

XOMA LTD /DE/  
Form 10-K/A  
December 27, 2010

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K/A  
(Amendment No. 2)

x ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2009

OR

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

for the transition period from to

Commission File No. 0-14710

XOMA Ltd.

(Exact name of registrant as specified in its charter)

Bermuda  
(State or other jurisdiction  
of incorporation or organization)

52-2154066  
(I.R.S. Employer Identification No.)

2910 Seventh Street, Berkeley,  
California 94710  
(Address of principal executive offices,  
including zip code)

(510) 204-7200  
(Telephone Number)

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

| Title of each class                    | Name of each exchange on which registered |
|--|---|
| Common Shares, U.S. \$0.0075 par value | The NASDAQ Global Market                  |
| Preference Share Purchase Rights       |   |

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

None

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Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes  No

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

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 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  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act of 1934). Yes  No

The aggregate market value of voting shares held by non-affiliates of the registrant is \$134,644,609 as of June 30, 2009

Number of Common Shares outstanding as of December 20, 2010: 23,525,430

#### EXPLANATORY NOTE

This Amendment No. 2 on Form 10-K/A (this “Amendment No. 2”) amends the Annual Report on Form 10-K for the fiscal year ended December 31, 2009 of XOMA Ltd. (the “Company,” “we” or “us”), filed with the U.S. Securities and Exchange Commission (the “SEC”) on March 11, 2010 (the “Original Form 10-K”), as previously amended by Amendment No. 1 on Form 10-K/A filed with the SEC on April 30, 2010 (together with the Original Filing, the “Form 10-K”).

On each of September 21, 2010 and October 20, 2010, we received comment letters from the staff of the SEC relating to the staff’s review of the Form 10-K. The purpose of this Amendment No. 2 is to respond to the comment letters. In this Amendment No. 2 we have included the following:

- Item 1. Business: We have included additional disclosure regarding material agreements with third parties.
- Item 11. Executive Compensation: We have included additional disclosure discussing option awards made to each named executive officer for the 2009 fiscal year and additional disclosure regarding the CEO Incentive Compensation Plan and Management Incentive Compensation Plan.
  - Item 15. Exhibits, Financial Statement Schedules: We have filed as Exhibits 10.7 through 10.7D of this Amendment No. 2 each named executive officer’s executed employment agreement.
- Signatures: We have clarified that the Company’s Vice President, Finance and Chief Financial Officer is signing in the additional capacity of principal accounting officer.

Except as set forth above, the Form 10-K has not been amended, updated or otherwise modified. This Amendment No. 2 includes information contained in the Form 10-K, and we have made no attempt in the Amendment No. 2 to modify or update the disclosures presented in the Form 10-K, except as identified above. The disclosures in this Amendment No. 2 continue to speak as of the date of the Form 10-K, and do not reflect events occurring after the filing of the Form 10-K. Accordingly, this Amendment No. 2 should be read in conjunction with our other filings made with the SEC subsequent to the filing of the Form 10-K, including any amendments to those filings. The filing of this Amendment No. 2 shall not be deemed to be an admission that the Form 10-K, when made, included any untrue statement of a material fact or omitted to state a material fact necessary to make a statement not misleading.

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## Item 1. Business.

### Overview

XOMA Ltd. (“XOMA”), a Bermuda company, is a biopharmaceutical company focused on the discovery, development and manufacture of therapeutic antibodies designed to treat inflammatory, autoimmune, infectious and oncological diseases. Our proprietary development pipeline includes XOMA 052, an anti-interleukin-1 beta (“IL-1 beta”) antibody, XOMA 3AB, a biodefense anti-botulism antibody candidate, and preclinical antibody discovery programs in several indications. We have a fully integrated product development platform, extending from preclinical science to development and manufacturing. We have multiple revenue streams resulting from the licensing of antibody technologies, biodefense contracts and discovery and development collaborations and product royalties. Our technologies have contributed to the success of marketed antibody products, including LUCENTIS® (ranibizumab injection) for wet age-related macular degeneration and CIMZIA® (certolizumab pegol) for rheumatoid arthritis and Crohn’s disease.

We have established on-going technology licensing programs for certain of our proprietary technologies, which have attracted numerous significant licensees including Bayer Healthcare AG, Johnson & Johnson (formerly Centocor, Inc.), Merck & Co., Inc. (“Merck”), Pfizer Inc. (“Pfizer”) and Takeda Pharmaceutical Company Limited (“Takeda”). We have a premier antibody discovery and development platform that includes multiple antibody discovery or phage display libraries that increase our ability and that of our partners to discover new therapeutic antibodies. Once an antibody is discovered, we use a number of proprietary technologies including our Human Engineering™, affinity maturation, bacterial cell expression and manufacturing technologies to enhance and improve the qualities of the antibodies for efficacy, safety, stability, productivity and cost. Some of XOMA’s technologies are used widely across the industry and have generated significant revenues for the company. For example, bacterial cell expression technology is a key biotechnology for the discovery and manufacture of antibodies and other proteins. Thus far, more than 50 pharmaceutical and biotechnology companies have signed bacterial cell expression licenses with us, and a number of licensed product candidates are in clinical development.

Our biodefense initiatives currently include a \$65 million multiple-year contract funded by the National Institute of Allergy and Infectious Diseases (“NIAID”), a part of the National Institutes of Health (“NIH”), to support our ongoing development of drug candidates toward clinical trials in the treatment of botulism poisoning. XOMA also develops products with premier pharmaceutical companies including Novartis AG (“Novartis”), Schering-Plough Research Institute, a division of Schering Corporation, now a subsidiary of Merck (referred to herein as “Merck/Schering-Plough”) and Takeda.

### Strategy

We are advancing a pipeline of biologic products using our proven expertise, technologies and capabilities from antibody discovery through product development. We seek to expand our pipeline by developing proprietary products and technologies, providing contract services to government agencies responsible for biodefense and entering into licensing and collaborative arrangements with pharmaceutical and biotechnology companies. The principal elements of our strategy are to:

- Focus on advancing XOMA 052, our lead product candidate. Using our proprietary antibody technologies, capabilities and expertise, we discovered XOMA 052, an anti-IL-1 beta antibody, currently in Phase 2 clinical development for Type 2 diabetes, Type 1 diabetes, cardiovascular disease and other diseases. XOMA 052 has the potential to address the underlying inflammatory causes of a wide range of unmet medical needs by targeting IL-1 beta, which triggers inflammatory pathways in the body. In 2009, we successfully completed Phase 1 clinical

development of XOMA 052 in Type 2 diabetes patients in which XOMA 052 was well-tolerated in a wide range of doses and demonstrated biological activity in diabetic outcomes and biomarkers of cardiovascular risk and inflammation.

- Generate licensing revenue from proprietary technologies and collaborations. We have a history of generating significant revenue from our proprietary technologies, including our antibody phage display libraries and our bacterial cell expression technology. In 2009, we entered into technology

collaborations with several companies to provide access to multiple proprietary antibody research and development technologies. In addition, we have licensed our bacterial cell expression technology to more than 50 companies in exchange for license, milestone and other fees, royalties and complementary technologies, and a number of licensed product candidates are in clinical development. We believe that we can continue to generate significant revenue from our proprietary technologies in the future.

- Continue building biodefense business. To date, we have been awarded three contracts, totaling nearly \$100 million, from NIAID, to support our ongoing development of XOMA 3AB and additional product candidates toward clinical trials in the treatment of botulism poisoning. In addition, in 2009 we expanded our biodefense programs to include two subcontracts with SRI International totaling \$3.9 million, funded through NIAID, for the development of antibodies to neutralize H1N1 and H5N1 influenza viruses and the virus that causes severe acute respiratory syndrome (“SARS”). We will continue to seek further opportunities to work with government and other institutions.

#### Proprietary Products

As part of our strategy, we are focusing our technology and resources on advancing our emerging proprietary pipeline. Below is a summary of our proprietary products:

- XOMA 052 is a potent monoclonal antibody with the potential to improve the treatment of patients with a wide variety of inflammatory diseases. XOMA 052 binds strongly to IL-1 beta, a pro-inflammatory cytokine involved in the development of Type 2 diabetes, cardiovascular disease, rheumatoid arthritis, gout and other diseases. By binding to IL-1 beta, XOMA 052 inhibits the activation of the IL-1 receptor, thereby preventing the cellular signaling events that produce inflammation. XOMA 052 is a humanized IgG2 antibody with a half-life of 22 days. Based on its binding properties, specificity to IL-1 beta and half-life, XOMA 052 may provide convenient dosing of once per month or less frequently.

In the fourth quarter of 2009, we announced the initiation of our Phase 2 clinical program for XOMA 052 in Type 2 diabetes, Type 1 diabetes and cardiovascular disease. The clinical trials are designed to further evaluate the use of multiple dose regimens on the safety, pharmacodynamics and efficacy of XOMA 052 in cardiometabolic and other diseases, and based on positive results, select doses for pivotal Phase 3 studies. In February of 2010, we announced that enrollment had begun in a 325-patient Phase 2 dose-ranging clinical trial of XOMA 052 in Type 2 diabetes patients. The initiation of the Phase 2 clinical program follows the announcement in July of 2009 of positive results from the U.S. Phase 1 trial, which continued to demonstrate that XOMA 052 is well tolerated in patients. Further XOMA 052 showed clinically meaningful reductions in glycosylated hemoglobin, fasting blood glucose, high sensitivity C-reactive protein and erythrocyte sedimentation rate, a standard biomarker of systemic inflammation and cardiovascular risk. Generally, a more consistent response was seen across patients in a multiple dose regimen compared to the single dose regimens. Pharmacokinetic results continue to support monthly or less frequent dosing.

We developed XOMA 052 using our proprietary antibody technologies, capabilities and expertise. XOMA owns worldwide rights to the antibody and related intellectual property.

- XOMA 3AB is a multi-antibody product designed to neutralize the most potent of the botulinum toxins, Type A, which causes paralysis and is a bioterrorism threat. Our anti-botulism program was recently expanded to include additional product candidates and is the first of its kind to combine multiple human antibodies to target a broad spectrum of the most toxic botulinum toxins, including the three most toxic serotypes of botulism, Types A, B and E. The antibodies are designed to bind to each toxin and enhance the clearance of the toxin from the body. The use of multiple antibodies increases the likelihood of clearing the harmful toxins by providing specific protection

against each toxin type. In contrast to existing agents that treat botulism, XOMA uses advanced human monoclonal antibody technologies in an effort to achieve superior safety, potency and efficacy, and

avoid life threatening immune reactions associated with animal-derived products.

XOMA 3AB is in the pre-Investigational New Drug (“IND”) stage, currently in nonclinical studies to assess safety through funding provided by NIAID. We have a history of successfully providing contract services to the U.S. government for the development of anti-botulinum neurotoxin antibodies.

- **Preclinical Product Pipeline:** We are pursuing additional opportunities to further broaden our preclinical product pipeline. These include internal discovery programs, product development collaborations with other pharmaceutical and biotechnology companies and evaluations of product in-licensing, in-kind product trades and acquisition opportunities.

#### Partnership Products

XOMA partners with world-class organizations in research and development of new antibody products. Below is a list of activities in 2009 through such collaborations:

- **Therapeutic Antibodies with Takeda:** Since 2006, Takeda has been a partner for therapeutic monoclonal antibody discovery and development against multiple targets selected by them. In February of 2009, we expanded our existing collaboration to provide Takeda with access to multiple antibody technologies, including a suite of research and development technologies and integrated information and data management systems. As part of the expanded collaboration, we received a \$29 million expansion fee, before taxes and other costs, and we may receive potential milestones and royalties on sales of antibody products in the future.
- **Therapeutic Antibodies with Merck/Schering-Plough:** Merck/Schering-Plough has been a partner since 2006 for therapeutic monoclonal antibody discovery and development against multiple targets selected by them, and we are currently supporting development through this partnership.
- **Therapeutic Antibodies with Novartis:** In November of 2008, we restructured our product development collaboration with Novartis. Under the restructured agreement, Novartis received control over the two ongoing programs under the original product development collaboration entered into in 2004 with Novartis (then Chiron Corporation). In exchange, we recognized \$13.7 million in revenue in 2008 and may, in the future, receive milestones and double-digit royalty rates for the programs and options to develop or receive royalties on four additional programs. In December of 2008, we entered into a Manufacturing and Technology Transfer Agreement with Novartis, effective July 1, 2008. Under this agreement, XOMA was engaged by Novartis to perform research and development, process development, manufacturing and technology transfer activities with respect to the ongoing product programs now controlled by Novartis under the restructured product development collaboration. We completed this work in the third quarter of 2009.

#### Royalties and Technology Licenses

##### Royalties

XOMA earns low-single digit royalties on sales of CIMZIA® (certolizumab pegol) in the U.S. and Canada from UCB Celltech, a branch of UCB S.A. (“UCB”). Royalties earned from these sales were \$0.5 million in 2009 and \$0.1 in 2008. CIMZIA®, an anti-tumor necrosis factor product, was approved by the U.S. Food and Drug Administration (“FDA”) in April of 2008 for the treatment of moderate-to-severe Crohn’s disease in adults who have not responded to conventional therapies. In addition, CIMZIA® was approved for the treatment of moderate-to-severe rheumatoid arthritis in adults by the FDA in May of 2009 and in Canada in September of 2009. UCB is responsible for the



marketing and sales effort in support of this product. According to UCB, worldwide net sales of CIMZIA® were approximately \$104.6 million during 2009.

XOMA earned mid- and low-single digit royalties on the following marketed antibody products in 2009:

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- LUCENTIS® (ranibizumalinjection) by Genentech, Inc., a wholly-owned member of the Roche Group (referred to herein as “Genentech”): LUCENTIS®, for the treatment of neovascular wet age-related macular degeneration, was approved by the FDA in June of 2006 and in the European Union in January of 2007, where it is distributed by Novartis. It is the first marketed therapeutic product manufactured under a license using our bacterial cell expression technology. In the third quarter of 2009, we sold our LUCENTIS® royalty interest to Genentech for \$25 million, which included the receipt of royalties of \$2.7 million earned in the second quarter of 2009 and an additional cash payment of \$22.3 million. We earned royalties on worldwide sales of LUCENTIS® for the first half of 2009 of \$5.1 million. During 2008, we earned royalties on worldwide sales of LUCENTIS® of \$8.8 million.
- RAPTIVA® (efalizumab) with Genentech: RAPTIVA®, a humanized therapeutic monoclonal antibody, was the first biologic therapy designed to provide long-term control of chronic moderate-to-severe plaque psoriasis. RAPTIVA® was approved by the FDA in October of 2003 and in the European Union in September of 2004. RAPTIVA® was withdrawn from the commercial drug markets due to safety concerns in the first half of 2009, at which point royalties from RAPTIVA® sales ceased. In 2009, we earned royalties of \$1.2 million from worldwide sales of RAPTIVA®, compared with \$12.2 million during 2008. Refer to “We do not know whether there will be, or will continue to be, a viable market for the products in which we have an ownership or royalty interest” and “We are exposed to an increased risk of product liability claims, and a series of related cases is currently pending against us” under Item IA: Risk Factors for a discussion of certain risks associated with RAPTIVA®.

#### Technology Licenses

Below is a summary of certain proprietary technologies owned by us and available for licensing to other companies:

- Antibody discovery technologies: XOMA uses human antibody phage display libraries in its discovery of therapeutic candidates, and we offer access to multiple libraries, including novel libraries developed internally, as part of our collaboration business. We believe that access to multiple libraries offers a number of benefits to XOMA and its partners, because it enables use of libraries best suited to the needs of a particular discovery project to increase the probability of technical and business success in finding rare and unique functional antibodies directed to targets of interest.

In 2009, we recognized \$42.3 million in revenue related to the licensing of our antibody discovery technologies. In February of 2009, we expanded our existing collaboration with Takeda to provide Takeda with access to multiple antibody discovery technologies for a \$29 million expansion fee, before taxes and other costs. In addition, in the second half of 2009, we entered into antibody discovery collaborations with Arana Therapeutics Limited, a wholly-owned subsidiary of Cephalon, Inc. (“Arana”), and The Chemo-Sero-Therapeutic Research Institute, a Japanese research foundation known as Kaketsuken, involving multiple proprietary XOMA antibody research and development technologies for fees of \$6 million and \$8 million, respectively. We may be entitled to future milestone payments and royalties on product sales related to the antibody discovery collaborations.

