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

Form 10-K

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

OR

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

For the fiscal year ended December 31, 2001 Commission File No. 0-14710

XOMA LTD.
(Exact name of registrant as specified in its charter)

Bermuda	52-2154066
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2910 Seventh Street, Berkeley, California	94710
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (510) 644-1170

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Shares, U.S. $.0005 par value
Preference Share Purchase Rights

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 X 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. [ ]

The aggregate market value of voting common equity held by nonaffiliates of the registrant, as of February 28, 2002: $564,884,667

Number of Common Shares outstanding as of February 28, 2002: 70,259,287

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement for the Company's 2002 Annual General Meeting of Shareholders are incorporated by reference into Part III of this Report.

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PART I

Item 1. Business

General

XOMA Ltd. ("XOMA" or the "Company") is a biopharmaceutical company that develops and manufactures recombinant antibodies and other protein products to treat cancer, immunological and inflammatory disorders, and infectious diseases. The Company's current product development programs include:

- Xanelim(TM), also known as Efalizumab, is a humanized anti-CD11a monoclonal antibody product being developed in collaboration with Genentech, Inc. ("Genentech") to treat psoriasis, rheumatoid arthritis and organ transplant rejection. Data from two pivotal Phase III studies of Xanelim(TM)in nearly 1,100 moderate-to-severe plaque psoriasis patients were presented in June and July of 2001. Both trials met all primary and secondary endpoints. In October of 2001, XOMA and Genentech announced plans to complete an additional pharmacokinetics study for inclusion in the potential Biologics

License Application submission to the FDA. Pending favorable results from this study, a Biologics License Application filing for Xanelim(TM)in patients with moderate-to-severe plaque psoriasis is planned for summer 2002. At the American Academy of Determatology meeting held in February of 2002, encouraging data were presented, providing further evidence of the product's safety and efficacy. XOMA has also initiated and completed enrollment in a Phase I/II study of Efalizumab (anti-CD11a) to prevent graft rejection in kidney transplant recipients. Plans for further development are under review with Genentech. In January of 2002, XOMA and Genentech announced plans to conduct a Phase II clinical study of Efalizumab in patients suffering from rheumatoid arthritis.

- NEUPREX(R), also known as rBPI21, is a genetically-engineered fragment of human bactericidal/permeability-increasing protein ("BPI"). XOMA completed a Phase III efficacy clinical trial in 1999, testing NEUPREX(R) in severe pediatric meningococcemia, but the data from the trial were determined not to be sufficient to file for regulatory approval. Further development of this product is continuing under a license agreement with a division of Baxter Healthcare Corporation ("Baxter"), and a Phase II study testing NEUPREX(R) in Crohn's disease is continuing to enroll patients. XOMA is providing the product for testing, and Baxter in conducting the study and funding all NEUPREX(R) development costs.

- ING-1 is a Human Engineered(TM)recombinant monoclonal antibody that binds with high affinity to an antigen expressed on epithelial cell cancers (breast, colorectal, prostate and others) that is designed to destroy cancer cells by recruiting the patient's own immune system. Enrollment has been completed in a Phase I study in advanced adenocarcinoma patients. The ING-1 monoclonal antibody incorporates XOMA's patented Human Engineering(TM) technology, designed to reduce immunogenicity. Additional Phase I/II studies are in progress or in planning to further evaluate the safety, immunogenicity, pharmocodynamics and pharmacokinetics of ING-1 in cancer patients, and to document any observed anti-tumor activity. Further testing will be determined by the results of these studies.

- ONYX-015, also known as CI-1042, developed by Onyx Pharmaceuticals, Inc. ("Onyx"), is a therapeutic tumor-selective, modified adenovirus genetically engineered to destroy cancer cells. Under a strategic process development and manufacturing alliance with Onyx, XOMA is scaling up production to commercial volume and will manufacture ONYX-015. The product is currently in a Phase III clinical trial for recurrent head and neck cancer and in Phase I and II clinical trials for a number of additional cancer indications.

- CAB2 and MLN01, two of Millennium Pharmaceuticals, Inc.'s biotherapeutic agents, are being developed for certain vascular inflammation indications pursuant to a collaboration agreement with Millen-

nium that was announced in November of 2001. Current plans call for process development work and preclinical testing in 2002.

- BPI-derived anti-angiogenic compounds with potential application for treating retinal disorders are being developed by XOMA. Results of in vitro and in vivo studies conducted by the Joslin Diabetes Center at Harvard University ("Joslin") showed that compounds derived from BPI inhibit abnormal growth of blood vessels in the retina while sparing key retinal cells. Joslin is conducting further research in collaboration with XOMA.

