
- (iv) Unrestricted Stock.
- (v) Stock Units, including Restricted Stock Units.
- (vi) Performance Awards.
- (vii) Cash Awards.

(viii) Awards (other than Awards described in (i) through (vii) above) that are convertible into or otherwise based on Stock.

**“Board”**: The Board of Directors of the Company.

**“Cash Award”**: An Award denominated in cash.

**“Cause”**: In the case of any Participant who is party to an employment or severance-benefit agreement that contains a definition of “Cause,” the definition set forth in such agreement will apply for Plan purposes for so long as such agreement is in effect with respect to such

Participant. In every other case, “Cause” will mean, as determined by the Administrator, (i) a substantial failure of the Participant to perform the Participant’s duties and responsibilities to the Company or subsidiaries or substantial negligence in the performance of such duties and responsibilities; (ii) the commission by the Participant of a felony or a crime involving moral turpitude; (iii) the commission by the Participant of theft, fraud, embezzlement, material breach of trust or any material act of dishonesty involving the Company or any of its subsidiaries; (iv) a significant violation by the Participant of the code of conduct of the Company or its subsidiaries of any material policy of the Company or its subsidiaries, or of any statutory or common law duty of loyalty to the Company or its subsidiaries; (v) material breach of any of the terms of the Plan or any Award made under the Plan, or of the terms of any other agreement between the Company or subsidiaries and the Participant; or (vi) other conduct by the Participant that could be expected to be harmful to the business, interests or reputation of the Company.

“**Code**”: The U.S. Internal Revenue Code of 1986, as from time to time amended and in effect, or any successor statute as from time to time in effect.

“**Compensation Committee**”: The Compensation Committee of the Board.

“**Company**”: pSivida Corp., a Delaware corporation.

“**Covered Transaction**”: Any of (i) a consolidation, merger, or similar transaction or series of related transactions, including a sale or other disposition of stock, in which the Company is not the surviving corporation or which results in the acquisition of all or substantially all of the Company’s then outstanding common stock by a single person or entity or by a group of persons and/or entities acting in concert, (ii) a sale or transfer of all or substantially all the Company’s assets, or (iii) a dissolution or liquidation of the Company. Where a Covered Transaction involves a tender offer that is reasonably expected to be followed by a merger described in clause (i) (as determined by the Administrator), the Covered Transaction will be deemed to have occurred upon consummation of the tender offer.

“**Date of Adoption**”: The earlier of the date the Plan was approved by the Company’s shareholders or adopted by the Board, as determined by the Committee.

“**Director**”: A member of the Board who is not an Employee.

“**Employee**”: Any person who is employed by the Company or an Affiliate.

“**Employment**”: A Participant’s employment or other service relationship with the Company and its Affiliates. Employment will be deemed to continue, unless the Administrator expressly provides otherwise, so long as the Participant is employed by, or otherwise is providing services in a capacity described in Section 5 to, the Company or an Affiliate. If a Participant’s employment or other service relationship is with an Affiliate and that entity ceases to be an Affiliate, the Participant’s Employment will be deemed to have terminated when the entity ceases to be an Affiliate unless the Participant transfers Employment to the Company or its remaining Affiliates. Notwithstanding the foregoing and the definition of “Affiliate” above, in construing the provisions of any Award relating to the payment of “nonqualified deferred compensation” (subject to Section 409A) upon a termination or cessation of Employment, references to termination or cessation of employment, separation from service, retirement or

similar or correlative terms will be construed to require a “separation from service” (as that term is defined in Section 1.409A-1(h) of the Treasury Regulations) from the Company and from all other corporations and trades or businesses, if any, that would be treated as a single “service recipient” with the Company under Section 1.409A-1(h)(3) of the Treasury Regulations. The Company may, but need not, elect in writing, subject to the applicable limitations under Section 409A, any of the special elective rules prescribed in Section 1.409A-1(h) of the Treasury Regulations for purposes of determining whether a “separation from service” has occurred. Any such written election will be deemed a part of the Plan.

**“Equity Award”:** An Award other than a Cash Award.

**“Fair Market Value”:** As of a particular date, (i) the closing price for a share of Stock reported on the NASDAQ Global Market (or any other national securities exchange on which the Stock is then listed) for that date or, if no closing price is reported for that date, the closing price on the immediately preceding date on which a closing price was reported or (ii) in the event that the Stock is not traded on a national securities exchange, the fair market value of a share of Stock determined by the Administrator consistent with the rules of Section 422 and Section 409A to the extent applicable.

**“ISO”:** A Stock Option intended to be an “incentive stock option” within the meaning of Section 422. Each Stock Option granted pursuant to the Plan will be treated as providing by its terms that it is to be an NSO unless, as of the date of grant, it is expressly designated as an ISO.