- Bacterial Cell Expression: The production or expression of antibodies using bacteria is an enabling technology for the discovery and selection, as well as the development and manufacture, of recombinant protein pharmaceuticals, including diagnostic and therapeutic antibodies for commercial purposes. Genetically engineered bacteria are used in the recombinant expression of target proteins for biopharmaceutical research and development. Reasons include the relative simplicity of gene expression in bacteria as well as many years of experience culturing such species as *E. coli* in laboratories and manufacturing facilities. In support of our own biopharmaceutical development efforts, XOMA scientists have developed bacterial expression technologies for producing antibodies and other recombinant protein products.



We have granted over 50 licenses to biotechnology and pharmaceutical companies to use our patented and proprietary technologies relating to bacterial expression of recombinant pharmaceutical products. Bacterial antibody expression is also a key technology used in multiple systems for high-throughput screening of antibody domains. Expression of antibodies by phage display technology, for example, depends upon the expression and secretion of antibody domains from bacteria as properly folded, functional proteins.

Many licensees of our bacterial cell expression technology have developed, or are in the process of developing, antibodies for which we may be entitled to future milestone payments and royalties on product sales. Under the terms of our license agreement with Pfizer, signed in 2007, we received an up-front cash payment of \$30 million and from 2008 through 2009 we received milestone payments relating to four undisclosed product candidates, including a payment of \$0.5 million for the initiation of a Phase 3 clinical trial. We may also be eligible for additional milestone payments aggregating up to \$4.9 million relating to these four product candidates and low single-digit royalties on future sales of all products subject to this license. In addition, we may receive potential milestone payments aggregating up to \$1.7 million for each additional qualifying product candidate. Our right to milestone payments expires on the later of the expiration of the last-to-expire licensed patent or the tenth anniversary of the effective date. Our right to royalties expires upon the expiration of the last-to-expire licensed patent.

Current licensees include but are not limited to the following companies:

|   |   |   |
|---|---|---|
| Active Biotech AB   | Crucell Holland B.V.                              | Novartis AG   |
| Affimed Therapeutics AG   | Dompe, s.p.a.                                     | Pfizer, Inc.  |
| Affitech AS   | Dyax Corp.  | Schering Corporation (now a subsidiary of Merck & Co., Inc.)  |
| Alexion Pharmaceuticals, Inc.   | E.I. duPont de Nemours and Company                | Takeda Pharmaceutical Company Ltd.                            |
| Applied Molecular Evolution, Inc. (now a subsidiary of Eli Lilly and Company) | Eli Lilly and Company                             | The Medical Research Council                                  |
| Avecia Limited  | Genentech, Inc. (now a member of the Roche Group) | UCB S.A.  |
| Aventis Pharma Deutschland GmbH (Hoechst) (now Sanofi-Aventis)                | Invitrogen Corporation                            | Unilever plc  |
| Bayer Healthcare AG   | Merck & Co., Inc.                                 | Verenium Corporation  |
| BioInvent International AB  | Mitsubishi Tanabe Pharma Corporation              | Wyeth Pharmaceuticals Division (now a member of Pfizer, Inc.) |
| Centocor, Inc.  | MorphoSys AG                                      | ZymoGenetics, Inc.  |

These licenses are sometimes associated with broader agreements which may include expanded license rights, cell line development and process development.

- **Human Engineering™:** Human Engineering™ is a proprietary technology that allows modification of non-human monoclonal antibodies to reduce or eliminate detectable immunogenicity and make them suitable for medical purposes in humans. The technology uses a unique method developed by us, based on analysis of the conserved structure-function relationships among antibodies. The method defines which residues in a non-human variable region are candidates to be modified. The result is a Human

Engineered™ antibody with preserved antigen binding, structure and function, and with eliminated or greatly reduced immunogenicity. Human Engineering™ technology is used in development of XOMA 052 and certain other antibody products.

- Targeted Affinity Enhancement™ (TAE): TAE is a proprietary technology involving the assessment and guided substitution of amino acids in antibody variable regions, enabling efficient optimization of antibody binding affinity and selectivity modulation. TAE generates a comprehensive map of the effects of amino acid mutations likely to impact binding. The technology is utilized by XOMA scientists and has been licensed to a number of our collaborators.

We also have access to certain intellectual property rights and services that augment our existing integrated antibody technology platform and development capabilities and further compress product development timelines. This broad antibody technology platform and expertise is available for building our antibody product pipeline as well as those of our collaborators.

Proprietary Product Summary:

The following table describes important information related to the proprietary products we are currently developing:

| Program                       | Description  | Indication  | Status   | Developer                  |
|-------------------------------|--|---|--|----------------------------|
| XOMA 052                      | HET™ antibody to IL-1 beta                                       | Type 2 diabetes, Type 1 diabetes, cardiovascular disease and rheumatology disease | Phase 2 for Type 2 diabetes, Type 1 diabetes, cardiovascular disease | Proprietary                |
| XOMA 3AB                      | Therapeutic antibodies to multiple botulinum neurotoxins         | Botulism poisoning  | Pre-IND  | Proprietary (NIAID-funded) |
| Multiple preclinical programs | Fully human monoclonal antibodies to undisclosed disease targets | Inflammatory, autoimmune, infectious and oncological diseases                     | Preclinical  | Proprietary                |

Partnership Product Summary:

The following table describes important information related to certain products that we are currently developing or have developed in the past, for which we may earn royalties on product sales in the future:

| Program                | Description            | Indication  | Status      | Developer             |
|------------------------|------------------------|-------------|-------------|-----------------------|
| Therapeutic antibodies | Fully human monoclonal | Undisclosed | Preclinical | Takeda (fully-funded) |

antibodies to  
undisclosed disease  
targets

|                           |  |             |         |   |
|---------------------------|--|-------------|---------|---|
| Therapeutic<br>antibodies | Fully human<br>monoclonal<br>antibodies to<br>undisclosed disease<br>targets | Undisclosed | Pre-IND | Merck/Schering-Plough<br>(fully-funded) |
|---------------------------|--|-------------|---------|---|

|   |   |   |  |
|---|---|---|--|
| HCD 122 and<br>other<br>therapeutic<br>antibodies | Fully human<br>antibody to CD40<br>and other<br>monoclonal<br>antibodies to<br>undisclosed disease<br>targets | B-cell cancers and<br>other undisclosed<br>diseases | Various phases of Novartis<br>clinical and<br>preclinical<br>development |
|---|---|---|--|

## Licensed Product Summary:

The following table describes important information related to certain products developed under licenses with us, for which we earn or may earn royalties on product sales in the future:

| Program  | Description  | Indication                               | Status  | Developer              |
|--|--|--|---|------------------------|
| CIMZIA®<br>(certolizumab pegol)                    | Anti-TNF alpha antibody fragment                             | Rheumatoid arthritis and Crohn's disease | Marketed in the U.S. and Canada for which XOMA earns royalties on product sales | UCB (marketed product) |
| Various products in development by Pfizer          | Various monoclonal antibodies to undisclosed disease targets | Undisclosed diseases                     | Various phases of clinical and preclinical development                          | Pfizer                 |
| Various products in development by other licensees | Various monoclonal antibodies to undisclosed disease targets | Undisclosed diseases                     | Various phases of clinical and preclinical development                          | Various licenses       |

## Financial and Legal Arrangements of Product Collaborations, Licensing and Other Arrangements

## Current Agreements

## Takeda

In November of 2006, we entered into a fully funded collaboration agreement with Takeda for therapeutic monoclonal antibody discovery and development. Under the agreement, we will discover and optimize therapeutic antibodies against multiple targets selected by Takeda. Takeda will make up-front, annual maintenance and milestone payments to us, fund our research and development and manufacturing activities for preclinical and early clinical studies and pay royalties on sales of products resulting from the collaboration. Takeda will be responsible for clinical trials and commercialization of drugs after an IND submission and is granted the right to manufacture once a product enters into Phase 2 clinical trials. In the fourth quarter of 2009, certain discovery and development programs under this collaboration were discontinued following analysis of the research data. This resulted in the recognition of \$2.8 million of the remaining unamortized balance in deferred revenue pertaining to the discontinued programs.

Under the terms of this agreement, we may receive potential milestone payments aggregating up to \$20.75 million relating to one undisclosed product candidate and low single-digit royalties on future sales of all products subject to this license. In addition, in the event Takeda were to develop additional future qualifying product candidates under the terms of our agreement, we would be eligible for potential milestone payments aggregating up to \$20.75 million for each such qualifying product candidate. Our right to milestone payments expires on the later of the receipt of payment from Takeda of the last amount to be paid under the agreement or the cessation of all research and development activities with respect to all program antibodies, collaboration targets and/or collaboration products. Our right to royalties expires on the later of 13.5 years from the first commercial sale of each royalty-bearing discovery product or



the expiration of the last-to-expire licensed patent.

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In February of 2009 we expanded our existing collaboration to provide Takeda with access to multiple antibody technologies, including a suite of research and development technologies and integrated information and data management systems. We received a \$29 million expansion fee, of which \$23.2 million was received in cash in February of 2009 and the remainder was withheld for payment to the Japanese taxing authority. After deducting \$0.9 million in costs incurred through the third quarter of 2009 related to the agreement, we recognized \$28.1 million in revenue in 2009. We may receive potential milestones of up to \$3.25 million per discovery product candidate and low single-digit royalties on future sales of all antibody products subject to this license. Our right to milestone payments expires on the later of the receipt of payment from Takeda of the last amount to be paid under the agreement or the cessation of all research and development activities with respect to all program antibodies, collaboration targets and/or collaboration products. Our right to royalties expires on the later of 10 years from the first commercial sale of such royalty-bearing discovery product, or the expiration of the last-to-expire licensed patent.

#### Arana

In September of 2009, we entered into an antibody discovery collaboration with Arana, a wholly-owned subsidiary of Cephalon, Inc., involving multiple proprietary XOMA antibody research and development technologies, including a new antibody phage display library and a suite of integrated information and data management systems. Arana agreed to pay us a fee of \$6 million, and we may be entitled to future milestone payments aggregating up to \$3 million per product, and low single-digit royalties on product sales. Our right to milestone payments expires the later of the receipt of payment from Arana of the last amount to be paid under the agreement, the cessation by Arana of the use of all research and development technologies or the cessation by Arana of the exercise of the patent rights granted to them. Our right to royalties expires five years from the first commercial sale of each royalty-bearing product.

#### Kaketsuken

In October of 2009, we entered into an antibody discovery collaboration with Kaketsuken, a Japanese research foundation, involving multiple proprietary XOMA antibody research and development technologies, including a new antibody phage display library and a suite of integrated information and data management systems. Kaketsuken agreed to pay us a fee of \$8 million, and we may be entitled to future milestone payments aggregating up to \$0.2 million per product, and low single-digit royalties on product sales. Our right to milestone payments expires upon the receipt of payment from Kaketsuken of the last amount to be paid pursuant to the agreement. Our right to royalties expires 15 years from the first commercial sale of each royalty-bearing discovery product.

#### NIAID

In March of 2005, we were awarded a \$15 million competitive bid contract from NIAID to develop three anti-botulinum neurotoxin monoclonal antibodies. Under this contract, we created production cell lines using our proprietary antibody expression systems, built Master and Manufacturer's Working Cell Banks, developed production processes and produced initial quantities of the three antibodies. The contract was performed over an 18-month period and was fully funded with federal funds from NIAID under Contract No. HHSN266200500004C. Final acceptance of the project was received in October of 2006.

In July of 2006, we were awarded a \$16.3 million contract funded with federal funds from NIAID under Contract No. HHSN266200600008C/N01-A1-60008 to produce monoclonal antibodies for the treatment of botulism to protect United States citizens against the harmful effects of botulinum neurotoxins used in bioterrorism. Under this contract, we have created and produced an innovative injectable product comprised of three anti-type A botulinum neurotoxin monoclonal antibodies to support entry into Phase I human clinical trials. This work was substantially complete as of December 31, 2009.

In September of 2008, we were awarded a third contract for \$65 million funded with federal funds from NIAID under Contract No. HHSN272200800028C to continue development of our anti-botulinum antibody product candidates, including XOMA 3AB and additional product candidates. As part of the contract, we will develop,

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evaluate and produce the clinical supplies to support an IND filing with the FDA and conduct preclinical studies required to support human clinical trials.

#### SRI International

In the third quarter of 2009, we began work on two biodefense subcontract awards from SRI International, including a \$1.7 million award to develop novel antibody drugs against the virus that causes severe acute respiratory syndrome and a \$2.2 million award to develop a novel antibody, known as F10, that has been shown to neutralize group 1 influenza A viruses, including the H1N1 and H5N1 strains. The subcontract awards are funded through NIAID.

#### Novartis

In November of 2008, we restructured our product development collaboration with Novartis, which involves six development programs including the HCD122 program. HCD122, which is a fully human anti-CD40 antagonist antibody intended as a treatment for B-cell mediated diseases, including malignancies and autoimmune diseases, is currently recruiting patients for a Phase 1/2 lymphoma trial. The antibody has a dual mechanism of action that involves inhibition of CD40-ligand mediated growth and survival while recruiting immune effector cells to kill CD40-expressing tumor cells through a process known as antibody-dependent cellular cytotoxicity (ADCC). CD40, a member of the tumor necrosis factor, or TNF, family of antigens, is a cell surface antigen expressed in B-cell malignancies and involved in a broad variety of immune and inflammatory responses.

Under the restructured agreement, Novartis made a payment to us of \$6.2 million in cash; reduced our existing debt by \$7.5 million; will fully fund all future research and development expenses; may pay potential milestones of up to \$14 million and royalty rates ranging from 10% to 20% for two ongoing product programs, including HCD122; and has provided us with options to develop or receive royalties on four additional programs. In exchange, Novartis has control over the HCD122 program and the additional ongoing program, as well as the right to expand the development of these programs into additional indications outside of oncology. As part of the agreement, Novartis paid us for all project costs incurred after July 1, 2008. Our right to milestone payments expires at such time as no collaboration product or former collaboration product is being developed or commercialized anywhere in the world and no royalty-style payments on these products are due. Our right to royalty-style payments expires on the later of the expiration of any licensed patent covering each product or 20 years from the launch of each product that is produced from a cell line provided to Merck/Schering-Plough by XOMA.

The collaboration between XOMA and Novartis (then Chiron Corporation) began in 2004 with the signing of an exclusive, worldwide, multi-product agreement to develop and commercialize multiple antibody products for the treatment of cancer. We shared expenses and revenue, generally on a 70-30 basis, with our share being 30 percent. Financial terms included initial payments to us in 2004 totaling \$10 million and a note agreement, secured by our interest in the collaboration, to fund up to 75 percent of our share of expenses beginning in 2005. The secured note agreement with Novartis, which was executed in May of 2005, is due and payable in full in June of 2015. At December 31, 2009, the outstanding principal balance under this note agreement totaled \$13.3 million and, pursuant to the terms of the arrangement as restructured in November of 2008, we will not make any additional borrowings on the Novartis note. In the first quarter of 2007, the mutual obligations of XOMA and Novartis to work together on an exclusive basis in oncology expired, except with respect to existing collaborative product development projects.

In December of 2008, we entered into a Manufacturing and Technology Transfer Agreement with Novartis, effective July 1, 2008. Under this agreement, XOMA was engaged by Novartis to perform research and development, process development, manufacturing and technology transfer activities with respect to the ongoing product programs now controlled by Novartis under the restructured product development collaboration. The work performed by XOMA

under this agreement, which was fully funded by Novartis, was completed in the third quarter of 2009.

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## Merck/Schering-Plough

In May of 2006, we entered into a fully funded collaboration agreement with Merck/Schering-Plough for therapeutic monoclonal antibody discovery and development. Under the agreement, Merck/Schering-Plough will make up-front, annual maintenance and milestone payments to us, fund our research and development activities related to the agreement and pay royalties on sales of products resulting from the collaboration. During the collaboration, we will discover therapeutic antibodies against multiple targets selected by Merck/Schering-Plough using multiple human antibody phage display libraries, may optimize antibodies through affinity maturation or other protein engineering, may use our proprietary Human Engineering™ technology to humanize antibody candidates generated by hybridoma techniques, perform preclinical studies to support regulatory filings, develop cell lines and production processes and produce antibodies for initial clinical trials. Merck/Schering-Plough selected the first target at the inception of the agreement and, in December of 2006, exercised its right to initiate the additional discovery and development programs.