The following table contains information regarding the products we currently have in development, including indications, FDA regulatory status and names of our collaborators, if any:

<TABLE>
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Program	Description	Indication	Status*	Collaborator
<S>	<C>	<C>	<C>	<C>
Xanelim(TM)	humanized anti-CD11a monoclonal antibody	moderate-to-severe plaque psoriasis	Phase III	Genentech
		kidney transplant rejection	Phase I/II	Genentech
		rheumatoid arthritis	Phase II	Genentech

ONYX-015	genetically modified adenovirus	head and neck cancer	Phase III	Onyx
ING-1	Human Engineered(TM) antibody	adenocarcinomas	Phase I	None
rBPI21	IV formulation (NEUPREX(R))	severe pediatric meningococcemia	Phase III	Baxter
		Crohn's disease	Phase II	Baxter
CAB2	recombinant fusion protein complement inhibitor	cardiopulmonary bypass surgeries	Preclinical	Millennium
MLN01	humanized monoclonal antibody	vascular inflammation indications	Preclinical	Millennium
Other BPI-Derived Compounds	anti-angiogenic	retinal disorders	Preclinical	Joslin
	antibacterial	gram-negative and gram-positive infections	Research	None

Program	Description	Indication	Status*	Collaborator
Lipopoly-saccharide Binding Protein (LBP)	diagnostic assay	systemic infections	Marketed in Europe	Diagnostics Products Corporation
			In testing	Biosite

* Research: in vitro studies; Preclinical: in vivo studies

In 1998, XOMA completed a shareholder-approved corporate reorganization, changing its legal domicile from Delaware to Bermuda and its 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.

Development Programs and Technologies

The following describes XOMA's more significant product development programs and technologies:

Antibody Programs

Xanelim(TM)

In September of 1996, XOMA and Genentech announced that an investigational new drug application (IND) had been filed with the FDA for clinical testing of Xanelim(TM) (Efalizumab) in patients with moderate-to-severe psoriasis. XOMA completed a Phase II efficacy study in Canada in psoriasis patients in late 1998, subsequently received a $2 million milestone payment from Genentech, and

agreed with Genentech to continue collaborative development of the product in psoriasis through Phase III and to expand the program to include all additional indications for the product.

In June and July of 2001, data from two pivotal Phase III studies in nearly 1,100 moderate-to-severe plaque psoriasis patients were presented. Both trials met all primary and secondary endpoints. In October of 2001, XOMA and Genentech announced plans to complete an additional pharmacokinetics study for inclusion in the potential biologics license application submission to the FDA. Pending favorable results of the ongoing pharmacokinetic study, a Biologics License Application filing for Xanelim(TM) in patients with moderate-to-severe plaque psoriasis is anticipated in the summer 2002.

In August of 1999, XOMA announced the expansion of the collaboration with Genentech to include organ transplant rejection. A clinical trial in kidney transplant rejection was initiated in March of 2000, and enrollment was completed in November of 2000. XOMA and Genentech are currently evaluating the results of this study and potential designs for follow-on studies.

In January of 2002, XOMA and Genentech announced plans to conduct a Phase II clinical study of Efalizumab in patients suffering from rheumatoid arthritis. The randomized, placebo controlled, double-blinded study plans to enroll more than 300 patients at multiple centers. The study will evaluate the efficacy and safety of Efalizumab, a recombinant, humanized monoclonal antibody designed to selectively inhibit immune system T cells.

ING-1

ING-1 is a Human Engineered(TM) recombinant monoclonal antibody that binds with high affinity to an antigen expressed on epithelial cell cancers (breast, colorectal, prostate and others) that is designed to destroy cancer cells by recruiting the patient's own immune system. Extensive studies have found high levels of Ep-CAM expressed on the majority of breast, lung, prostate, pancreas, and ovarian adenocarcinoma cells. In August of 2000, the Company filed an IND for testing this Human Engineered(TM) antibody in a variety of cancers. In October of 2000, XOMA initiated a Phase I safety, pharmacokinetics and immunogenicity clinical study in patients with advanced adenocarcinomas; in August of 2001, enrollment was completed. The Company has initiated a second Phase I study in this patient population and is currently planning to initiate a third to evaluate the safety, immunogenicity, pharmacodynamics and pharmacokinetics and to document any observed anti-tumor activity.

CAB2 and MLN01

Under an agreement announced in November of 2001, XOMA is developing two of Millennium's biotherapeutic agents, CAB2 and MLN01, for certain vascular inflammation indications. CAB2 is a recombinant fusion protein that inhibits complement activation and MLN01 is a humanized monoclonal antibody that inhibits inflammatory responses by blocking the attachment of Beta 2 integrins to their adhesion molecules. Under the terms of the agreement, XOMA will be responsible for development activities and related costs through the completion of Phase II trials. XOMA will make future payments to Millennium upon achievement of certain clinical milestones. After successful completion of Phase II, Millennium will have the right to commercialize the products and XOMA will have the option to choose between further participation in the development program and eventual profit sharing, or alternatively being entitled to future royalty and milestone payments.

Genimune(TM)

Based on early data from preclinical studies, XOMA has decided not to move the Genimune(TM) molecule into clinical studies at this time, but to devote its resources to developing other products in its pipeline.

Proprietary Technologies

XOMA has a number of proprietary technologies relating to recombinant antibodies, including bacterial cell expression systems for the production of recombinant antibodies, the Human Engineering(TM) method, and the targeted gelonin fusion technology. Various licenses and sublicenses have been entered into in some of these areas. XOMA has used these technologies in developing some of its own products and may choose to develop some of these products further on its own. Discussions are ongoing with other entities that have expressed interest in these technologies. No assurance can be given that any agreement or agreements will be reached as a result of the ongoing discussions.

Bacterial Cell Expression Systems

XOMA has granted over 25 licenses to biotechnology and pharmaceutical companies worldwide to use its patented and proprietary technologies relating to bacterial expression of recombinant pharmaceutical products. Bacterial antibody

expression 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. 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.