**“NSO”:** A Stock Option that is not intended to be an “incentive stock option” within the meaning of Section 422.

**“Participant”:** A person who is granted an Award under the Plan.

**“Performance Award”:** An Award subject to Performance Criteria. The Administrator may grant Performance Awards that are intended to qualify for the performance-based compensation exception under Section 162(m) and Performance Awards that are not intended to so qualify.

**“Performance Criteria”:** Specified criteria, other than the mere continuation of Employment or the mere passage of time, the satisfaction of which is a condition for the grant, exercisability, vesting or full enjoyment of an Award. A Performance Criterion and any targets with respect thereto need not be based upon an increase, a positive or improved result or avoidance of loss. For purposes of Awards that are intended to qualify for the performance-based compensation exception under Section 162(m), a Performance Criterion will mean an objectively determinable measure or objectively determinable measures of performance relating to any, or any combination of, the following (measured either absolutely or comparatively (including, without limitation, by reference to an index or indices or the performance of one or more companies) and determined either on a consolidated basis or, as the context permits, on a divisional, subsidiary, line of business, project or geographical basis or in combinations thereof and subject to such adjustments, if any, as the Committee specifies, consistent with the requirements of Section 162(m)) : sales; revenues; assets; expenses; earnings before or after deduction for all or any portion of interest, taxes, depreciation, or amortization, whether or not

on a continuing operations or an aggregate or per share basis; return on equity, investment, capital or assets; one or more operating ratios; borrowing levels, leverage ratios or credit rating; market share; capital expenditures; cash flow; stock price; shareholder return; sales of particular products or services; customer acquisition or retention; acquisitions and divestitures (in whole or in part); joint ventures and strategic alliances; spin-offs, split-ups and the like; reorganizations; or recapitalizations, restructurings, financings (issuance of debt or equity) or refinancings. To the extent consistent with the requirements for satisfying the performance-based compensation exception under Section 162(m), the Administrator may provide in the case of any Award intended to qualify for such exception that one or more of the Performance Criteria applicable to such Award will be adjusted in an objectively determinable manner to reflect events (for example, but without limitation, acquisitions or dispositions) occurring during the performance period that affect the applicable Performance Criterion or Criteria.

**“Plan”:** The pSivida Corp. 2016 Long Term Incentive Plan, as from time to time amended and in effect.

**“Restricted Stock”:** Stock subject to restrictions requiring that it be redelivered or offered for sale to the Company if specified service- or performance-based conditions are not satisfied.

**“Restricted Stock Unit”:** A Stock Unit that is, or as to which the delivery of Stock or cash in lieu of Stock is, subject to the satisfaction of specified performance or other vesting conditions.

**“SAR”:** A right entitling the holder upon exercise to receive an amount (payable in cash or in shares of Stock of equivalent value) equal to the excess of the Fair Market Value of the shares of Stock subject to the right over the base value from which appreciation under the SAR is to be measured.

**“Section 409A”:** Section 409A of the Code.

**“Section 422”:** Section 422 of the Code.

**“Section 162(m)”:** Section 162(m) of the Code.

**“Stock”:** Common stock of the Company, par value \$0.001 per share.

**“Stock Option”:** An option entitling the holder to acquire shares of Stock upon payment of the exercise price.

**“Stock Unit”:** An unfunded and unsecured promise, denominated in shares of Stock, to deliver Stock or cash measured by the value of Stock in the future.

**“Substitute Awards”:** Equity Awards issued under the Plan in substitution for equity awards of an acquired company that are converted, replaced or adjusted in connection with the acquisition.

**“Unrestricted Stock”:** Stock not subject to any restrictions under the terms of the Award.

**Certification of Principal Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.**

**CERTIFICATIONS**

I, Nancy Lurker, certify that:

1. I have reviewed this quarterly report on Form 10-Q of pSivida Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 9, 2017

/s/ Nancy Lurker

Name: Nancy Lurker  
Title: President and Chief Executive Officer  
(Principal Executive Officer)

**Certification of Principal Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.****CERTIFICATIONS**

I, Leonard S. Ross, certify that:

1. I have reviewed this quarterly report on Form 10-Q of pSivida Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 9, 2017

/s/ Leonard S. Ross

Name: Leonard S. Ross  
Title: Vice President, Finance  
(Principal Financial Officer)

**Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**

In connection with the Quarterly Report of pSivida Corp. (the "Company") on Form 10-Q for the quarter ended December 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Nancy Lurker, President and Chief Executive Officer of the Company, certify that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 9, 2017

/s/ Nancy Lurker

Name: Nancy Lurker

Title: President and Chief Executive Officer  
(Principal Executive Officer)

**Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**

In connection with the Quarterly Report of pSivida Corp. (the "Company") on Form 10-Q for the quarter ended December 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Leonard S. Ross, Vice President, Finance of the Company, certify that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 9, 2017

/s/ Leonard S. Ross

Name: Leonard S. Ross

Title: Vice President, Finance  
(Principal Financial Officer)