In the second quarter of 2009, we successfully completed the agreed-upon activities of certain programs under the collaboration and transferred these programs to Merck/Schering-Plough for continued development. As a result, the number of discovery and development programs under this collaboration was reduced. This resulted in the recognition of \$2.6 million in May of 2009 of the remaining unamortized balance in deferred revenue pertaining to these transferred programs. We may also be eligible for additional milestone payments aggregating up to \$11.75 million relating to the undisclosed product candidates and low single-digit royalties on future sales of all products subject to this license. In addition, we may receive potential milestone payments aggregating up to \$12.75 million for each additional qualifying licensed product candidate, if any. Our right to milestone payments expires upon the later of the expiration of the last-to-expire licensed patent, the expiration of the royalty term provided in the agreement or the cessation of all research and development activities with respect to all program antibodies, collaboration targets, and/or collaboration products. Our right to royalties expires 15 years from the first commercial sale of each royalty-bearing product.

## Merck/Schering-Plough/AVEO Pharmaceuticals, Inc. (“AVEO”)

In April of 2006, we entered into an agreement with AVEO to utilize our Human Engineering™ technology to humanize AV-299, AVEO’s novel anti-HGF antibody, under which AVEO paid us an up-front license fee and development milestones. In addition, we will receive royalties on sales of products resulting from the agreement. Under this agreement we created four Human Engineering™ versions of the original AV-299, all of which met design goals and from which AVEO selected one as its lead development candidate. In September of 2006, as a result of the successful humanization of AV-299, we entered into a second agreement with AVEO to manufacture and supply AV-299 in support of early clinical trials. Under the agreement, we created AV-299 production cell lines, conducted process and assay development, and performed Good Manufacturing Practices (“cGMP”) manufacturing activities. AVEO retains all development and commercialization rights to AV-299 and may be required to pay XOMA annual maintenance fees, additional development milestones payments aggregating up to \$6.3 million and low single-digit royalties on product sales in the future. Our right to milestone payments expires upon full satisfaction of all financial obligations of AVEO pursuant to the agreement. Our right to royalties expires on the later of 15 years from the first commercial sale of each royalty-bearing product or the expiration of the last-to-expire licensed patent.

In April of 2007, Merck/Schering-Plough entered into a research, development and license agreement with AVEO concerning AV-299 and other anti-HGF molecules. In connection with the aforementioned license agreement, AVEO has assigned its entire right, title and interest in, to and under its manufacturing agreement with XOMA to Merck/Schering-Plough. Revenue related to this contract declined in 2009 as a result of our nearing the end of the contracted service arrangement.

UCB

Celltech Therapeutics Ltd., now UCB Celltech, a branch of UCB, utilized our bacterial cell expression technology under license in the development of CIMZIA® for the treatment of moderate-to-severe Crohn's disease in adults who have not responded to conventional therapies and for the treatment of moderate-to-severe rheumatoid

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arthritis in adults. We are entitled to receive a low single-digit royalty on sales of CIMZIA® in countries where our bacterial cell expression technology is patented, which includes the U.S. and Canada, until the expiration of the last-to-expire licensed patent. CIMZIA® was approved by the FDA in April of 2008 for the treatment of Crohn's disease and in May of 2009 for the treatment of rheumatoid arthritis. CIMZIA® was approved in Canada for the treatment of moderate-to-severe rheumatoid arthritis in adults in September of 2009.

#### Genentech

In April of 1996, we entered into a collaboration agreement with Genentech for the development of RAPTIVA®. In March of 2003, we entered into amended agreements which called for us to share in the development costs and called for Genentech to finance our share of development costs via a convertible subordinated loan. Under the loan agreement, upon FDA approval of the product, which occurred in October of 2003, we elected to pay \$29.6 million of the development loan in convertible preference shares, which are convertible into approximately 3.8 million common shares at a price of \$7.75 per common share.

In January of 2005, we restructured our arrangement with Genentech on RAPTIVA® under which we were entitled to receive mid-single-digit royalties on worldwide sales of RAPTIVA® in all indications. The previous cost and profit sharing arrangement for RAPTIVA® in the U.S. was discontinued and Genentech was responsible for all operating and development costs associated with the product. In the first half of 2009, RAPTIVA® was withdrawn from the commercial drug markets and royalties ceased.

Genentech utilized our bacterial cell expression technology under license in the development of LUCENTIS® for the treatment of neovascular wet age-related macular degeneration. LUCENTIS® was approved by the FDA in June of 2006 and in the European Union in January of 2007. We were entitled to receive a low-single-digit royalty on worldwide sales of LUCENTIS®. In the third quarter of 2009, we sold our LUCENTIS® royalty interest to Genentech for \$25 million, including royalty revenue from the second quarter of 2009. We will not receive any further royalties from sales of LUCENTIS®.

#### Equity Agreements

In May of 2009, we entered into a definitive agreement with an institutional investor to sell 11,764,706 units, with each unit consisting of one of our common shares and a warrant to purchase 0.50 of a common share, for gross proceeds of approximately \$10 million, before deducting placement agent fees and estimated offering expenses of \$0.8 million, in a registered direct offering. The investor purchased the units at a price of \$0.85 per unit. The warrants, which represent the right to acquire an aggregate of up to 5,882,353 common shares, were exercisable at any time on or after May 15, 2009 and prior to May 20, 2014 at an exercise price of \$1.02 per share. As of December 31, 2009, all warrants issued in May of 2009 remained outstanding. Refer to Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations: Subsequent Events for disclosure regarding certain amendments made to the terms of the warrants issued in May of 2009 and the number of shares issued upon exercise of these warrants subsequent to the end of 2009.

In June of 2009, we entered into a definitive agreement with certain institutional investors to sell 10,434,782 units, with each unit consisting of one of our common shares and a warrant to purchase 0.50 of a common share, for gross proceeds of approximately \$12 million, before deducting placement agent fees and estimated offering expenses of \$0.8 million, in a second registered direct offering. The investor purchased the units at a price of \$1.15 per unit. The warrants, which represent the right to acquire an aggregate of up to 5,217,391 common shares, are exercisable at any time on or prior to December 10, 2014 at an exercise price of \$1.30 per share. As of December 31, 2009, all warrants issued in June of 2009 remained outstanding. Refer to Item 7: Management's Discussion and Analysis of Financial



Condition and Results of Operations: Subsequent Events for disclosure regarding certain amendments made to the terms of the warrants issued in June of 2009 subsequent to the end of 2009.

In the third quarter of 2009, we entered into an At Market Issuance Sales Agreement (the “ATM Agreement”), with WM Smith & Co. (“WM Smith”), under which we may sell up to 25 million of our common shares from time to time through WM Smith, as the agent for the offer and sale of the common shares. WM Smith

may sell these common shares by any method permitted by law deemed to be an “at the market” offering as defined in Rule 415 of the Securities Act of 1933, including but not limited to sales made directly on The NASDAQ Global Market, on any other existing trading market for the common shares or to or through a market maker. WM Smith may also sell the common shares in privately negotiated transactions, subject to our approval. We pay WM Smith a commission equal to 3% of the gross proceeds of all common shares sold through it as sales agent under the ATM Agreement but in no event less than \$0.02 per share. Shares sold under the ATM Agreement are sold pursuant to a prospectus which forms a part of a registration statement declared effective by the Securities and Exchange Commission on May 29, 2008. From the inception of the ATM Agreement through December 31, 2009, we sold a total of 4,050,617 common shares under this agreement for aggregate gross proceeds of \$2.9 million. Refer to Item 7: Management’s Discussion and Analysis of Financial Condition and Results of Operations: Subsequent Events for disclosure regarding the number of common shares sold under this agreement subsequent to the end of 2009.

#### Recently Terminated Agreements

##### Goldman Sachs Term Loan

In September of 2009, we fully repaid our term loan facility with Goldman Sachs, which was a five-year term loan facility originally entered into in November of 2006 and refinanced in May of 2008. As previously disclosed we were not in compliance with the requirements of the relevant provisions of this loan facility, due to the cessation of royalties from sales of RAPTIVA®. Repayment of this loan facility discharged all of our obligations to the lenders.

We repaid the outstanding principal balance of \$42 million, accrued interest to the date of payment of \$2.4 million and a prepayment premium of \$2.5 million. In the third quarter of 2009, we recorded a loss on repayment of debt of \$3.6 million, which included the prepayment premium and the recognition of unamortized debt issuance costs of \$1.1 million.

##### Equity Line of Credit

In October of 2008, we entered into a common share purchase agreement (the “Purchase Agreement”) with Azimuth Opportunity Ltd. (“Azimuth”), pursuant to which we obtained a committed equity line of credit facility (the “Facility”) under which we could sell up to \$60 million of our registered common shares to Azimuth over a 24-month period, subject to certain conditions and limitations. Shares under the Facility were sold pursuant to a prospectus which forms a part of a registration statement declared effective by the Securities and Exchange Commission on May 29, 2008. At the end of the third quarter of 2009, the Facility was no longer in effect, and no additional shares can be issued thereunder. From the inception of the Facility through 2009, we sold a total of 42,228,428 common shares to Azimuth for aggregate gross proceeds of \$33.9 million. This included the sale of 34.3 million shares in two transactions in September of 2009 that Azimuth agreed to purchase notwithstanding that the purchase prices were below the minimum price of \$1.00 required by the Purchase Agreement. We negotiated a discount rate (excluding placement agent fees) of 8.0% for those transactions. Prior to the successful conclusion of negotiations, Azimuth was not obligated to purchase these shares. Offering expenses incurred in 2009 related to sales to Azimuth were \$0.4 million.

##### Research and Development

Our research and development expenses currently include costs of personnel, supplies, facilities and equipment, consultants, third party costs and other expenses related to preclinical and clinical testing. In 2009, our research and development expenses were \$58.1 million compared with \$82.6 million in 2008 and \$66.2 million in 2007.

Our research and development activities can be divided into those related to our internal projects and those related to collaborative and contract arrangements, which are reimbursed by our customers. In 2009, research and development expenses related to internal projects were \$42.2 million compared with \$58.5 million in 2008 and \$45.8 million in 2007. In 2009, research and development expenses related to collaborative and contract arrangements were \$15.9 million compared with \$24.1 million in 2008 and \$20.4 million in 2007. Refer to Item 7:

Management's Discussion and Analysis of Financial Condition and Results of Operations—Research and Development Expenses for further information regarding our research and development expenses.

## Competition

The biotechnology and pharmaceutical industries are subject to continuous and substantial technological change. Competition in the areas of recombinant DNA-based and antibody-based technologies is intense and expected to increase as new technologies emerge and established biotechnology firms and large chemical and pharmaceutical companies continue to advance in the field. A number of these large pharmaceutical and chemical companies have enhanced their capabilities by entering into arrangements with or acquiring biotechnology companies or entering into business combinations with other large pharmaceutical companies. Many of these companies have significantly greater financial resources, larger research and development and marketing staffs and larger production facilities than ours. Moreover, certain of these companies have extensive experience in undertaking preclinical testing and human clinical trials. These factors may enable other companies to develop products and processes competitive with or superior to ours. In addition, a significant amount of research in biotechnology is being carried out in universities and other non-profit research organizations. These entities are becoming increasingly interested in the commercial value of their work and may become more aggressive in seeking patent protection and licensing arrangements. Furthermore, many companies and universities tend not to announce or disclose important discoveries or development programs until their patent position is secure or, for other reasons, later. As a result, we may not be able to track development of competitive products, particularly at the early stages. There can be no assurance that developments by others will not render our products or technologies obsolete or uncompetitive.

Without limiting the foregoing, we are aware of the following competitors for the products and candidates shown in the table below. This table is not intended to be representative of all existing competitors in the market:

| Product/Candidate | Competitors  |
|-------------------|--|
| XOMA 052          | Amgen, Inc.<br>Biovitrum AB<br>Cytos Biotechnology AG<br>Eli Lilly and Company<br>Novartis AG<br>Regeneron Pharmaceuticals, Inc. |
| XOMA 3AB          | Cangene Corporation<br>Emergent BioSolutions, Inc.   |
| CIMZIA®           | Abbott Laboratories<br>Amgen, Inc.<br>Johnson & Johnson  |

## Regulatory

Our products are subject to comprehensive preclinical and clinical testing requirements and to approval processes by the FDA and by similar authorities in other countries. Our products are primarily regulated on a product-by-product basis under the United States Food, Drug and Cosmetic Act and Section 351(a) of the Public Health Service Act. Most of our human therapeutic products are or will be classified as biologic products. Approval of a biologic for commercialization requires licensure of the product and the manufacturing facilities. The review of therapeutic biologic products is carried out by the FDA's Center for Drug Evaluation and Research, the body that also reviews

drug products.

The FDA regulatory process is carried out in several phases. Prior to beginning human clinical testing of a proposed new biologic product, an IND is filed with the FDA. This document contains scientific information on the proposed product, including results of testing of the product in animal and laboratory models. Also included is

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information on manufacturing the product and studies on toxicity in animals and a clinical protocol outlining the initial investigation in humans.

The initial stage of clinical testing, Phase 1, ordinarily encompasses safety, pharmacokinetic and pharmacodynamic evaluations. Phase 2 testing encompasses investigation in specific disease states designed to provide preliminary efficacy data and additional information on safety. Phase 3 studies are designed to further establish clinical safety and efficacy and to provide information allowing proper labeling of the product following approval. Phase 3 studies are most commonly multi-center, randomized, placebo-controlled trials in which rigorous statistical methodology is applied to clinical results. Other designs may also be appropriate in specific circumstances.

Following completion of clinical trials, a BLA is submitted to the FDA to request marketing approval. Internal FDA committees are formed that evaluate the application, including scientific background information, animal and laboratory efficacy studies, toxicology, manufacturing facility and clinical data. During the review process, a dialogue between the FDA and the applicant is established in which FDA questions are raised and additional information is submitted. During the final stages of the approval process, the FDA generally requests presentation of clinical or other data before an FDA advisory committee, at which point, some or all of such data may become available. Also, during the later stages of review, the FDA conducts an inspection of the manufacturing facility to establish that the product is made in conformity with good manufacturing practice. If all outstanding issues are satisfactorily resolved and labeling established, the FDA issues a license for the product and for the manufacturing facility, thereby authorizing commercial distribution.

The FDA has substantial discretion in both the product approval process and the manufacturing approval process. It is not possible to predict at what point, or whether, the FDA will be satisfied with our submissions or whether the FDA will raise questions which may delay or preclude product approval or manufacturing facility approval. As additional clinical data is accumulated, it will be submitted to the FDA and may have a material impact on the FDA product approval process. Given that regulatory review is an interactive and continuous process, we have adopted a policy of limiting announcements and comments upon the specific details of the ongoing regulatory review of our products, subject to our obligations under the securities laws, until definitive action is taken. There can be no assurance any of the products we have under development will be developed successfully, obtain the requisite regulatory approval or be successfully manufactured or marketed.

In Europe, most of our human therapeutic products are or will be classified as biological medicinal products which are assessed through a centralized procedure by the European Medicines Agency (“EMA”). The EMA coordinates the evaluation and supervision of medicinal products throughout the European Union and the European Economic Area. The assessment of the Marketing Authorization Application (“MA”) is carried out by a Rapporteur and a Co-Rapporteur appointed by the Committee for Medicinal Products for Human Use (“CHMP”), which is the expert scientific committee of the EMA.

The Rapporteur and Co-Rapporteur are drawn from the CHMP membership representing member states of the European Union. In addition to their responsibility for undertaking scientific assessments of an application for a MA, the Rapporteur and the Co-Rapporteur liaise with the applicant on behalf of the CHMP in an effort to provide answers to queries raised by the CHMP. Their assessment report(s) is circulated to and considered by the full CHMP membership, leading to the production ultimately of a CHMP opinion which is transmitted to the applicant and the European Commission. The final decision on the grant of a MA is made by the European Commission as the licensing authority of the European Community (“Community”). Under Community law, a positive decision issued by the European Commission represents the grant of a MA. Such an authorization allows a medicinal product to be placed on the European market. Upon the grant of an MA in the European Union, certain member states require pricing approval before the product can be placed into commercial distribution.