XOMA scientists were the first to demonstrate the secretion of antibody domains directly from bacterial cells as fully functional, properly folded molecules. XOMA has received nine U.S. patents to date relating to aspects of its bacterial cell expression system, including a family of six patents that broadly cover the secretion of functional immunoglobulins from bacteria, including antibody fragments such as Fab and single-chain antibodies. Corresponding foreign patents have also been granted. Access to XOMA's patent estate is necessary for the practice of antibody phage display and other antibody screening applications.

On February 25, 2002, XOMA and MorphoSys AG announced that they have entered into cross-licensing agreements for antibody-related technologies. Under the agreements, MorphoSys and its partners receive a license to use the XOMA antibody expression technology for developing antibody products using MorphoSys's phage display-based HuCAL(R) antibody library. MorphoSys also receives a license for the production of antibodies under the XOMA patents. XOMA will receive license payments from MorphoSys in addition to a license to use the MorphoSys HuCAL(R) GOLD antibody library for its target discovery and research programs.

The agreements also provide for a release of MorphoSys and its collaborators from any past activities using MorphoSys technology to the extent they also used XOMA's antibody expression technology, and allows MorphoSys to use the XOMA technology in combination with its own technology in any future collaborations. XOMA will receive the right to use the HuCAL(R) GOLD antibody library for target research and discovery purposes for five years, with an option to develop antibodies into therapeutics. Should any therapeutic antibodies be identified and developed by XOMA using the MorphoSys HuCAL(R) GOLD library, the contract provides for future license, milestone and royalty payments be made by XOMA to MorphoSys.

Human Engineering(TM) Method for Antibodies

XOMA has developed a patented technology for reducing the immunogenicity of antibodies. This Human Engineering(TM) (HE) technology represents a novel alternative to the complementarity-determining region (CDR) grafting based humanization methods in widespread use today. The Company has used the HE technology in the development of ING-1 and other proprietary molecules and plans to make the technology available for outlicensing.

Gelonin Fusion Proteins

Fusion proteins are made up of a targeting component that delivers the protein to a particular cell type and a cytotoxic component that kills the targeted cell. They can potentially be used to treat autoimmune diseases and cancer. XOMA has a number of patents relating to its gelonin fusion technology and covering a variety of targeting moieties, including antibodies, hormones, lymphokines and growth factors.

LBP Assay Program

In August of 1998, the Company announced that it had granted to Diagnostics Products Corporation ("DPC") a worldwide license to its patented technology that uses lipopolysaccharide binding protein ("LBP") as a biochemical marker of systemic exposure to gram-negative bacteria and endotoxin. XOMA is receiving royalties on LBP-related products sold worldwide by DPC. In April of 2000, DPC announced the European introduction of an automated laboratory diagnostic test for early diagnosis and prognosis of systemic gram-negative infections developed with the LBP technology. XOMA has been informed that DPC plans to use data from its European users to apply for licensure by the FDA.

In the first quarter of 1997, XOMA granted to Biosite Incorporated ("Biosite"), of San Diego, California, an exclusive U.S. license to make, use and sell certain non-automated, point-of-care diagnostic and prognos-

tic products for measuring LBP to detect bacterial endotoxin exposure in patients with endotoxemia or sepsis. XOMA has been informed that Biosite is conducting studies of a point-of-care diagnostic using LBP.

There can be no assurance that either licensee will receive necessary approvals or make any significant sales.

XOMA and Biosite are involved in litigation over matters unrelated to LBP. Information concerning XOMA's legal proceedings is set forth in Item 3 of Part I of this Form 10-K.

BPI Product Platform

The Company is developing novel therapeutic products from recombinant bactericidal/permeability-increasing protein ("rBPI"). rBPI is a genetically engineered version of a human host-defense protein found in white blood cells. rBPI kills gram-negative bacteria and enhances the activity of antibiotics, in many cases reversing bacterial resistance to the antibiotic. rBPI also binds to and neutralizes endotoxins, molecular components of the cell walls of gram-negative bacteria that can trigger severe complications in infected patients. Furthermore, rBPI inhibits angiogenesis (growth of new blood vessels) and binds to and neutralizes heparin, a carbohydrate molecule involved in blood vessel formation. Angiogenesis is an essential component of inflammation and solid tumor growth as well as diseases such as retinopathies.

BPI was discovered in 1978 at New York University ("NYU") School of Medicine by Peter Elsbach, M.D., and Jerrold Weiss, Ph.D. XOMA has collaborated with Drs. Elsbach and Weiss since 1991 to apply and extend BPI-related research to the commercial development of pharmaceutical products.

XOMA has used the BPI molecule as a platform for developing a number of pharmaceutical products. XOMA scientists developed a recombinant modified fragment of the BPI molecule, called rBPI21, which is potent and stable and can be manufactured at commercially viable yields. This modified fragment is the basis for the Company's NEUPREX(R) and topical anti-infective ophthalmic formulations. XOMA is also developing smaller compounds derived from BPI into additional therapeutic products, such as anti-angiogenic compounds.

NEUPREX(R)

In December of 1992, XOMA submitted an IND to begin human testing of our NEUPREX(R) product, a genetically-engineered fragment of a human protein (BPI). In March of 1993, the Company began Phase I human safety and pharmacokinetic testing under the IND. Beginning in 1995, the Company initiated several clinical efficacy studies evaluating NEUPREX(R) as a treatment for primary infections and complications of infectious diseases, trauma and surgery. The indications tested so far include:

Meningococcemia is a deadly systemic bacterial infection that usually afflicts children. XOMA conducted a Phase I/II pilot study in 1995-96 and a Phase III trial in 1997-99. The Phase III trial enrolled nearly 400 severe pediatric meningococcemia patients in the United Kingdom and United States. Although analysis revealed a clinical benefit in mortality and morbidities, the data were not deemed sufficient by the FDA to support the filing of a BLA. XOMA and Baxter are evaluating ways to provide additional data to support the use of the drug in this indication. Trial results were published in the September 16, 2000 issue of The Lancet.