Under Community law, the applicant may request grant of a MA under exceptional circumstances if comprehensive data on the efficacy and safety of the drug, under normal conditions of use cannot be provided because its intended indications are encountered so rarely (such as in the case of a medicinal product intended for treating an orphan disease) that comprehensive evidence cannot reasonably be collected, the present state of scientific knowledge will not allow comprehensive information to be collected, or it would be against generally

accepted medical ethics to collect comprehensive information. The Rapporteur, Co-Rapporteur and the other CHMP members will assess the justification/data submitted for exceptional circumstances as part of the overall assessment of the benefit/risk of the application. It is up to the CHMP, during the review, to ultimately decide on whether grant of a MA under exceptional circumstances is justified on the evidence before them. Approval under exceptional circumstances is subject to a requirement for specific procedures related to safety and results of its use and is reviewed annually to reassess the risk-benefit balance of the product. Once approval is granted, the product can be marketed under the single European MA in all member states of the European Union and the European Economic Area. Consistent with the single MA, the labeling for Europe is identical throughout all member states except that all labeling must be translated into the local language of the country of intended importation and in relation to the content of the so called “blue box “on the outer packaging in which locally required information may be inserted.

Orphan drugs are those intended for use in rare diseases or conditions. As a result of the high cost of development and the low return on investment for rare diseases, governments provide regulatory and commercial incentives for the development of drugs for small disease populations. In the United States, the term “rare disease or condition” means any disease or condition which affects less than 200,000 persons in the United States. Applications for United States orphan drug status are evaluated and granted by the Office of Orphan Products Development (“OOPD”) of the FDA. In the United States, orphan drugs are subject to the standard regulatory process for marketing approval but are exempt from the payment of user fees for licensure, receive market exclusivity for a period of seven years and some tax benefits, and are eligible for OOPD grants. In Europe, orphan medicinal products are those intended for the diagnosis, prevention or treatment of a life-threatening or chronically debilitating condition affecting not more than five in 10,000 persons in the Community. The EMEA’s Committee for Orphan Medicinal Products (“COMP”) reviews applications seeking orphan designation. If the European Commission agrees with a positive assessment made by COMP, then the product will receive a positive designation through adoption of a decision by the European Commission. Orphan medicinal products are exempt from fees for protocol assistance and scientific advice from the Scientific Advice Working Party during development, reduction or exemption of MA and other fees, and ten-year market exclusivity upon granting of a MA in respect of the approved clinical indication. Moreover, manufacturers may be eligible for grants or other financial incentives from the Community and Member States programs.

#### Patents and Trade Secrets

Patent and trade secret protection is important to our business and our future will depend in part on our ability to obtain patents, maintain trade secret protection and operate without infringing on the proprietary rights of others. As a result of our ongoing activities, we hold and have filed applications for a number of patents in the United States and internationally to protect our products and important processes. We also have obtained or have the right to obtain exclusive licenses to certain patents and applications filed by others. However, the patent position of biotechnology companies generally is highly uncertain and no consistent policy regarding the breadth of allowed claims has emerged from the actions of the U.S. Patent and Trademark Office (“Patent Office”) with respect to biotechnology patents. Accordingly, no assurance can be given that our patents will afford protection against competitors with similar technologies, or others will not obtain patents claiming aspects similar to those covered by our patent applications.

We have established a portfolio of patents related to our bacterial expression technology, including claims to novel promoter sequences, secretion signal sequences, compositions, methods for expression and secretion of recombinant proteins from bacteria, including immunoglobulin gene products, and improved methods and cells for expression of recombinant protein products. U.S. Patent Nos. 5,576,195 and 5,846,818 are related to DNA encoding a pectate lyase signal sequence, recombinant vectors, host cells and methods for production and externalization of recombinant proteins. U.S. Patent Nos. 5,595,898, 5,698,435 and 5,618,920 address secretable immunoglobulin chains, DNA encoding the chains and methods for their recombinant production. U.S. Patent Nos. 5,693,493, 5,698,417 and



6,204,023 relate to methods for recombinant production/secretion of functional immunoglobulin molecules. U.S. Patent Nos. 7,094,579 and 7,396,661 relate to eukaryotic signal sequences and their use in methods for prokaryotic expression of recombinant proteins. U.S. Patent No. 6,803,210 relates to improved bacterial host cells that are deficient in one or more of the active transport systems for an inducer of an inducible promoter, such as

arabinose for an araB promoter, and methods for the use of such cells for the production of recombinant proteins. Most of the more important European patents in this portfolio expired in July of 2008 or earlier.

We have also established a portfolio of patent applications related to our mammalian expression technology, including U.S. Patent No. 7,192,737, related to methods for increasing the expression of recombinant polypeptides using expression vectors containing multiple copies of a transcription unit encoding a polypeptide of interest.

We have established a portfolio of patents and applications related to our Human Engineering™ technology, including U.S. Patent No. 5,766,886, directed to methods of modifying antibody variable domains to reduce immunogenicity. Related patents and applications are directed to antibodies engineered according to our patented methods. We believe that our patented Human Engineering™ technology provides an attractive alternative to other humanization technologies.

We also have issued patents in the U.S. and Europe covering XOMA 052. In May and September of 2009, the U.S. Patent and Trademark Office issued U.S. Patents 7,531,166 and 7,582,742, respectively, covering XOMA 052 and other antibodies and antibody fragments with similar binding properties for IL-1 beta, as well as nucleic acids, expression vectors and production cell lines for the manufacture of such antibodies and antibody fragments. The patents provide exclusivity in the U.S. into 2027 and 2026 respectively. In November of 2009, the European Patent Office granted a patent covering XOMA 052, as well as nucleic acids, expression vectors and production cell lines for the manufacture of XOMA 052. The patent provides exclusivity in Europe into 2026.

If certain patents issued to others are upheld or if certain patent applications filed by others issue and are upheld, we may require certain licenses from others in order to develop and commercialize certain potential products incorporating our technology. There can be no assurance that such licenses, if required, will be available on acceptable terms.

Where appropriate, we also rely on trade secrets to protect aspects of our technology. However, trade secrets are difficult to protect. We protect our proprietary technology and processes, in part, by confidentiality agreements with our employees, consultants and collaborators. These parties may breach these agreements, and we may not have adequate remedies for any breach. Our trade secrets may otherwise become known or be independently discovered by competitors. To the extent that we or our consultants or collaborators use intellectual property owned by others, we may have disputes with our collaborators or consultants or other third parties as to the rights in related or resulting know-how and inventions.

#### International Operations

We believe that, because the pharmaceutical industry is global in nature, international activities will be a significant part of our future business activities and that, when and if we are able to generate income, a substantial portion of that income will be derived from product sales and other activities outside the United States.

A number of risks are inherent in international operations. Foreign regulatory agencies often establish standards different from those in the United States. An inability to obtain foreign regulatory approvals on a timely basis could have an adverse effect on our international business, financial condition and results of operations. International operations may be limited or disrupted by the imposition of government controls, export license requirements, political or economic instability, trade restrictions, changes in tariffs, restrictions on repatriating profits, taxation or difficulties in staffing and managing international operations. In addition, our business, financial condition and results of operations may be adversely affected by fluctuations in currency exchange rates. There can be no assurance that we will be able to successfully operate in any foreign market.

Financial information regarding the geographic areas in which we operate is included in Note 13 to the Financial Statements: Concentration of Risk, Segment and Geographic Information.

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## Concentration of Risk

In 2009, Takeda and Genentech each provided more than 10% of our total revenue, neither of which represents a related party to XOMA. These key customers accounted for 65% of our total revenue in 2009 but were not responsible for any of the accounts receivable balance at December 31, 2009. NIAID, Arana and Kaketsuken accounted for 90% of the accounts receivable balance at December 31, 2009. The loss of one or more of these customers could have a material adverse effect on our business and financial condition.

In 2008, Genentech, Novartis and Merck/Schering-Plough each provided more than 10% of our total revenue, none of which represents a related party to XOMA. These key customers accounted for 81 % of our total revenue in 2008 and represented 64% of the accounts receivable balance at December 31, 2008. NIAID accounted for an additional 28% of the accounts receivable balance at December 31, 2008. In 2007, Pfizer, Genentech, Merck/Schering-Plough and NIAID each provided more than 10% of our total revenue, none of which represent a related party to XOMA.

## Organization

We were incorporated in Delaware in 1981 and became a Bermuda company effective December 31, 1998, when we completed a shareholder-approved corporate reorganization, changing our legal domicile from Delaware to Bermuda and our name to XOMA Ltd. When referring to a time or period before December 31, 1998, or when the context so requires, the terms “Company” and “XOMA” refer to XOMA Corporation, a Delaware corporation and the predecessor of XOMA Ltd.

## Employees

As of March 9, 2010, we employed approximately 195 full-time employees (none of which are unionized) at our facilities, principally in Berkeley, California. Our employees are primarily engaged in clinical, process development, research and product development, and in executive, business development, finance and administrative positions. We consider our employee relations to be excellent.

## Available Information

For information on XOMA’s investment prospects and risks, please contact Investor Relations and Corporate Communications at (800) 246-9662 or by sending an e-mail message to [investorrelations@xoma.com](mailto:investorrelations@xoma.com). Our principal executive offices are located at 2910 Seventh Street, Berkeley, California 94710, U.S.A. Our telephone number is (510) 204-7200.

The following information can be found on our website at <http://www.xoma.com> or can be obtained free of charge by contacting our Investor Relations Department:

- Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports will be available as soon as reasonably practicable after such material is electronically filed with the United States Securities and Exchange Commission (“SEC”). All reports we file with the SEC can also be obtained free of charge via EDGAR through the SEC’s website at <http://www.sec.gov>.
- Our policies related to corporate governance, including our Code of Ethics applying to our directors, officers and employees (including our principal executive officer and principal financial and accounting officer) that we have adopted to meet the requirements set forth in the rules and regulations of the SEC and its corporate governance principles are available.

- The charters of the Audit, Compensation and Nominating & Governance Committees of our Board of Directors are available.

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We intend to satisfy the applicable disclosure requirements regarding amendments to, or waivers from, provisions of our Code of Ethics by posting such information on our website.

## Item 11. Executive Compensation.

### Compensation Discussion and Analysis

The primary objectives of the Company's compensation program are to enable the Company to attract, motivate and retain outstanding individuals and align their success with that of the Company's shareholders through the creation of shareholder value and achievement of strategic corporate objectives. We attract and retain executives by benchmarking against peer companies in our industry to ensure that our compensation packages remain competitive. This practice is discussed in greater detail below under the heading "Benchmarking." When creating an executive's overall compensation package, the different elements of compensation are considered in light of the role the executive will play in our achieving near term and longer term goals as well as the compensation packages provided to similarly situated executives at peer companies. We also tie short and long-term cash and equity rewards to the achievement of measurable corporate and individual performance criteria to create incentives that we believe enhance executive performance. Such performance criteria vary depending on individual executives' roles, but include value-adding achievements such as revenue generation, cost reduction, gains in production efficiency and timely completion of undertakings. None of our employees are covered by a pension plan or other similar benefit plan that provides for payments or other benefits at, following, or in connection with retirement.

#### Benchmarking

The Compensation Committee has the authority under its charter to engage the services of outside advisors, experts and others to assist the Compensation Committee. In accordance with this authority, the Compensation Committee has retained the services of Compensia, an independent consulting firm that specializes in executive compensation consulting (the "Consultant"), to assist the Compensation Committee in evaluating the Company's executive compensation program against the relevant market and to review executive compensation changes. The Consultant looked at base salary, incentive compensation, long-term share options and benefits. No other services were provided by the Consultant.

The Consultant created a survey (the "Executive Compensation Survey") which compared the Company's executive pay levels to those of a peer group of 30 companies. The peer group consisted of (1) core peers developed by targeting Phase II business and labor comparators with similar market capitalization and (2) aspirational peers generally representing Phase III and beyond comparators. The companies that comprised the peer group are: Affymax, Alexza Pharmaceuticals, Allos Therapeutics, Altus Pharmaceuticals, Amicus Therapeutics, Ardea Biosciences, Arena Pharmaceuticals, Array BioPharma, Cell Genesys, Cerus, Cytokinetics, Cytori Therapeutics, Dyax, Geron, Human Genome Sciences, ImmunoGen, Immunomedics, Incyte, Infinity Pharmaceuticals, Lexicon Pharmaceuticals, Medarex, Metabasis Therapeutics, Micromet, Neurocrine Biosciences, Regeneron Pharmaceuticals, Rigel Pharmaceuticals, Sangamo Biosciences, Seattle Genetics, Sunesis Pharmaceuticals, and Trubion Pharmaceuticals. In preparing the Executive Compensation Survey, the Compensation Committee has relied on the Consultant to conduct its own research, compile its own survey data and provide a summary of such data relevant to the Compensation Committee's decisions with respect to setting executive compensation levels.

As noted above, the Compensation Committee considers various benchmarks (i.e., the 25th percentile, the 50th percentile and the 75th percentile) based on the Executive Compensation Survey and chooses a benchmark for a particular year based on the level it deems most appropriate for the Company. For 2010, the Compensation Committee

chose the 50th percentile as the benchmark. This process is performed to ensure that total compensation is competitive within the industry and appropriate when certain levels of performance are achieved. If, based on this evaluation, the Compensation Committee determines that the Company's current compensation levels are not appropriate or tailored to our compensation objectives, then the Compensation Committee may adjust the applicable compensation levels and targets accordingly.

As part of the benchmarking process, the Compensation Committee recognizes the practical reality that job responsibilities of persons with similar titles may vary significantly from company to company, and that a person's title is not necessarily descriptive of a person's duties. The Compensation Committee considers the scope and complexity of executive positions within the Executive Compensation Survey and compares these positions to the scope and complexity of our executive positions. The result is an assessment of the compensation being paid to our executives in light of the compensation being paid to persons performing duties of similar scope and complexity at the companies participating in the Executive Compensation Survey. The Compensation Committee uses this assessment to assist it in making decisions regarding appropriate compensation levels for our executive positions. The underlying principle of the evaluation methodology is to focus on identifying those positions that have a scope and complexity of responsibilities that are comparable to those duties exercised by each of our particular executives.

### Compensation Components

**Base Salary.** The level of compensation paid to an officer is determined on the basis of the individual's overall experience, responsibility, performance and compensation level in his or her prior position (for newly hired officers), the individual's overall performance and compensation level at the Company during the prior year (for current employees), the compensation levels of peer companies (including the biotechnology companies listed above) and other labor markets in which the Company competes for employees, the performance of the Company's Common Shares during the prior fiscal year and such other factors as may be appropriately considered by the Board, by the Compensation Committee and by management in making its proposals to the Compensation Committee.

At the time of the Company's annual compensation review in early 2009, in light of economic conditions and in order to conserve the Company's cash resources, management recommended, and the Board agreed, not to implement merit-based salary increases to the Company's employees for 2009, even though the Company as a whole and many of its employees had performed to a level at which such increases would have been justified. In order to enable the Company to provide compensation at levels competitive with those of other biotechnology companies, as well as retain employees with the capabilities necessary to advance key business objectives, in December 2009, management recommended and the Board agreed to implement salary increases for employees whose performance merited such an increase, retroactive to the beginning of the 2009 salary cycle.

**Long-Term Incentive Program.** Long-term incentive compensation principally takes the form of incentive and non-qualified option grants pursuant to shareholder-approved equity-based compensation plans. These grants are designed to promote the convergence of long-term interests between the Company's key employees and its shareholders; specifically, the value of options granted will increase or decrease with the value of the Company's Common Shares. In this manner, key individuals are rewarded commensurately with increases in shareholder value. These grants also typically include a 4-year vesting period to encourage continued employment. The size of a particular option grant is determined based on the individual's position and contribution to the Company.

For grants during 2009, the number of options granted were determined based on employee performance and perceived potential, the numbers of options granted to such individuals in the previous fiscal year, the aggregate number of options held by each such individual, the number of options granted to similarly situated individuals in the pharmaceutical and biotechnology industries, the price of the Company's Common Shares relative to other companies in such industries and the resulting relative value of such options. Although no specific measures of corporate performance were considered, the fact that no incentive compensation was awarded under the Company's incentive compensation plans for 2008, notwithstanding that management had successfully achieved a percentage of the 2008 objectives under such plans in excess of the minimum required to make awards, was considered.



In February of 2009, Mr. Engle was granted options to purchase 600,000 common shares and Dr. Scannon and Messrs. Kurland, Margolin and Wells were each granted options to purchase 200,000 common shares. These numbers were arrived at after consideration of the factors described in the foregoing paragraph, without any of such factors being assigned a specific weighting or measured against quantified criteria, except when considering the number of options granted to similarly situated individuals in the pharmaceutical and biotechnology industries. In considering that factor, the number of options granted was benchmarked against the 25th percentile of the peer group companies. This percentile was selected over the initially recommended 50th percentile in light of the limited number of shares then available for grant under the Company's long-term incentive plans.

Historically, option grants intended as long-term incentive compensation have been made pursuant to the Company's 1981 Share Option Plan (the "Option Plan") and Restricted Share Plan (the "Restricted Plan"). In May of 2010, the Compensation Committee and the full Board adopted, subject to shareholder approval, a new equity-based compensation plan, the 2010 Long Term Incentive and Share Award Plan (the "Long Term Incentive Plan"). The Long Term Incentive Plan is intended to consolidate the Company's long-term incentive compensation under a single plan, by replacing the Option Plan, the Restricted Plan and the 1992 Directors Share Option Plan (the "Directors Plan") going forward, and to provide a more current set of terms pursuant to which to provide this type of compensation. The Long Term Incentive Plan is described in greater detail below under the heading "Description of Long Term Incentive Plan."

#### Cash Bonus Plans.

CICP. In 2004, the Compensation Committee, the Board and the shareholders approved the CEO Incentive Compensation Plan (the "CICP") in order to make the Chief Executive Officer's ("CEO") compensation more commensurate with that of industry peers and because the Compensation Committee believed that it was not appropriate to include the CEO in the Management Incentive Compensation Plan given the CEO's active role in administering that plan.

Only our CEO is eligible to participate in the CICP and, depending on his or her performance and that of the Company, earn incentive compensation. As soon as practicable after the end of each fiscal year (the "Plan Period"), the Compensation Committee recommends to the Board and the Board determines whether and to what extent certain pre-established Company objectives for that Plan Period ("Company Objectives") have been met, each Company Objective having been assigned a percentage toward completion of the Company Objectives overall (each, a "Achievement Percentage"). For each Plan Period, unless 70% of the Company Objectives for that Plan Period have been met, no incentive compensation will be awarded. The Board retains considerable discretion both in determining the extent to which the Company Objectives are achieved and in considering additional factors which may influence its overall determinations.

The incentive compensation under the CICP is weighted based 70% on meeting Company Objectives and 30% based on a discretionary evaluation by the Compensation Committee. The award opportunity range for the CEO expressed as a percentage of his or her base salary is as follows: minimum award opportunity—25%; target award opportunity—50%; and maximum award opportunity—75%, in each case, of base salary.

The performance of the CEO is typically rated as soon as practicable following the conclusion of the Plan Period. Distribution of incentive compensation is generally made in February or March of the succeeding year after the Plan Period. The incentive awards granted under the CICP are payable in cash.

MICP. Certain employees are also compensated through the Management Incentive Compensation Plan (the "MICP"), in which officers (other than the CEO) and employees who have the title of Senior Director, Director or Manager, as well as certain additional discretionary participants chosen by the CEO, are eligible to participate. Under the MICP, at the beginning of each Plan Period, the Board (with advice from the Compensation Committee) establishes a target incentive compensation pool, which is then adjusted at year-end to reflect the Company's performance in achieving the Company Objectives.

After each Plan Period, the Board, based on the recommendation of the Compensation Committee, makes a determination as to the performance of the Company and MICP participants in meeting the Company Objectives and individual objectives for that Plan Period, which are determined from time to time by the Board in its sole discretion. Awards to MICP participants vary depending upon the level of achievement of the Company Objectives, the size of the incentive compensation pool and the MICP participants' base salaries and performance during the Plan Period as

well as their expected ongoing contribution to the Company. The Company must meet a minimum percentage of the Company Objectives (currently 70%) for a particular Plan Period before any awards are made under the MICP for that Plan Period. The Board retains considerable discretion both in determining the extent to which the Company Objectives are achieved and in considering additional factors which may influence its overall determinations.

For officers, including the executive officers named in the “Summary Compensation Table” below other than Mr. Engle, the incentive compensation under the MICP is weighted based 50% on meeting Company Objectives, 30% based on individual objectives and 20% based on a discretionary evaluation by the CEO. The target

award for these officers as a percentage of base salary is 30%, with an award opportunity range of 15% to 45% of base salary. For other MICP participants, the incentive compensation is weighted based either 40% or 30% on meeting Company Objectives, either 40% or 50% on individual objectives and, in all cases, 20% on a discretionary evaluation by the CEO. The award opportunities for these participants as a percentage of base salary range from a minimum of 5% to a maximum of 37.5% of base salary, depending on among other things the participants' position within the Company.

The performance of the MICP participants is typically rated as soon as practicable following the conclusion of the Plan Period. Distribution of incentive compensation is generally made in February or March of the succeeding year after the Plan Period. Awards under the MICP are payable in cash.

For 2009, 146 individuals were determined to be eligible to participate in the MICP, including all of the executive officers named in the "Summary Compensation Table" below other than Mr. Engle.

BCP . Employees who are not eligible to participate in the CICP or the MICP are also compensated through the Bonus Compensation Plan (the "BCP"). Under the BCP, at the beginning of each Plan Period, the Board (with advice from the Compensation Committee) establishes a target incentive compensation pool, which is then adjusted at year-end to reflect the Company's performance in achieving the Company Objectives.

After each Plan Period, the Board, based on the recommendation of the Compensation Committee, makes a determination as to the performance of the Company and BCP participants in meeting the Company Objectives, which are determined from time to time by the Board in its sole discretion. Awards to BCP participants vary depending upon the level of achievement of the Company Objectives, the size of the incentive compensation pool and the BCP participants' base salaries. The Company must meet a minimum percentage of the Company Objectives (currently 70%) before any awards are made under the BCP. Awards under the BCP are payable in cash.

For 2009, 69 individuals were determined to be eligible to participate in the BCP.

Bonus Determinations for 2009. For 2009, the Compensation Committee recommended and the Board approved the following Company Objectives: (1) generate \$20 to 25 million in cash in the first half of 2009, which was assigned a 40% Achievement Percentage, (2) enter into a significantly beneficial corporate partnership with respect to the Company's lead product candidate, XOMA 052, by the end of 2009, which was assigned a 30% Achievement Percentage, (3) enter into technology licensing and/or collaboration transactions yielding at least a specified amount in upfront payments to the Company by the end of 2009, which was assigned a 15% Achievement Percentage, and (4) consolidate certain manufacturing operations, maintain certain manufacturing capacity and increase biodefense revenues, which was assigned a 15% Achievement Percentage. In February of 2010, the Board determined that the first such Company Objective had been exceeded, that the third and fourth such Company Objectives had been achieved and that the second such Company Objective had not been completed as of the end of 2009.

The Board, exercising its discretion, also took into account management's performance in response to the severe adverse conditions and events affecting the Company in 2009, including general economic declines and market instability, the sudden withdrawal of RAPTIVA®, in which the Company had a royalty interest, from the worldwide markets and the resulting threat of default under the Company's loan from Goldman Sachs Specialty Holdings, Inc. ("Goldman Sachs"), which had been secured by such royalty interest, as well as other achievements during the Plan Period, including the removal of the "going concern" qualification from the opinion of the Company's outside auditors regarding its 2008 financial statements, the sale of the Company's royalty interest in LUCENTIS® for \$25 million, the Company's successful organizational restructuring and certain aspects of its financial performance for the Plan Period. The Board also noted that, in the previous year, management had recommended, and the Board had determined, not to

award bonuses under either the CICP or the MICP with respect to 2008 in light of economic conditions affecting the Company and in order to conserve its cash resources, notwithstanding that the Company had met a percentage of the Company Objectives for 2008 in excess of the minimum required. After evaluating the various facts and circumstances described above, the Board concluded that in excess of 100% of the Company Objectives had been achieved for the 2009 Plan Period. As a result, the CEO and each of the other named executive officers received in excess of the target amounts attributable to achievement of the Company Objectives under the CICP and the MICP, as applicable.

Under the CICP, Mr. Engle had no individual objectives for 2009 other than the Company Objectives. Individual objectives for 2009 under the MICP for Dr. Scannon were: (1) advance the development of XOMA 052

and the Company's antibody platform and manufacturing technologies, (2) the second Company Objective described above, (3) advance the Company's biodefense efforts, and (4) expand the Company's research effort in finding new product candidates. In February of 2010, the CEO determined and the Compensation Committee concurred that Dr. Scannon had exceeded the first such objective and achieved his remaining objectives, except for the second Company Objective. Individual objectives for 2009 under the MICP for Mr. Kurland were: (1) the first Company Objective described above, (2) successfully resolve the threat of default under the Company's loan from Goldman Sachs, (3) reduce Company expenses, and (4) assure Company compliance with financial reporting and related requirements. In February of 2010, the CEO determined and the Compensation Committee concurred that Mr. Kurland had exceeded all such objectives. Individual objectives for 2009 under the MICP for Mr. Margolin were as follows: (1) the first, second and third Company Objectives described above and (2) advance the Company's antibody platform technologies. In February of 2010, the CEO determined and the Compensation Committee concurred that Mr. Margolin had exceeded all such objectives, except for the second Company Objective. Individual objectives for 2009 under the MICP for Mr. Wells were as follows: (1) develop and implement a workforce stabilization plan, (2) implement a succession planning process, (3) assess and align the Company's information technology strategy to reflect changes within the Company, and (4) strengthen cross-functional work processes and organizational capabilities within the Company. In February of 2010, the CEO determined and the Compensation Committee concurred that Mr. Wells had achieved all such objectives.

As to that portion of Mr. Engle's bonus based on a discretionary evaluation of the CEO's overall performance in 2009, the majority of the independent members of the Board determined to include 20% of Mr. Engle's target bonus amount as a portion of his bonus following consideration of, among other things, the factors described in the second preceding paragraph. In addition, the CEO determined and the Compensation Committee concurred to include between 15% and 20% of each other named executive officer's target bonus amount as the portion of such officer's bonus based on a discretionary evaluation.

The evaluation process and resulting determinations described above resulted in cash bonus payments under the CICP and the MICP to the executive officers named in the "Summary Compensation Table" below for 2009 as follows:

|                                | Base Salary | Target Bonus Percentage | Target Bonus Amount | Actual Bonus Percentage | Actual Bonus Amount |
|--------------------------------|-------------|-------------------------|---------------------|-------------------------|---------------------|
| Steven B. Engle                | \$540,750   | 50                      | % \$ 270,375        | 48.5                    | % \$ 262,267        |
| Patrick J. Scannon M.D., Ph.D. | \$389,340   | 30                      | % \$ 116,802        | 31.8                    | % \$ 123,811        |
| Fred Kurland                   | \$310,000   | 30                      | % \$ 93,000         | 35.0                    | % \$ 108,655        |
| Christopher J. Margolin        | \$338,520   | 30                      | % \$ 101,556        | 33.9                    | % \$ 114,810        |
| Charles C. Wells               | \$304,500   | 30                      | % \$ 91,350         | 31.5                    | % \$ 95,918         |

**Other Compensation.** The Company maintains broad-based benefits and perquisites that are provided to all employees, including health insurance, life and disability insurance, vision and dental insurance, a 401(k) plan and temporary housing and other living expenses for relocated employees. The Company also maintains an Employee Share Purchase Plan, designed to give employees an opportunity to purchase Common shares through payroll deductions, thereby encouraging employees to share in the economic growth and success of the Company.

**Tax Treatment.** Section 162(m) of the Code generally limits the deductible amount of annual compensation paid to certain individual executive officers (i.e., the chief executive officer and the four other most highly compensated executive officers of the Company) to no more than \$1 million. However, qualifying performance-based compensation will be excluded from the \$1 million cap on deductibility, and the Compensation Committee believes, based on information currently available, that the Company's options issued to its executive officers qualify for this exclusion. Considering the current executive officer compensation and the availability of deferral opportunities, the

Compensation Committee and the Company believe that the Company will not be denied

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any significant tax deduction for 2009. The Company and the Compensation Committee will continue to review tax consequences as well as other relevant considerations in connection with compensation decisions.

### Compensation Risk Assessment

We believe that risks arising from our compensation policies and practices for our employees are not reasonably likely to have a material adverse effect on our Company. We believe that our approach to goal-setting, setting of targets with payouts at multiple levels of performance, and evaluation of performance results assist in mitigating excessive risk-taking that could harm our value. We believe we have allocated our compensation among base salary and short- and long-term compensating target opportunities in such a way as not to encourage excessive risk-taking.

### Summary Compensation Table

The following table sets forth certain summary information for the prior three years concerning the compensation earned by the Company's Chief Executive Officer, Chief Financial Officer, our three other most highly compensated officers who were named executive officers of the Company as of December 31, 2009. Information for 2008 and 2007 concerning Mr. Wells has been omitted in accordance with Securities and Exchange Commission ("SEC") rules because he was not a "named executive officer" during those years.

| Name and Principal Position   | Year | Salary (\$)(1) | Bonus (\$)(2) | Stock Awards (\$) | Option Awards (\$)(3) | Non-Equity Incentive Compensation Plan (\$)(4)(5) | Change in Pension Value and Deferred Compensation Earnings (\$) | All Other Compensation (\$)(6) | Total (\$)  |
|---|------|----------------|---------------|-------------------|-----------------------|---|---|--------------------------------|-------------|
| Steven B. Engle<br>(Chairman of the Board, Chief Executive Officer and President)       | 2009 | \$540,750      | \$0           | \$0               | \$212,280             | \$262,267   | N/A   | \$38,725                       | \$1,054,022 |
|   | 2008 | \$515,000      | \$0           | \$0               | \$243,787             | \$0   | N/A   | \$390,489                      | \$1,149,276 |
|   | 2007 | \$202,760      | \$50,000      | \$0               | \$4,572,830           | \$112,472   | N/A   | \$36,980                       | \$4,975,042 |
| Patrick J. Scannon, M.D., Ph.D.<br>(Executive Vice President and Chief Medical Officer) | 2009 | \$389,340      | \$0           | \$0               | \$70,760              | \$123,811   | N/A   | \$13,136                       | \$597,047   |
|   | 2008 | \$370,800      | \$0           | \$0               | \$86,680              | \$0   | N/A   | \$17,045                       | \$474,525   |
|   | 2007 | \$360,000      | \$0           | \$0               | \$461,248             | \$115,631   | N/A   | \$17,269                       | \$954,148   |



|              |      |           |     |     |           |            |     |           |           |
|--------------|------|-----------|-----|-----|-----------|------------|-----|-----------|-----------|
| Fred Kurland |      |           |     |     |           |            |     |           |           |
| (Vice        |      |           |     |     |           |            |     |           |           |
| President,   | 2009 | \$310,000 | \$0 | \$0 | \$70,760  | \$ 108,655 | N/A | \$ 12,785 | \$502,200 |
| Finance and  |      |           |     |     |           |            |     |           |           |
| Chief        |      |           |     |     |           |            |     |           |           |
| Financial    | 2008 | \$3,577   | N/A | N/A | \$305,680 | \$ 0       | N/A | \$ 0      | \$309,257 |
| Officer)     | 2007 | N/A       | N/A | N/A | N/A       | N/A        | N/A | N/A       | N/A       |
| Christopher  |      |           |     |     |           |            |     |           |           |
| J. Margolin  |      |           |     |     |           |            |     |           |           |
| (Vice        | 2009 | \$338,520 | \$0 | \$0 | \$70,760  | \$ 114,810 | N/A | \$ 28,356 | \$552,446 |
| President,   |      |           |     |     |           |            |     |           |           |
| General      |      |           |     |     |           |            |     |           |           |
| Counsel and  | 2008 | \$322,400 | \$0 | \$0 | \$86,680  | \$ 0       | N/A | \$ 29,944 | \$439,024 |
| Secretary)   | 2007 | \$310,000 | \$0 | \$0 | \$367,646 | \$ 110,033 | N/A | \$ 29,890 | \$817,569 |
| Charles C.   |      |           |     |     |           |            |     |           |           |
| Wells (Vice  |      |           |     |     |           |            |     |           |           |
| President,   |      |           |     |     |           |            |     |           |           |
| Human        |      |           |     |     |           |            |     |           |           |
| Resources    |      |           |     |     |           |            |     |           |           |
| and          |      |           |     |     |           |            |     |           |           |
| Information  |      |           |     |     |           |            |     |           |           |
| Technology)  | 2009 | \$304,500 | \$0 | \$0 | \$70,760  | \$ 95,918  | N/A | \$ 11,568 | \$482,746 |

- (1) Mr. Kurland was appointed to the position of Vice President, Finance and Chief Financial Officer effective December 28, 2008. The amount in this column representing his 2008 salary was earned in 2008 but paid in 2009.
- (2) The amount in this column paid to Mr. Engle in 2007 represents a sign-on bonus. The bonus amounts paid to Mr. Engle under the Company's CICP and the amounts paid to Dr. Scannon and Messrs. Kurland, Margolin and Wells under the Company's MICP are represented in the amounts under Non-Equity Incentive Plan Compensation. CICP and MICP awards are reported on an earned basis.
- (3) The amounts in this column do not reflect compensation actually received by the named executive officers but represent the aggregate grant date fair value for option awards calculated in accordance with FASB ASC Topic 718. Amounts for 2007 and 2008 have been recomputed under the same methodology in accordance with SEC rules. See Notes 2 and 9 of the consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009 (the "2009 Form 10-K") regarding assumptions underlying valuation of equity awards.