Other indications: Phase I, Phase II and Phase III trials were conducted in 1995 through 1999 in partial hepatectomy, severe intra-abdominal infections, hemorrhage due to trauma and cystic fibrosis patients. XOMA and Baxter are evaluating additional indications for clinical testing.

In January of 2000, Baxter's Hyland Immuno division acquired the worldwide rights to XOMA's NEUPREX(R) product for development in antibacterial and anti-endotoxin indications. XOMA received an initial payment of $10.0 million and may receive additional milestone payments and royalties if the product is successfully commercialized.

In July of 2001, Baxter initiated a Phase II study testing NEUPREX(R) in patients with Crohn's disease, a systemic inflammatory condition associated with endotoxemia that primarily affects the gastrointestinal tract. The start of the study triggered a development milestone payment of $1.5 million, which will be recognized as revenue over the duration of the study. XOMA is providing the product for testing, and Baxter is conducting the study and funding all NEUPREX(R) development costs. There can be no assurance that any past or future clinical trials will yield data that will result in regulatory approval of the NEUPREX(R) product. Retinal Disease Program

BPI-derived anti-angiogenic compounds with potential application for treating retinal disorders are being developed by XOMA. In April of 2001, researchers from Joslin presented data from in vitro and in vivo studies at the Association for Research in Vision and Ophthalmology (ARVO) meeting. BPI-derived compounds suppressed retinal neovascularization without negative effects on pericytes and retinal pigmented epithelial cells necessary to the healthy

functioning of the retina. Joslin is conducting further research on these compounds in collaboration with XOMA for their utility in retinal diseases. No assurance can be given regarding the timing or likelihood of future development or licensing arrangements.

Mycoprex(TM)

The Company's scientists discovered that certain compounds derived from BPI display potent fungicidal activity. Further research demonstrated that many of these compounds kill strains of Candida, the most common fungus to cause systemic illness, and also show activity against other strains of fungi, including those resistant to currently available drugs. In November of 2001, the Company announced that, based on further preclinical testing and market assessment of its Mycoprex(TM) program, it had decided to discontinue its plans for developing a product for systemic fungal infections.

Process Development and Manufacturing

In January of 2001, Onyx and XOMA entered into a strategic process development and manufacturing arrangement under which XOMA will scale up production to commercial volume and manufacture Onyx's ONYX-015 (also known as CI-1042). ONYX-015 is a therapeutic tumor-selective, modified adenovirus genetically engineered to replicate in and kill cancer cells that have abnormal p53 pathway function, while sparing normal cells that have functioning p53. Derangements in the p53 protein pathway are the most common genetic abnormalities in human cancer. ONYX-015 is currently in a Phase III clinical trial for head and neck cancer and in Phase I and II clinical trials for a number of additional cancer indications.

XOMA is currently producing the rBPI21 and ING-1 products and has produced Xanelim(TM) for clinical trial and other testing needs at its Berkeley manufacturing facilities, pursuant to a drug manufacturing license obtained from the State of California. The Company's manufacturing capability is based on recombinant DNA technology, with production of therapeutic products from either mammalian or microbial cells. XOMA has two 500-liter and two 2,750-liter fermentation trains with associated isolation and purification systems in place. The Company does its own formulation for final sterile filling and finishing by third parties, and has the capacity to do its own small-scale filling.

In mid 2001, XOMA completed its previously announced plans to consolidate its Santa Monica technical development and pilot plant functions into its Berkeley facilities. Key people and equipment were moved to the Berkeley facility to enhance the Company's development and manufacturing capabilities.

Other Products and Technologies

In December of 1999, Connetics Corporation and XOMA assigned certain T cell receptor ("TCR") intellectual property to The Immune Response Corporation ("IRC") in exchange for cash, IRC common stock and future royalties. IRC owns additional TCR-related intellectual property and is developing pharmaceutical products using this technology for the treatment of autoimmune diseases. In February of 2002, IRC announced that an interim analysis of its Phase I/II clinical study of a TCR based vaccine against multiple sclerosis confirmed that the primary endpoint had been met.

Additionally, XOMA continues to seek opportunities to realize value from products and technologies outside its core research efforts, including osteoinductive proteins for bone repair and Thaumatin, a non-carcinogenic protein for low-calorie flavor enhancement. Discussions are ongoing with various entities that have expressed interest in these products and technologies. No assurance can be given that any agreement or agreements will be reached as a result of the ongoing discussions.

Development and Marketing Arrangements

The Company's strategy with respect to its proprietary products is to enter into arrangements with established pharmaceutical company partners in order to facilitate and finance development and marketing. Assuming timely regulatory approval, which cannot be assured, the successful commercialization of XOMA's products will depend to a large extent upon the marketing capabilities of its collaboration partners. In addition to developing its own products, the Company also seeks to leverage its manufacturing and development capabilities by entering into agreements to collaborate on development of its partners' products.