(4) The amounts in this column for 2009 for Dr. Scannon and Messrs. Kurland, Margolin and Wells represent awards under the Company's MICP paid in 2010 relating to performance in 2009. There were no payouts under the MICP plan in 2009 for performance in 2008. The amounts in this column for 2007 for Dr. Scannon and Messrs. Margolin and Wells represent awards under the Company's MICP paid in 2008 relating to performance in 2007.

(5) The amount in this column for 2009 for Mr. Engle represents an award under the Company's CICP paid in 2010 relating to performance in 2009. There were no payouts under the CICP plan in 2009 for performance in 2008. The amount in this column for 2007 for Mr. Engle represents an award under the Company's CICP paid in 2008 relating to performance in 2007.

(6) Amounts in this column for 2009, 2008 and 2007 include:

Mr. Engle—(a) cash payments in lieu of earned vacation and/or personal holidays in the amount of \$24,758 and \$1,903 in 2009 and 2008, respectively; (b) relocation in the amounts of \$241,954 and \$20,080, in 2008 and 2007, respectively; (c) taxes paid by the Company on Mr. Engle's behalf in the amounts of \$135,002 and \$11,173, in 2008 and 2007, respectively; (d) Company Common Shares contributed to an account under the Company's Deferred Savings Plan in the amounts of 16,124, 15,203 and 1,377 Common Shares, respectively; (e) group term life insurance premiums in the amount of \$2,966, \$1,380 and \$531, respectively; and (f) miscellaneous gifts in the amount of \$509 in 2007.

Dr. Scannon—(a) cash payments in lieu of earned vacation and/or personal holidays in the amounts of \$2,769 and \$2,769, in 2008 and 2007, respectively; (b) Company Common Shares contributed to an account under the Company's Deferred Savings Plan in the amounts of 16,124, 15,203 and 3,011 Common Shares, respectively; (c) group term life insurance premiums in the amount of \$2,136, \$4,026 and \$3,267, respectively; and (d) miscellaneous gifts in the amount of \$983 in 2007.

Mr. Kurland—(a) Company Common Shares contributed to an account under the Company's Deferred Savings Plan in the amounts of 16,124 Common Shares in 2009; and (b) group term life insurance premiums in the amounts of \$1,785 in 2009.

Mr. Margolin—(a) cash payments in lieu of earned vacation and/or personal holidays in the amounts of \$15,499, \$14,784 and \$14,230, respectively; (b) Company Common Shares contributed to an account under the Company's Deferred Savings Plan in the amounts of 16,124, 15,203 and 3,011 Common Shares, respectively; (c) group term life insurance premiums in the amounts of \$1,857, \$4,910 and \$3,386, respectively; and (d) miscellaneous gifts in the amount of \$2,023 in 2007.

Amounts in this column for 2009 include:

Mr. Wells—(a) cash payments in lieu of earned vacation and/or personal holidays in the amount of \$2,230; (b) Company Common Shares contributed to an account under the Company's Deferred Savings Plan in the amount of 11,240; and (c) group term life insurance premiums in the amount of \$1,670.

Company Common Shares contributed under the Company's Deferred Savings Plan were valued in 2009, 2008 and 2007 at fiscal year-end formula prices of \$0.6822, \$0.6742 and \$3.404, respectively, per share.

Grants of Plan-Based Awards

The following table contains information concerning the grant of awards to our named executive officers under any plan during 2009.

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| Name                            | Grant Date | Estimated Future Payouts<br>Under Non-Equity<br>Incentive<br>Plan Awards |                |                 | Estimated Future Payouts<br>Under Equity |                |                 | All<br>Other<br>Stock<br>Awards:<br>Number<br>of<br>Shares<br>or<br>Units<br>(#) | All Other<br>Option<br>Awards:<br>Number<br>of<br>Securities<br>Underlying<br>Options<br>(#) | Exercise<br>or Base<br>Price of<br>Option<br>Awards<br>(\$/Sh) | Grant<br>Date<br>Fair<br>Value of<br>Stock<br>and<br>Option<br>Awards<br>(1) |
|---------------------------------|------------|--|----------------|-----------------|--|----------------|-----------------|--|--|--|--|
|                                 |            | Threshold<br>(\$)  | Target<br>(\$) | Maximum<br>(\$) | Threshold<br>(\$)                        | Target<br>(\$) | Maximum<br>(\$) |  |  |  |  |
| Steven B. Engle                 | 02-26-2009 | —  | —              | —               | —  | —              | —               | —  | 600,000  | \$0.56   | \$212,280  |
| Patrick J. Scannon, M.D., Ph.D. | 02-26-2009 | —  | —              | —               | —  | —              | —               | —  | 200,000  | \$0.56   | \$70,760   |
| Fred Kurland                    | 02-26-2009 | —  | —              | —               | —  | —              | —               | —  | 200,000  | \$0.56   | \$70,760   |
| Christopher J. Margolin         | 02-26-2009 | —  | —              | —               | —  | —              | —               | —  | 200,000  | \$0.56   | \$70,760   |
| Charles C. Wells                | 02-26-2009 | —  | —              | —               | —  | —              | —               | —  | 200,000  | \$0.56   | \$70,760   |

(1) The grant date fair values were calculated in accordance with FASB ASC 718. See Notes 2 and 9 of the consolidated financial statements in the 2009 Form 10-K regarding assumptions underlying valuation of equity awards.

#### Outstanding Equity Awards as of December 31, 2009

The following table provides information as of December 31, 2009 regarding unexercised options and restricted common share awards held by each of our named executive officers.

| Name                            | Option Awards   |   |   |                            |                        | Stock Awards  |   |  |  |
|---------------------------------|---|---|---|----------------------------|------------------------|---|---|--|--|
|                                 | Number of Securities Underlying Unexercised Options (#) Exercisable (1) | Number of Securities Underlying Unexercised Options (#) Unexercisable | Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#) | Option Exercise Price (\$) | Option Expiration Date | Number of Shares or Units of Stock That Have Not Vested | Value of Shares or Units of Stock That Have Not Vested (\$) | Equity Incentive Plan Awards: Number of Shares, Units or Rights That Have Not Vested (#) | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Rights That Have Not Vested (\$) |
| Steven B. Engle                 | 500,000   | 0   | 0   | \$ 5.0000                  | 08-03-2017             | 0   | 0   | 0  | 0  |
|                                 | 1,225,001   | 874,999   |   | \$ 2.1700                  | 08-03-2017             |   |   |  |  |
|                                 | 812,500   | 687,500   |   | \$ 3.6700                  | 10-31-2017             |   |   |  |  |
|                                 | 103,125   | 121,875   |   | \$ 2.7100                  | 02-21-2018             |   |   |  |  |
|                                 | 125,000   | 475,000   |   | \$ 0.5600                  | 02-26-2019             |   |   |  |  |
| Patrick J. Scannon, M.D., Ph.D. | 25,000  | 0   | 0   | \$ 9.7500                  | 02-23-2010             | 0   | 0   | 0  | 0  |
|                                 | 25,000  | 0   |   | \$ 8.6250                  | 02-21-2011             |   |   |  |  |
|                                 | 25,000  | 0   |   | \$ 10.1600                 | 02-20-2012             |   |   |  |  |
|                                 | 30,000  | 0   |   | \$ 3.3300                  | 02-26-2013             |   |   |  |  |
|                                 | 30,000  | 0   |   | \$ 5.7700                  | 02-25-2014             |   |   |  |  |
|                                 | 30,000  | 0   |   | \$ 1.4000                  | 02-23-2015             |   |   |  |  |
|                                 | 28,750  | 1,250   |   | \$ 1.6800                  | 02-28-2016             |   |   |  |  |
|                                 | 28,333  | 11,667  |   | \$ 3.3900                  | 02-21-2017             |   |   |  |  |
|                                 | 216,667   | 183,333   |   | \$ 3.6700                  | 10-31-2017             |   |   |  |  |
|                                 | 36,667  | 43,333  |   | \$ 2.7100                  | 02-21-2018             |   |   |  |  |
|                                 | 41,667  | 158,333   |   | \$ 0.5600                  | 02-26-2019             |   |   |  |  |
| Fred Kurland                    | 200,000   | 600,000   | 0   | \$ 0.6200                  | 12-29-2018             | 0   | 0   | 0  | 0  |
|                                 | 41,667  | 158,333   |   | \$ 0.5600                  | 02-26-2019             |   |   |  |  |
| Christopher J. Margolin         | 25,000  | 0   |   | \$ 5.3125                  | 01-21-2010             |   |   |  |  |
|                                 | 25,000  | 0   |   | \$ 9.7500                  | 02-23-2010             |   |   |  |  |
|                                 | 25,000  | 0   |   | \$ 8.6250                  | 02-21-2011             |   |   |  |  |
|                                 | 25,000  | 0   |   | \$ 10.1600                 | 02-20-2012             |   |   |  |  |
|                                 | 40,000  | 0   |   | \$ 3.3300                  | 02-26-2013             |   |   |  |  |
|                                 | 10,000  | 0   |   | \$ 3.9200                  | 04-10-2013             |   |   |  |  |
|                                 | 30,000  | 0   |   | \$ 5.7700                  | 02-25-2014             |   |   |  |  |
|                                 | 30,000  | 0   |   | \$ 1.4000                  | 02-23-2015             |   |   |  |  |
|                                 | 25,000  | 0   |   | \$ 1.7800                  | 10-25-2015             |   |   |  |  |
|                                 | 28,750  | 1,250   |   | \$ 1.6800                  | 02-28-2016             |   |   |  |  |
|                                 | 28,333  | 11,667  |   | \$ 3.3900                  | 02-21-2017             |   |   |  |  |

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|            |         |         |   |            |            |   |   |   |   |
|------------|---------|---------|---|------------|------------|---|---|---|---|
|            | 15,000  | 0       |   | \$ 3.6700  | 10-31-2017 |   |   |   |   |
|            | 143,542 | 121,458 |   | \$ 3.6700  | 10-31-2017 |   |   |   |   |
|            | 36,667  | 43,333  |   | \$ 2.7100  | 02-21-2018 |   |   |   |   |
|            | 41,667  | 158,333 |   | \$ 0.5600  | 02-26-2019 |   |   |   |   |
| Charles C. | 50,000  | 0       | 0 | \$ 10.4500 | 05-07-2011 | 0 | 0 | 0 | 0 |
| Wells      | 25,000  | 0       |   | \$ 10.1600 | 02-20-2012 |   |   |   |   |
|            | 30,000  | 0       |   | \$ 3.3300  | 02-26-2013 |   |   |   |   |
|            | 30,000  | 0       |   | \$ 5.7700  | 02-25-2014 |   |   |   |   |
|            | 30,000  | 0       |   | \$ 1.4000  | 02-23-2015 |   |   |   |   |
|            | 28,750  | 1,250   |   | \$ 1.6800  | 02-28-2016 |   |   |   |   |
|            | 28,333  | 11,667  |   | \$ 3.3900  | 02-21-2017 |   |   |   |   |
|            | 162,500 | 137,500 |   | \$ 3.6700  | 10-31-2017 |   |   |   |   |
|            | 36,667  | 43,333  |   | \$ 2.7100  | 02-21-2018 |   |   |   |   |
|            | 41,667  | 158,333 |   | \$ 0.5600  | 02-26-2019 |   |   |   |   |

## Option Exercises and Shares Vested

The following table sets forth the number of Common Shares acquired upon exercise of options by each named executive officer during 2009 and the number of share awards held by each named executive officer that vested during 2009.

| Name                           | Option Awards                             |                                 | Stock Awards                             |                                |
|--------------------------------|---|---------------------------------|--|--------------------------------|
|                                | Number of Shares Acquired On Exercise (#) | Value Realized on Exercise (\$) | Number of Shares Acquired On Vesting (#) | Value Realized on Vesting (\$) |
| Steven B. Engle                | 0   | \$0                             | 0  | \$0                            |
| Patrick J. Scannon M.D., Ph.D. | 0   | \$0                             | 0  | \$0                            |
| Fred Kurland                   | 0   | \$0                             | 0  | \$0                            |
| Christopher J. Margolin        | 0   | \$0                             | 0  | \$0                            |
| Charles C. Wells               | 0   | \$0                             | 0  | \$0                            |

## Pension Benefits

None of our named executive officers are covered by a pension plan or other similar benefit plan that provides for payments or other benefits at, following, or in connection with retirement.

## Non-Qualified Deferred Compensation

None of our named executive officers are covered by a defined contribution or other plan that provides for the deferral of compensation on a basis that is not tax-qualified.

## Employment Contracts and Termination of Employment and Change of Control Arrangements

The Company has entered into an employment agreement with Mr. Engle, dated as of December 30, 2008, that provides for Mr. Engle's employment as CEO and President at a salary of not less than \$515,000 per year. Under the employment agreement, Mr. Engle is entitled to participate in any benefit plan for which key executives of the Company are eligible, including the CICIP. Upon termination of his employment for any reason other than cause or upon his resignation for good reason, Mr. Engle will be entitled to one and one-half times his then current base salary and pro-rated target bonus for the then current fiscal year and benefits for eighteen (18) months, as well

as outplacement services for twelve (12) months not to exceed \$15,000 in value. The employment agreement will continue for one year and will be automatically extended (without further action by the parties) for one year thereafter and again on each subsequent anniversary thereof, unless notice of non-extension of the term is given by either party.

The Company has entered into an employment agreement with Dr. Scannon, dated as of December 30, 2008, that provides for his employment as Executive Vice President and Chief Medical Officer at a salary of not less than \$360,000 per year. Under the agreement, Dr. Scannon is entitled to participate in any benefit plan for which key executives of the Company are eligible, including the MICP. Upon termination of his employment by the Company for any reason other than cause or upon his resignation from the Company for good reason, Dr. Scannon will be entitled to his then current base salary, pro-rated target bonus and benefits for nine (9) months, as well as outplacement services for six (6) months not to exceed \$8,000 in value. The agreement will continue for one year and will be automatically extended (without further action by the parties) for one year thereafter and again on each subsequent anniversary thereof, unless terminated by mutual written consent of the parties.

The Company has entered into an employment agreement with Mr. Kurland, dated as of December 28, 2008, that provides for his employment as Vice President, Finance and Chief Financial Officer at a salary of not less than \$310,000 per year. Under the agreement, Mr. Kurland will be entitled to participate in any benefit plan for which key executives of the Company are eligible, including the MICP. Upon termination of his employment by the Company for any reason other than cause or upon his resignation from the Company for good reason, Mr. Kurland will be entitled to his then current base salary, pro-rated target bonus and benefits for nine (9) months, as well as outplacement services for six (6) months not to exceed \$8,000 in value. The agreement will continue for one year and will be automatically extended (without further action by the parties) for one year thereafter and again on each subsequent anniversary thereof, unless terminated by mutual written consent of the parties.

The Company has entered into an employment agreement with Mr. Margolin, dated as of December 30, 2008, that provides for his employment as Vice President, General Counsel and Secretary at a salary of not less than \$310,000 per year. Under the agreement, Mr. Margolin will be entitled to participate in any benefit plan for which key executives of the Company are eligible, including the MICP. Upon termination of his employment by the Company for any reason other than cause or upon his resignation from the Company for good reason, Mr. Margolin will be entitled to his then current base salary, pro-rated target bonus and benefits for nine (9) months, as well as outplacement services for six (6) months not to exceed \$8,000 in value. The agreement will continue for one year and will be automatically extended (without further action by the parties) for one year thereafter and again on each subsequent anniversary thereof, unless terminated by mutual written consent of the parties.

The Company has entered into an employment agreement with Mr. Wells, effective as of December 30, 2008, that provides for his employment as Vice President, Human Resources and Information Technology at a salary of not less than \$280,000 per year. Under the agreement, Mr. Wells is entitled to participate in any benefit plan for which key executives of the Company are eligible, including the MICP. Upon termination of his employment by the Company for any reason other than cause or upon his resignation from the Company for good reason, Mr. Wells will be entitled to his then current base salary, pro-rated target bonus and benefits for nine (9) months, as well as outplacement services for six (6) months not to exceed \$8,000 in value. The agreement will continue for one year and will be automatically extended (without further action by the parties) for one year thereafter and again on each subsequent anniversary thereof, unless terminated by mutual written consent of the parties.

#### Certain Other Payments Upon a Change of Control

Named Executive Officers. Each of our named executive officers has entered into change of control severance agreements (the “Change of Control Agreements”) that may require us to make certain payments and/or provide certain



benefits to certain executive officers in the event of a termination of employment or a change of control.

**Change of Control.** A “change of control” is defined in the Change of Control Agreements as the occurrence of any of the following events: (i) a merger, amalgamation or acquisition in which the Company is not the surviving or continuing entity, except for a transaction the principal purpose of which is to change the jurisdiction of the Company’s organization; (ii) the sale, transfer or other disposition of all or substantially all of the assets of the Company; (iii) any other reorganization or business combination in which fifty percent (50%) or more of the Company’s outstanding voting securities are transferred to different holders in a single transaction or series of related transactions; (iv) any approval by the shareholders of the Company of a plan of complete liquidation of the Company; (v) any “person” (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended) becoming the “beneficial owner” (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the total voting power represented by the Company’s then outstanding voting securities; or (vi) a change in the composition of the Board, as a result of which fewer than a majority of the directors are incumbent directors.

**Vesting of Options.** If a named executive officer’s employment is involuntarily terminated within eighteen (18) months of a change of control, the exercisability of all options granted to such named executive officer by the Company shall automatically be accelerated so that all the options may be exercised immediately upon such involuntary termination for any or all of the shares subject thereto and the post-termination exercise period shall be extended to sixty (60) months or the remainder of the maximum term of the options (or such shorter period of time to avoid the application of Section 409A of the Code). The options shall continue to be subject to all other terms and conditions of the Company’s share option plans and the applicable option agreements between the employee and the Company.

**Outplacement Program.** If a named executive officer’s employment is involuntarily terminated within eighteen (18) months of a change of control, the named executive officer will immediately become entitled to participate in a twelve (12) month executive outplacement program provided by an executive outplacement service, at the Company’s expense not to exceed \$15,000.

**Cash Severance.** If a named executive officer’s employment is involuntarily terminated within eighteen (18) months of a change of control, then the named executive officer shall be entitled to receive a severance payment equal to the sum of (A) an amount equal to 1.5 times (or, in the case of Mr. Engle, 2.0 times) the named executive officer’s annual base salary as in effect immediately prior to the involuntary termination, plus (B) an amount equal to 1.5 times (or, in the case of Mr. Engle, 2.0 times) the named executive officer’s target bonus as in effect for the fiscal year in which the involuntary termination occurs.

**Health and Other Benefits.** If a named executive officer’s employment is involuntarily terminated within eighteen (18) months of a change of control, then for a period of eighteen (18) months (or, in the case of Mr. Engle, twenty-four (24) months) following such termination, (A) the Company shall make available and pay for the full cost of the coverage (plus an additional amount to pay for the taxes on such payments, if any, plus any taxes on such additional amount) of the named executive officer and his or her spouse and eligible dependents under any group health plans of the Company on the date of such termination of employment at the same level of health (i.e., medical, vision and dental) coverage and benefits as in effect for the named executive officer or such covered dependents on the date immediately preceding the date of his or her termination and (B) if the named executive officer is, at the time of such termination, an eligible participant in the Company’s mortgage differential program, the Company shall continue to make mortgage assistance payments to such named executive officer pursuant to such program as in effect at the time of such termination.

Compensation Committee Report on Executive Compensation

The Company's compensation program for officers (including the named executive officers) is administered by the Compensation Committee, which is composed of three independent directors. Following review and approval by the Compensation Committee, all issues pertaining to officer compensation are submitted to the full Board for approval.

Based on the review and discussions referred to above, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in the 2009 Form 10-K.

W. Denman Van Ness,  
Chairman  
William K. Bowes, Jr.  
Charles J. Fisher, Jr.,  
M.D.

## Compensation of Directors

The primary objectives of the Company's director compensation program are to enable the Company to attract, motivate and retain outstanding individuals and align their success with that of the Company's shareholders through the creation of shareholder value. We attract and retain directors by benchmarking against companies in our industry of similar size to ensure that our director compensation packages remain competitive. The different elements of director compensation are considered in light of the compensation packages provided to similarly situated directors at peer companies.

The Compensation Committee has retained the services of the Consultant to assist in evaluating the Company's director compensation program against the relevant market. The Consultant created a survey (the "Director Compensation Survey") which compared the Company's director pay levels to those of the same peer group of companies used in the Executive Compensation Survey. In preparing the Director Compensation Survey, the Compensation Committee has relied on the Consultant to conduct its own research, compile its own survey data and provide a summary of such data relevant to the Compensation Committee's decisions with respect to setting director compensation levels. The benchmarking process for director compensation used by the Compensation Committee based on the Director Compensation Survey is substantially similar to the process for evaluating executive compensation described above under "Compensation Discussion and Analysis." Following the benchmarking process for 2010, the only changes to directors compensation were an increase in the annual cash fees paid to the Audit Committee chairman, other members of the Audit Committee and the Lead Independent Director from \$15,000 to \$20,000, from \$7,500 to \$9,000 and from \$10,000 to \$20,000, respectively, effective July 1, 2010 and an increase in the number of options to be granted to non-employee directors upon initial election and annually from 70,000 to 175,000 and from 35,000 (or 45,000 in the case of the Lead Independent Director) to 75,000 (or 95,000 in the case of the Lead Independent Director), respectively.

The table below sets forth the non-employee director compensation for 2009.

| Name                         | Fees Earned or Paid in Cash (\$) | Stock Awards (\$) | Option Awards (\$)(1) | Non-Equity Incentive Plan Compensation (\$) | Change in Pension Value and Nonqualified Deferred Compensation Earnings | All Other Compensation (\$) | Total    |
|------------------------------|----------------------------------|-------------------|-----------------------|---|---|-----------------------------|----------|
| William K. Bowes, Jr.        | \$54,250                         | \$0               | \$17,881              | \$ 0  | \$ 0  | \$ 0                        | \$72,131 |
| Charles J. Fisher, Jr., M.D. | \$41,000                         | \$0               | \$17,881              | \$ 0  | \$ 0  | \$ 0                        | \$58,881 |
| Peter Barton Hutt            | \$41,000                         | \$0               | \$17,881              | \$ 0  | \$ 0  | \$ 0                        | \$58,881 |
| W. Denman Van Ness           | \$70,500                         | \$0               | \$22,990              | \$ 0  | \$ 0  | \$ 0                        | \$93,490 |

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|                   |           |     |           |      |      |      |           |
|-------------------|-----------|-----|-----------|------|------|------|-----------|
| John Varian       | \$46,042  | \$0 | \$17,881  | \$ 0 | \$ 0 | \$ 0 | \$63,923  |
| Patrick J. Zenner | \$50,000  | \$0 | \$17,881  | \$ 0 | \$ 0 | \$ 0 | \$67,881  |
| Total             | \$302,792 | \$0 | \$112,395 | \$ 0 | \$ 0 | \$ 0 | \$415,187 |

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(1) The option amounts represent the aggregate grant date fair value for option awards computed in accordance with FASB ASC Topic 718. See Notes 2 and 9 of the consolidated financial statements in the 2009 Form 10-K regarding assumptions underlying valuation of equity awards. As of December 31, 2009, the aggregate option amounts outstanding for each non-employee director were as follows: Mr. Bowes—177,000; Dr. Fisher—198,600; Mr. Hutt—200,600; Mr. Van Ness—269,500 (224,500 of which are held by The Van Ness 1983 Revocable Trust); Mr. Varian—105,000 and Mr. Zenner—196,800.

### Director Compensation Policy

Effective July 1, 2010, each non-employee director will receive an annual retainer of \$35,000, plus an additional (1) \$20,000, in the case of the chairman of the Audit Committee, (2) \$9,000, in the case of any other member of the Audit Committee, (3) \$12,000, in the case of the chairman of the Compensation Committee or Nominating & Governance Committee, (4) \$6,000, in the case of any other member of the Compensation Committee or Nominating & Governance Committee, and (5) \$20,000, in the case of the Lead Independent Director. The Company's directors do not receive meeting fees.

Additionally, assuming shareholder approval of Item 6 of this proxy statement, each non-employee director will be granted options to purchase 175,000 Common Shares pursuant to the Long Term Incentive Plan upon initial election to the Board and will be annually granted an option to purchase 75,000 Common Shares (other than the Lead Independent Director, who is annually granted an option to purchase 95,000 Common Shares) pursuant to the Long Term Incentive Plan upon reelection to the Board, each at an exercise price per share equal to the closing market price of the Common Shares on the date of grant. In 2009, all non-employee directors other than Mr. Van Ness, the Lead Independent Director, were granted an option to purchase 35,000 Common Shares pursuant to the Directors Plan and Mr. Van Ness was granted an option to purchase 45,000 Common Shares pursuant to the Directors Plan, all at an exercise price of \$0.76 per share.

Directors who are employees of the Company are neither paid any fees or other remuneration nor awarded options or Common Shares of the Company for services as members of the Board or its committees.

### Compensation Committee Interlocks and Insider Participation

None of the members of the Compensation Committee who served on the Compensation Committee in 2009 or who presently serve on the Compensation Committee has interlocking relationships as defined by the SEC or had any relationships requiring disclosure by the Company under the SEC's rules requiring disclosure of certain relationships and related party transactions.

### Item 15. Exhibits and Financial Statement Schedules.

- (a) The following documents are included as part of this Annual Report on Form 10-K:

(1) Financial Statements:

All financial statements of the registrant referred to in Item 8 of the Original Form 10-K.

(2) Financial Statement Schedules:

All financial statements schedules have been omitted because the required information is included in the consolidated financial statements or the notes thereto or is not applicable or required.

(3) Exhibits:

See "Index to Exhibits" on page 35 of this report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this ---27th day of December 2010.

XOMA LTD.

By: /s/ Steven B  
Engle\_\_\_\_\_

Steven B. Engle  
Chairman of the Board, Chief Executive  
Officer and President

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

| Signature   | Title   | Date              |
|---|---|-------------------|
| /s/ Steven B. Engle<br>(Steven B. Engle)                    | Chairman of the Board, Chief Executive<br>Officer and President (Principal<br>Executive Officer)                            | December 27, 2010 |
| /s/ Fred Kurland<br>(Fred Kurland)                          | Vice President, Finance and Chief<br>Financial Officer (Principal Financial<br>Officer and Principal Accounting<br>Officer) | December 27, 2010 |
| /s/ Patrick J. Scannon<br>(Patrick J. Scannon, M.D., Ph.D.) | Executive Vice President, Chief<br>Medical Officer and Director   | December 27, 2010 |
| /s/ W. Denman Van Ness<br>(W. Denman Van Ness)              | Lead Director   | December 27, 2010 |
| /s/ William K. Bowes, Jr.<br>(William K. Bowes, Jr.)        | Director  | December 27, 2010 |
| /s/ Charles J. Fisher<br>(Charles J. Fisher, M.D.)          | Director  | December 27, 2010 |
| /s/ Peter Barton Hutt<br>(Peter Barton Hutt)                | Director  | December 27, 2010 |
|   | Director  | December 27, 2010 |



/s/ John Varian  
(John Varian)

/s/ Timothy P. Walbert  
(Timothy P. Walbert)

Director

December 27, 2010

/s/ Jack L. Wyszomierski  
(Jack L. Wyszomierski)

Director

December 27, 2010

Index to Exhibits

| Exhibit<br>Number |   |
|-------------------|---|
| 1.1               | Underwriting Agreement dated February 2, 2010 (Exhibit 10.1) 1  |
| 3.1               | Memorandum of Continuance of XOMA Ltd. (Exhibit 3.4) 2  |
| 3.2               | Bye-Laws of XOMA Ltd. (as amended) (Exhibit 3.2) 3  |
| 4.1               | Shareholder Rights Agreement dated as of February 26, 2003, by and between XOMA Ltd. and Mellon Investor Services LLC as Rights Agent (Exhibit 4.1) 3                       |
| 4.2               | Resolution Regarding Preferences and Rights of Series A Preference Shares (Exhibit A to Exhibit 4.1) 3  |
| 4.3               | Resolution Regarding Preferences and Rights of Series B Preference Shares (Exhibit B to Exhibit 3) 4  |
| 4.4               | Form of Common Stock Purchase Warrant (Incyte Warrants) (Exhibit 2) 35  |
| 4.5               | Indenture between XOMA Ltd. and Wells Fargo Bank, National Association, as trustee, relating to the Company's 6.50% Convertible SNAPs SM due February 1, 2012 (Exhibit 2) 5 |
| 4.6               | Form of Warrant (May 2009 Warrants) (Exhibit 10.2) 6  |
| 4.7               | Form of Warrant (June 2009 Warrants) (Exhibit 10.2) 7   |
| 4.8               | Form of Warrant (February 2010 Warrants) (Exhibit 10.2) 1   |
| 4.9               | Form of Amended and Restated Warrant (May 2009 Warrants) (Exhibit 10.5) 1   |
| 4.10              | Form of Amended and Restated Warrant (June 2009 Warrants) (Exhibit 10.6) 1  |
| 5.1               | Legal Opinion of Conyers Dill & Pearman Regarding Shares Issued Pursuant to At Market Issuance Sales Agreement**  |
| 5.1A              | Legal Opinion of Conyers Dill & Pearman Regarding Shares Issued Pursuant to At Market Issuance Sales Agreement (37)   |
| 10.1              | 1981 Share Option Plan as amended and restated (Exhibit 10.1) 8   |
| 10.1A             |   |

Form of Share Option Agreement for 1981 Share Option Plan (Exhibit 10.1A) 9

- 10.1B Amendment to 1981 Share Option Plan (Exhibit 10.1B) 10
- 10.1C Amendment No. 2 to 1981 Share Option Plan (Exhibit 10.1C) 10
- 10.1D Amendment No. 3 to 1981 Share Option Plan (Exhibit 10.1) 11
- 10.2 Restricted Share Plan as amended and restated (Exhibit 10.3) 8

- 10.2A Form of Share Option Agreement for Restricted Share Plan (Exhibit 10.2A) 9
- 10.2B Amendment to Restricted Share Plan (Exhibit 10.2C) 10
- 10.2C Amendment No. 2 to Restricted Share Plan (Exhibit 10.2D) 10
- 10.2D Amendment No. 3 to Restricted Share Plan (Exhibit 10.2D) 9
- 10.2E Amendment No. 4 to Restricted Share Plan (Exhibit 10.2) 11
- 10.2F 2007 CEO Share Option Plan (Exhibit 10.7) 12
- 10.3 1992 Directors Share Option Plan as amended and restated (Exhibit 10.3) 9
- 10.3A Amendment No. 1 to 1992 Directors Share Option Plan 13
- 10.3B Form of Share Option Agreement for 1992 Directors Share Option Plan (initial grants) (Exhibit 10.3A) 9
- 10.3C Form of Share Option Agreement for 1992 Directors Share Option Plan (subsequent grants) (Exhibit 10.3B) 9
- 10.3D 2002 Director Share Option Plan (Exhibit 10.10) 8
- 10.4 Management Incentive Compensation Plan as amended and restated (Exhibit 10.3) 11
- 10.4A CEO Incentive Compensation Plan (Exhibit 10.4A) 9
- 10.4B Bonus Compensation Plan (Exhibit 10.4B) 9
- 10.5 1998 Employee Share Purchase Plan as amended and restated (Exhibit 10.11) 8
- 10.5A Amendment to 1998 Employee Share Purchase Plan (Exhibit 10.5A) 10
- 10.5B Amendment No. 2 to 1998 Employee Share Purchase Plan (Exhibit 10.5B) 10
- 10.6 Form of Amended and Restated Indemnification Agreement for Officers (Exhibit 10.6) 14
- 10.6A Form of Amended and Restated Indemnification Agreement for Employee Directors (Exhibit 10.7) 14
- 10.6B Form of Amended and Restated Indemnification Agreement for Non-employee Directors (Exhibit 10.8) 14