Genentech

On April 22, 1996, XOMA and Genentech entered into an agreement whereby XOMA agreed to co-develop Genentech's humanized monoclonal antibody product Xanelim(TM). In April of 1999, the companies extended and expanded the agreement. XOMA will receive 25% of U.S. operating profits from Xanelim(TM) in

all indications, and a royalty on sales outside the United States. Genentech will continue to finance XOMA's share of development costs via convertible subordinated loans, due at the earlier of 2005 or first product approval, which may be repaid using company equity.

The initial focus of the collaboration agreement is to develop Xanelim(TM) to treat psoriasis and prevent or decrease the rejection of organ transplants. XOMA completed a Phase II efficacy study in Canada in psoriasis patients in late 1998, subsequently received a $2 million milestone payment from Genentech, and agreed with Genentech to continue collaborative development of the product in psoriasis through Phase III and to expand the program to include all indications for the product. XOMA has an option to co-promote the product in the United States.

Either party may terminate the agreement upon a breach of a material obligation by the other party. Upon termination by either party, XOMA will be paid a royalty on all worldwide sales or have a percentage of its development costs reimbursed by Genentech. Whether the royalty will be paid, and at what rate, or the costs reimbursed will depend on which party terminates the agreement and at what point in the approval process such termination occurs.

Baxter

On January 25, 2000, XOMA entered into license and supply agreements with the Hyland Immuno division of Baxter for NEUPREX(R) for treatment of meningococcemia and substantially all future antibacterial and anti-endotoxin human clinical indications. The agreements provide for initial and other payments of up to $35 million for meningococcemia. Under the terms of the agreements, XOMA has received initial and milestone payments totalling $11.5 million. Additional payments will be made upon the achievement of development milestones for future indications. Baxter will pay all future clinical development costs as well as royalties appropriate for a late-stage product. XOMA will receive royalties from future rBPI sales and will supply initial product needs from its Berkeley manufacturing facility.

Either party may terminate the agreement upon the occurrence of voluntary or involuntary liquidation of the other party or upon a material breach by the other party. Termination of the agreement by Baxter terminates all rights thereunder (subject to the survival of certain customary provisions) but shall not relieve the parties of any obligation accruing prior to such expiration or termination nor shall it deny Baxter of its rights to make, have made, use, sell, offer to sell, import and/or export any product licensed under the agreement in a particular clinical indication to the extent Baxter has then made all required payments under the agreement for any such clinical indication for such product; provided that Baxter then undertakes to continue making payments under the agreement if, as and when sales of such product in such indication occur. The license granted pursuant to the agreement expires upon the expiration of the relevant patents.

Onyx

On January 29, 2001, the Company entered into a strategic process development and manufacturing agreement with Onyx. The initial term is five years, with options to extend for additional periods. Under the terms of the agreement, Onyx will pay to XOMA an initial payment, payments for development work and material produced, and payments upon achieving key milestones. XOMA's objectives are to increase the fermentation volume to commercial scale, to improve the purification process, to seek FDA licensure of its manufacturing facility for ONYX-015, and to produce material for use in clinical testing and for commercial sale upon approval. While dependent on the pace and outcome of clinical trials, regulatory approval, sales volume and other factors, the financial scope of the agreement during the initial term is projected to exceed $35 million. Certain payments under this agreement are pending clinical outcome.

If Onyx has not materially breached its obligations under the agreement, Onyx may terminate the agreement without penalty upon at least 90 days' prior written notice if XOMA has not met certain performance targets. XOMA may terminate the agreement at will upon the earlier of either 48 months' prior written notice or the issuance of regulatory approval by the FDA.

XOMA has been informed that Onyx recently reacquired rights from its collaboration partner, Warner-Lambert, to advance the product in head and neck cancer and to further develop indications where local or regional administration of ONYX-15 would be feasible.

Millennium

On November 26, 2001, XOMA and Millennium announced an agreement in which they would collaborate to develop two of Millennium's biotherapeutic agents: CAB2 and MLN01, for certain vascular inflammation indications. Under the terms of the agreement, XOMA will be responsible for development activities and

related costs through the completion of Phase II trials. XOMA will make future payments to Millennium upon achievement of certain clinical milestones. After successful completion of Phase II, Millennium will have the right to commercialize the products and XOMA will have the option to choose between further participation in the de-

velopment program and eventual profit sharing, or alternatively being entitled to future royalty and milestone payments. Under an investment agreement, Millennium committed to purchase, at XOMA's option, up to $50 million worth of XOMA common shares over the next three years, through a combination of convertible debt and equity at then prevailing market prices.

Either party has the right to terminate upon the breach of a material obligation by the other party. Under certain circumstances, if XOMA fails to reach certain diligence milestones, Millennium shall have the right to terminate the agreement. In addition, any material breach by XOMA under the investment agreements, including with respect to Millennium's registration rights, will give Millennium the right to terminate. The agreement shall remain in effect until terminated.

BPI-related Ophthalmics

In April of 2001, XOMA entered into a research collaboration with Joslin to explore applications of BPI-derived molecules in retinopathic diseases of the eye. In that same month, researchers from Joslin presented data from in vitro and in vivo studies at the Association for Research in Vision and Ophthalmology (ARVO) meeting. Additional research is now underway to explore mechanisms of action and other aspects of rBPI in retinal disease.

Other

The Company is seeking development and marketing partners for additional products. No assurance can be given regarding the timing or likelihood of future collaborative arrangements or of product licensure.