- 10.7 Amended and Restated Employment Agreement entered into between XOMA (US) LLC and Steven B. Engle, dated as of December 30, 2008\*
- 10.7A Amended and Restated Employment Agreement entered into between XOMA (US) LLC and Patrick J. Scannon, dated as of December 30, 2008\*
- 10.7B Employment Agreement entered into between XOMA (US) LLC and Fred Kurland, dated as of December 29, 2008\*
- 10.7C Amended and Restated Employment Agreement entered into between XOMA (US) LLC and Christopher J. Margolin, dated as of December 30, 2008\*

- 10.7D Amended and Restated Employment Agreement entered into between XOMA (US) LLC and Charles C. Wells, dated as of December 30, 2008\*
- 10.7E Consulting Agreement effective as of August 3, 2007 between XOMA (US) LLC and John L. Castello (Exhibit 10.8) 12
- 10.8 Form of Change of Control Severance Agreement entered into between XOMA Ltd. and certain of its executives, with reference schedule\*\*
- 10.9 Lease of premises at 890 Heinz Street, Berkeley, California dated as of July 22, 1987 (Exhibit 10.12) 15
- 10.10 Lease of premises at Building E at Aquatic Park Center, Berkeley, California dated as of July 22, 1987 and amendment thereto dated as of April 21, 1988 (Exhibit 10.13) 15
- 10.11 Lease of premises at Building C at Aquatic Park Center, Berkeley, California dated as of July 22, 1987 and amendment thereto dated as of August 26, 1987 (Exhibit 10.14) 15
- 10.12 Letter of Agreement regarding CPI adjustment dates for leases of premises at Buildings C, E and F at Aquatic Park Center, Berkeley, California dated as of July 22, 1987 (Exhibit 10.15) 15
- 10.13 Lease of premises at 2910 Seventh Street, Berkeley, California dated March 25, 1992 (Exhibit 10.16) 15
- 10.13A Fifth amendment to lease of premises at 2910 Seventh Street, Berkeley, California dated June 1, 2006 (Exhibit 10.58) 16
- 10.14 Lease of premises at 5860 and 5864 Hollis Street, Emeryville, California dated as of November 2, 2001 (with addendum) (Exhibit 10.19) 17
- 10.15 Lease of premises at 2850 Seventh Street, Second Floor, Berkeley, California dated as of December 28, 2001 (with addendum and guaranty) (Exhibit 10.20) 17
- 10.16 Amended and Restated Research and License Agreement dated September 1, 1993, between the Company and New York University (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 10.28) 15
- 10.16A Third Amendment to License Agreement dated June 12, 1997, between the Company and New York University (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 10.28A) 15

- 10.16B Fourth Amendment to License Agreement dated December 23, 1998, between the Company and New York University (Exhibit 10.22B) 18
- 10.16C Fifth Amendment to License Agreement dated June 25, 1999, between the Company and New York University (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 10.21C) 19
- 10.16D Sixth Amendment to License Agreement dated January 25, 2000, between the Company and New York University (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 10.1) 20

- 10.16E Seventh Amendment to License Agreement by and among New York University, XOMA Technology Limited and XOMA Ireland Limited effective as of November 10, 2004 (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 3) 21
- 10.17 Second Amended and Restated Collaboration Agreement dated January 12, 2005, by and between XOMA (US) LLC and Genentech, Inc. (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) 10
- 10.17A Agreement related to LUCENTIS ® License Agreement and RAPTIVA ® Collaboration Agreement dated September 9, 2009, by and between XOMA (Bermuda) Ltd., XOMA (US) LLC and Genentech, Inc. (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 10.18A) 22
- 10.18 License Agreement by and between XOMA Ireland Limited and MorphoSys AG, dated as of February 1, 2002 (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 10.43) 23
- 10.19 Amended and Restated License Agreement by and between XOMA Ireland Limited and DYAX Corp., dated as of October 27, 2006 (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 10.32) 14
- 10.20 License Agreement by and between XOMA Ireland Limited and Cambridge Antibody Technology Limited, dated as of December 22, 2002 (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 10.46) 3
- 10.21 License Agreement, dated as of December 29, 2003, by and between Diversa Corporation and XOMA Ireland Limited (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 2) 24
- 10.22 Agreement, dated February 27, 2004, by and between Chiron Corporation and XOMA (US) LLC (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission)



(Exhibit 10.50) 25

- 10.22A Research, Development and Commercialization Agreement, dated as of May 26, 2005, by and between Chiron Corporation and XOMA (US) LLC (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 10.2) 26
- 10.22B Secured Note Agreement, dated as of May 26, 2005, by and between Chiron Corporation and XOMA (US) LLC (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 10.3) 26

- 10.22C Amended and Restated Agreement Research, Development and Commercialization Agreement, executed November 7, 2008, by and between Novartis Vaccines and Diagnostics, Inc. (formerly Chiron Corporation) and XOMA (US) LLC (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) 13
- 10.22D Manufacturing and Technology Transfer Agreement, executed December 16, 2008, by and between Novartis Vaccines and Diagnostics, Inc. (formerly Chiron Corporation) and XOMA (US) LLC (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) 13
- 10.23 Collaboration Agreement, dated as of September 23, 2004, by and between Apton Corporation and XOMA (US) LLC (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 2) 27
- 10.24 Agreement dated March 8, 2005, between XOMA (US) LLC and the National Institute of Allergy and Infectious Diseases (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 10.53) 10
- 10.24A Agreement dated July 28, 2006, between XOMA (US) LLC and the National Institute of Allergy and Infectious Diseases (Exhibit 10.60) 16
- 10.24B Agreement dated September 15, 2008, between XOMA (US) LLC and the National Institute of Allergy and Infectious Diseases (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 10.39) 28
- 10.24C Second Amendment to Agreement dated September 15, 2008, between XOMA (US) LLC and National Institute of Allergy and Infectious Diseases (Exhibit 10.24C)(38)
- 10.25 License Agreement, effective as of June 20, 2005, by and between Merck & Co., Inc. and XOMA Ireland Limited (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 10.4) 26
- 10.26 Form of Dealer Manager Agreement relating to the Company's 6.50% Convertible SNAPs SM due February 1, 2012 (Exhibit 1.1) 29

- 10.26A Form of Placement Agreement relating to the Company's 6.50% Convertible SNAPs SM due February 1, 2012 (Exhibit 1.2) 29
- 10.27 Collaboration Agreement dated as of May 22, 2006, by and between Schering Corporation, acting through its Schering-Plough Research Institute division, and XOMA (US) LLC (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 10.59) 16
- 10.28 Collaboration Agreement, dated as of November 1, 2006, between Takeda Pharmaceutical Company Limited and XOMA (US) LLC (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 10.46) 14

- 10.28A First Amendment to Collaboration Agreement, effective as of February 28, 2007, between Takeda Pharmaceutical Company Limited and XOMA (US) LLC (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 10.48) 30
- 10.28B Second Amendment to Collaboration Agreement, effective as of February 9, 2009, among Takeda Pharmaceutical Company Limited and XOMA (US) LLC (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) 13
- 10.29 Loan Agreement, dated as of November 9, 2006, between Goldman Sachs Specialty Lending Holdings, Inc., XOMA (US) LLC and XOMA Ltd. (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 10.47) 14
- 10.29A Amended & Restated Loan Agreement, dated as of May 9, 2008 between Goldman Sachs Specialty Lending Holdings, Inc., XOMA Ltd. and XOMA (US) LLC (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 10.37) 31
- 10.30 License Agreement, effective as of August 27, 2007, by and between Pfizer Inc. and XOMA Ireland Limited (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 2) 32
- 10.31 Common Stock Purchase Agreement, dated as of October 21, 2008, by and between XOMA Ltd. and Azimuth Opportunity Ltd. (Exhibit 10.1) 33
- 10.31A Common Share Purchase Agreement, dated as of July 23, 2010, by and between XOMA Ltd. and Azimuth Opportunity Ltd. (Exhibit 10.1) 36
- 10.32 Securities Purchase Agreement dated May 15, 2009, between XOMA Ltd. and the investors named therein (Exhibit 10.1) 6
- 10.32A Engagement Letter dated May 15, 2009 (Exhibit 10.3) 6
- 10.33 Securities Purchase Agreement dated June 5, 2009, between XOMA Ltd. and the investors named therein (Exhibit 10.1) 7
- 10.33A Engagement Letter dated June 4, 2009 (Exhibit 10.3) 7

- 10.34 Discovery Collaboration Agreement dated September 9, 2009, by and between XOMA Development Corporation and Arana Therapeutics Limited (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 10.35) 34
- 10.35 At Market Issuance Sales Agreement dated July 14, 2009, by and between XOMA Ltd. and Wm Smith & Co. (Exhibit 10.36) 22
- 10.35A At Market Issuance Sales Agreement dated October 26, 2010, by and between XOMA Ltd. and Wm Smith & Co. (Exhibit 10.1) 37
- 10.36 Discovery Collaboration Agreement dated October 29, 2009, by and between XOMA Development Corporation and The Chemo-Sero-Therapeutic Research Institute (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission)\*\*

- 10.37 Warrant Amendment Agreement dated February 2, 2010 (May 2009 Warrants) (Exhibit 10.3) 1
- 10.37A Form of Warrant Amendment Agreement dated February 2, 2010 (June 2009 Warrants) (Exhibit 10.4) 1
- 10.38 Royalty Purchase Agreement, dated as of August 12, 2010, by and among XOMA CDRA LLC, XOMA (US) LLC, XOMA Ltd., the buyer named therein (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission)(Exhibit 10.38)(38)
- 21.1 Subsidiaries of the Company\*\*
- 23.1 Consent of Independent Registered Public Accounting Firm\*\*
- 31.1 Certification of Steven B. Engle, filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002\*
- 31.2 Certification of Fred Kurland, filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002\*
- 32.1 Certification of Steven B. Engle, furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002\*
- 32.2 Certification of Fred Kurland, furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002\*
- 99.1 Press Release dated March 11, 2010 furnished with the Original Form 10-K\*\*

Footnotes:

- \*\* Filed with the Original Form 10-K.
- \* Filed herewith.
- 1 Incorporated by reference to the referenced exhibit to the Company's Current Report on Form 8-K filed February 2, 2010.
- 2 Incorporated by reference to the referenced exhibit to the Company's Registration Statement on Form S-4 filed November 27, 1998, as amended.
- 3 Incorporated by reference to the referenced exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002.
- 4 Incorporated by reference to the referenced exhibit to the Company's Amendment No. 1 to Form 8-K/A filed April 18, 2003.
- 5 Incorporated by reference to the referenced exhibit to the Company's Current Report on Form 8-K filed February 13, 2006.
- 6 Incorporated by reference to the referenced exhibit to the Company's Current Report on Form 8-K filed May 19, 2009.

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- 7 Incorporated by reference to the referenced exhibit to the Company's Current Report on Form 8-K filed June 10, 2009.
- 8 Incorporated by reference to the referenced exhibit to the Company's Registration Statement on Form S-8 filed August 28, 2003.
- 9 Incorporated by reference to the referenced exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007, as amended.
- 10 Incorporated by reference to the referenced exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004.
- 11 Incorporated by reference to the referenced exhibit to the Company's Current Report on Form 8-K filed November 6, 2007.

- 12 Incorporated by reference to the referenced exhibit to the Company's Current Report on Form 8-K filed August 7, 2007.
- 13 Incorporated by reference to the referenced exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.
- 14 Incorporated by reference to the referenced exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.
- 15 Incorporated by reference to the referenced exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997, as amended.
- 16 Incorporated by reference to the referenced exhibit to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006.
- 17 Incorporated by reference to the referenced exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.
- 18 Incorporated by reference to the referenced exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1998.
- 19 Incorporated by reference to the referenced exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1999.
- 20 Incorporated by reference to the referenced exhibit to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2000.
- 21 Incorporated by reference to the referenced exhibit to the Company's Amendment No. 1 on Form 8-K/A filed November 30, 2004.
- 22 Incorporated by reference to the referenced exhibit to the Company's Quarterly Report on Form 10-Q filed November 9, 2009.
- 23 Incorporated by reference to the referenced exhibit to Amendment No. 2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2002 filed on December 12, 2002.
- 24 Incorporated by reference to the referenced exhibit to the Company's Amendment No. 2 on Form 8-K/A filed March 19, 2004.
- 25 Incorporated by reference to the referenced exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003.
- 26 Incorporated by reference to the referenced exhibit to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2005.
- 27 Incorporated by reference to the referenced exhibit to the Company's Amendment No. 1 on Form 8-K/A filed October 26, 2004.
- 28 Incorporated by reference to the referenced exhibit to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2008.
- 29 Incorporated by reference to the referenced exhibit to Amendment No. 2 to the Company's Registration Statement on Form S-4 filed January 11, 2006.
- 30 Incorporated by reference to the referenced exhibit to Amendment No. 1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2007 filed on March 5, 2010.
- 31 Incorporated by reference to the referenced exhibit to Amendment No. 2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2008 filed on March 5, 2010.
- 32 Incorporated by reference to the referenced exhibit to the Company's Current Report on Form 8-K filed September 13, 2007.
- 33 Incorporated by reference to the referenced exhibit to the Company's Current Report on Form 8-K filed October 22, 2008.
- 34



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- Incorporated by reference to the referenced exhibit to Amendment No. 1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2009 filed on March 5, 2010.
- 35 Incorporated by reference to the referenced exhibit to the Company's Current Report on Form 8-K filed July 16, 1998.
- 36 Incorporated by reference to the referenced exhibit to the Company's Current Report on Form 8-K filed July 23, 2010.
- 37 Incorporated by reference to the referenced exhibit to the Company's Current Report on Form 8-K filed October 26, 2010.
- 38 Incorporated by reference to the referenced exhibit to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2010 filed on November 4, 2010.

Certification  
Pursuant to Section 302 Of The Sarbanes-Oxley Act Of 2002  
(Chapter 63, Title 18 U.S.C. Section 1350(A) And (B))

I, Steven B. Engle, certify that:

1. I have reviewed this annual report on Form 10-K of XOMA Ltd.;
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 officers 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))) for the registrant and we 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 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 officers 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 registrant's board of directors (or persons performing the equivalent function):
  - (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: December 27, 2010

/s/ Steven B. Engle  
Steven B. Engle  
Chairman, Chief Executive Officer and  
President

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Certification  
Pursuant to Section 302 Of The Sarbanes-Oxley Act Of 2002  
(Chapter 63, Title 18 U.S.C. Section 1350(A) And (B))

I, Fred Kurland, certify that:

1. I have reviewed this annual report on Form 10-K of XOMA Ltd.;
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 officers 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))) for the registrant and we 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 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 officers 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 registrant's board of directors (or persons performing the equivalent function):
  - (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: December 27, 2010

/s/ Fred Kurland  
Fred Kurland  
Vice President, Finance and Chief  
Financial Officer

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Certification

Pursuant to Section 906 Of The Sarbanes-Oxley Act Of 2002  
(Chapter 63, Title 18 U.S.C. Section 1350(A) And (B))

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chapter 63, Title 18 U.S.C. Section 1350(a) and (b)), the undersigned hereby certifies in his capacity as an officer of XOMA Ltd. (the "Company") that the Annual Report of the Company on Form 10-K for the year ended December 31, 2009, fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended, and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company at the end of and for the periods covered by such Report.

Date: December 27, 2010

/s/ Steven B. Engle  
Steven B. Engle  
Chairman, Chief Executive Officer and  
President

This certification will not be deemed filed for purposes of Section 18 of the Exchange Act (15 U.S.C. 78), or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

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Certification

Pursuant to Section 906 Of The Sarbanes-Oxley Act Of 2002  
(Chapter 63, Title 18 U.S.C. Section 1350(A) And (B))

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chapter 63, Title 18 U.S.C. Section 1350(a) and (b)), the undersigned hereby certifies in his capacity as an officer of XOMA Ltd. (the “Company”) that the Annual Report of the Company on Form 10-K for the year ended December 31, 2009, fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended, and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company at the end of and for the periods covered by such Report.

Date: December 27,  
2010

/s/ Fred Kurland  
Fred Kurland  
Vice President, Finance and Chief  
Financial Officer

This certification will not be deemed filed for purposes of Section 18 of the Exchange Act (15 U.S.C. 78), or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

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