From time to time, the Company reviews development opportunities with other biotechnology companies with a view toward providing product development services to them.

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 those of XOMA. 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 those of the Company. 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. There can be no assurance that developments by others will not render the Company's products or technologies obsolete or uncompetitive.

Without limiting the foregoing, we are aware that:

- Biogen Inc. has announced that its Amevive(R) product achieved positive results in two Phase III clinical trials in patients with moderate to severe plaque psoriasis and that the FDA and the EMEA have officially accepted Biogen's filings for approval of Amevive(R) in psoriasis;

- Centocor Inc., a unit of Johnson & Johnson, has tested its rheumatoid arthritis and Crohn's disease drug in psoriasis, and it has been announced that the drug has shown clinical benefit;

- it has been announced that Immunex Corp. (which is in the process of being acquired by Amgen Inc.) has tested its rheumatoid arthritis and psoriatic arthritis drug in psoriasis with positive results;

- MedImmune, Inc. is testing its anti-T cell monoclonal antibody in psoriasis; and

- other companies, including Medarex, Inc., are developing monoclonal antibody or other products for treatment of inflammatory skin disorders.

Currently, there are several companies with marketed biologics that are approved for treating patients with rheumatoid arthritis:

- Immunex Corp. markets Enbrel,

- Amgen Inc. recently gained FDA approval for Kineret and

- Centocor Inc. is approved to market Remicade to rheumatoid arthritis patients.

In addition to approved products, a number of companies are developing drugs with a biologic mechanism of action for the treatment of rheumatoid arthritis. These companies include Cambridge Antibody Technology Group plc, Biogen Inc., Celltech Group plc and others.

A number of companies are developing monoclonal antibodies targeting cancers, which may prove more effective than ONYX-015 or the ING-1 antibody.

It is possible that one or more other companies may be developing one or more products based on the same human protein as our NEUPREX(R) product, and these product(s) may prove to be more effective than NEUPREX(R) or receive regulatory approval prior to NEUPREX(R) or any BPI-derived ophthalmic product developed by XOMA.

Regulatory

XOMA's products are subject to comprehensive preclinical and clinical testing requirements and to approval processes by the FDA and similar authorities in other countries. The Company's products are primarily regulated on a product-by-product basis under the U.S. Food, Drug and Cosmetic Act and Section 351(a) of the Public Health Service Act. Most of the Company's human therapeutic products are or will be classified as biologic products and would be subject to regulation by CBER. Approval of a biologic for commercialization requires licensure of the product and the manufacturing facilities.

The FDA regulatory process is carried out in several phases. Prior to beginning 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 information on manufacture of 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 I, ordinarily encompasses safety, pharmacokinetics and pharmacodynamic evaluations. Phase II testing encompasses investigation in specific disease states designed to provide preliminary efficacy data and additional information on safety. Phase III studies are designed to further es-

tablish clinical safety and efficacy and to provide information allowing proper labeling of the product following approval. Phase III 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 which 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 (GMP). 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, and it is not possible to predict at what point, or whether, the FDA will be satisfied with the Company's 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, the Company has adopted a policy of limiting announcements and comments upon the specific details of the ongoing regulatory review of its products, subject to its obligations under the securities laws, until definitive action is taken. There can be no assurance that any of the products under development by the Company will be developed successfully, obtain the requisite regulatory approval or be successfully manufactured or marketed.

In Europe, most of the Company's human therapeutic products are or will be classified as biologic and would be subject to a single European registration through a centralized procedure. The assessment of the Marketing Authorization Application is carried out by a rapporteur and co-rapporteur appointed by the Committee for Proprietary Medicinal Products (CPMP), which is the expert scientific committee of the European Medicines Evaluation Agency (EMEA).

The rapporteur and co-rapporteur are drawn from the CPMP membership representing member states of the European Union. They liaise with the applicant on behalf of the CPMP in an effort to provide answers to queries raised by the CPMP. Their assessment report(s) is circulated to and considered by the full CPMP membership, leading to the production ultimately of a CPMP opinion which is transmitted to the applicant and Commission. The final decision on an application is issued by the Commission. When a positive decision is reached, a Marketing Authorization, or "MA," will be issued. Once approval is granted, the product can be marketed under the single European MA in all member states of the European Union. 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. There can be no assurance that any of the products under development by the Company will be developed successfully, obtain the requisite regulatory approval or be successfully manufactured or marketed.

Patents and Trade Secrets

As a result of its ongoing activities, the Company holds and is in the process of applying for a number of patents in the United States and abroad to protect its products and important processes. The Company also has

obtained or has 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 (the "Patent Office") with respect to biotechnology patents. Accordingly, no assurance can be given that the Company's patents will afford protection against competitors with similar technologies, or that others will not obtain patents claiming aspects similar to those covered by the Company's patent applications.

During the period from September of 1994 to December of 2001, the Patent Office issued 59 patents to the Company related to its BPI-related products, including novel compositions, their manufacture, formulation, assay and use. The Company has more than 20 pending patent applications worldwide related to its BPI-related products. Numerous foreign patents have been granted which, along with additional pending foreign patent applications, correspond to the patents issued and allowed in the U.S.

The Company is the exclusive licensee of BPI-related patents and applications owned by NYU. These include seven issued U.S. patents directed to novel BPI-related protein and DNA compositions, as well as their production and uses. U.S. Patent Nos. 5,198,541 and 5,641,874, issued to NYU, relate to the recombinant production of BPI. The Company believes that these patents have substantial value because they cover certain production methodologies that allow production of commercial-scale quantities of BPI for human use. In addition, the European Patent Office granted to NYU, EP 375724, with claims to N-terminal BPI fragments and their use, alone or in conjunction with antibiotics, for the treatment of conditions associated with bacterial infections.

Between 1992 and 2001, eight patents related to BPI were issued to Incyte Genomics, Inc. ("Incyte") by the Patent Office directed to endotoxin-associated uses of BPI, uses of BPI with polymannuronic acid, and LBP-BPI proteins. Effective as of July of 1998, XOMA is the exclusive licensee of BPI-related patents and applications owned by Incyte, including these seven U.S. patents, one granted European patent and pending applications worldwide.

From January of 1996 to December of 2001, XOMA was issued nine patents directed to its LBP-related assays and products, including diagnostic and prognostic methods for measuring LBP levels in humans. XOMA has also acquired

from Johnson & Johnson an exclusive sublicense to their LBP-related portfolio, including five U.S. patents issued to the discoverers of LBP, Drs. Richard Ulevitch and Peter Tobias, at the Scripps Research Institute in San Diego.

During the period from July of 1991 to December of 2001, the Patent Office issued nine patents to the Company related to its bacterial expression technology, including claims to novel promoter sequences, secretion signal sequences, compositions and methods for expression and secretion of recombinant proteins from bacteria, including immunoglobulin gene products. U.S. Patent No. 5,028,530, issued to the Company, is directed to expression vehicles containing an AraB promoter, host cells and processes for regulated expression of recombinant proteins. 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. Numerous foreign patents have been granted which, along with additional pending foreign patent applications, correspond to the patents issued and allowed in the U.S.

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

Research and License Agreements

XOMA has contracted with a number of academic and institutional collaborators to conduct research and development activities. Under these agreements the Company generally funds either the research and development or evaluation of products, technologies or both, will own or obtain exclusive licenses to products or technologies developed, and may pay royalties on sales of products covered by certain licenses. The rates and durations of such royalty payments vary by product and institution, and range generally for periods from five years to indefinite duration. Aggregate expenses of the Company under all of its research agreements totaled $0.0 million, $0.1 million and $0.1 million in 2001, 2000 and 1999, respectively. The Company has entered into certain license agreements with respect to the following products:

On August 6, 1990, XOMA entered into a research collaboration and license agreement with NYU whereby XOMA obtained an exclusive license to patent rights for DNA materials and genetic engineering methods for the production of BPI and fragments thereof. BPI is part of the body's natural defense system against infection and XOMA is investigating the use of products based on BPI for various indications. XOMA has obtained an exclusive, worldwide license for the development, manufacture, sale and use of BPI products for all therapeutic and diagnostic uses, and it has paid a license fee and will make milestone payments and pay royalties to NYU on the sale of such products. The license becomes fully paid upon the later of the expiration of the relevant patents or fifteen years after the first commercial sale, subject to NYU's right to terminate for certain events of default.

Each party has the right to terminate the agreement upon a material breach by the other party of its performance of its obligations under the agreement, subject to customary cure periods. Upon termination of the agreement prior to the expiration of the relevant patents, all rights in and to NYU's intellectual property revert to NYU.

On July 9, 1998, XOMA entered into a license agreement with Incyte whereby XOMA obtained an exclusive (even as to Incyte), freely sublicenseable, worldwide license to all of Incyte's patent rights relating to BPI. XOMA will pay Incyte a royalty on sales of BPI products covered by the license, up to a maximum of $11.5 million, and made a $1.5 million advance royalty payment, one-half in cash and one-half in XOMA common shares. XOMA also issued warrants to Incyte to purchase 250,000 XOMA common shares at $6.00 per share. Due to offsets against other royalties, XOMA may not ultimately incur increased total BPI royalty payments as a result of this license.

The agreement expires on July 9, 2008 unless, on or prior to such date, the license granted therein becomes fully paid up in accordance with its terms. Incyte has the right to terminate the agreement (subject to a customary cure period) upon a breach by XOMA of any of its material obligations under the agreement.

International Operations

The Company believes that, because the pharmaceutical industry is global in nature, international activities will be a significant part of the Company's

future business activities and that, when and if it is 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, and an inability to obtain foreign regulatory approvals on a timely basis could have an adverse effect on the Company's international business and its 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, restric-

tions on repatriating profits, taxation, or difficulties in staffing and managing international operations. In addition, the Company's business, financial condition and results of operations may be adversely affected by fluctuations in currency exchange rates. There can be no assurance that the Company will be able to successfully operate in any foreign market.

The Company was incorporated in Delaware in 1981 and became a Bermuda company effective December 31, 1998.

Employees

As of December 31, 2001, XOMA employed 193 full-time employees at its Berkeley, California facilities. The Company's employees are engaged in clinical, manufacturing, quality assurance and control, research and product development activities, and in executive, finance and administrative positions. The Company considers its employee relations to be excellent.

Item 2. Properties

XOMA's development and manufacturing facilities are located in Berkeley, California. The Company leases 107,600 square feet of space including approximately 35,000 square feet of research and development laboratories, 48,000 square feet of production and production support facilities and 24,600 square feet of office space. Separately, a 16,500 square foot technology development facility is owned by XOMA.

As of December 31, 2001, the future minimum lease commitments for leased facilities are as follows (in thousands):

2002	$ 2,527
2003	2,665
2004	2,691
2005	2,715
2006	2,743
Thereafter	3,714
Total	$ 17,055

Total rental expense for the research and development facilities was approximately $2.4 million for 2001.

The principal executive offices of XOMA are located at 2910 Seventh Street, Berkeley, California 94710 U.S.A. (telephone 510-644-1170).

Item 3. Legal Proceedings

On or about June 8, 2001, an action was commenced against the Company and certain of its affiliates styled Biosite Diagnostics Inc. v. XOMA Ltd., et al., No. C-01-2251 (PJH)(N.D. Cal.) (the "Biosite Action"). The action sought declarations that Biosite was not infringing certain XOMA patents and that certain licenses continued in effect despite XOMA's notice of termination thereof. The action sought an injunction against the Company and such affiliates maintaining the license agreements in effect. On June 13, 2001, the court denied Biosite's motion for a temporary restraining order. On or about July 5, 2001, the Company, XOMA Ireland Limited and XOMA Technology Ltd. brought an action against Biosite in the same court. The action, styled XOMA Ltd., et al. v. Biosite Inc., No. C-01-2580 (PJH) (N.D. Cal.) (the "XOMA Action"), seeks injunctive relief, compensatory and punitive damages for fraud and misrepresentation, breach of contract, patent infringement,

misappropriation and unfair business practices. On September 24, 2001, the court denied Biosite's motion in its action for a preliminary injunction and granted the Company's motion to dismiss the Biosite Action. On that same day, the court granted a portion of Biosite's motion to dismiss the XOMA Action relating to the fraud allegations with leave to replead. On October 31, 2001, the plaintiffs in the XOMA Action filed their amended complaint asserting the same claims for relief. On November 7, 2001, Biosite answered the amended complaint denying the substantive allegations. On that same day, Biosite filed counterclaims seeking the same relief as the original Biosite Action and adding claims for breach of contract, breach of covenant of good faith and fair dealing, intentional interference with contracts and with prospective economic advantage, unfair business practices and violation of the Lanham Act. Biosite seeks damages in an unspecified amount, prejudgment interest, injunctive relief, punitive damages and attorneys' fees. On November 30, 2001, the Company answered the counterclaims denying the substantive allegations therein. On December 3, 2001, the court denied Biosite's motion to bifurcate the case such that Biosite's license validity claims would be tried first. On January 7, 2002, the court denied Biosite's motion to sever the patent issues from the license issues and to address the license issues first. In February of 2002, Biosite announced that it has begun implementing an antibody expression technology intended to allow it to operate its business without using XOMA's patents and that it is launching a licensing program. On or about March 5, 2002, Biosite filed an amended answer to add additional defenses that certain of the patents at issue are invalid, that certain alleged inequitable conduct on the part of the XOMA entities renders certain of the patents unenforceable and that alleged patent misuse renders the patents at issue unenforceable. Discovery has commenced as to all claims, defenses and counterclaims and is continuing.

On November 15, 2001, a purported securities class action complaint was filed in the United States District Court for the Northern District of California against the Company and certain of its officers in an action captioned Tingle v. XOMA Ltd., et al., No. C-01-4256 (CW) (N.D. Calif.). On November 29, 2001 and December 20, 2001, respectively, two similar purported class action complaints, captioned Scala v. XOMA Ltd., et al., No. C-01-4610 (WHA) (N.D. Calif.) and Malmut v. XOMA Ltd., et al., No. C-01-5006 (MJJ) (N.D. Calif.), were filed in that same federal district court. (The three lawsuits are referred to collectively hereinafter as the "Class Action Lawsuits.") The complaints in the Class Action Lawsuits purported to assert claims, under Sections 11, 12(a)(2) and 15 of the Securities Act of 1933 and Sections 10(b) (and Rule 10b-5 promulgated thereunder) and 20(a) of the Securities Exchange Act of 1934, arising out of XOMA's joint development with Genentech of XanelimTM. (Genentech and certain of its officers were also named as defendants in the Class Action Lawsuits.) The Class Action Lawsuits alleged that XOMA and Genentech made material misrepresentations and omissions concerning the anticipated timetable for the filing of a Biologics License Application ("BLA") with the Food and Drug Administration in connection with their development of XanelimTM. The complaints in the Class Action Lawsuits sought unspecified money damages, costs and expenses. After further investigating the issues, plaintiffs' counsel filed with the Court on March 11, 2002, a Stipulation and Proposed Order of Voluntary Dismissal in all three actions. On March 13, 2002, the Court entered an Order dismissing each of the lawsuits without prejudice. No consideration was exchanged, and neither plaintiffs nor their counsel received any compensation or reimbursement of expenses.

In January of 2002, a complaint was filed in the California Superior Court in San Diego County against XOMA, Genentech and certain unidentified "John Doe" defendants, which tracks many of the allegations that had been made in the Class Action Lawsuits, purporting to assert claims pursuant to the California Unfair Competition Act seeking injunctive relief and other equitable remedies in connection with the defendants' alleged misrepresentations and omissions concerning the anticipated timetable for the filing of the XanelimTM BLA. On March 14, 2002, XOMA filed a demurrer and a motion to strike the complaint.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Officers

The officers of the Company are as follows:

<TABLE>
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Name	Age	Title
<S>	<C>	<C>
John L. Castello	65	Chairman of the Board, President and Chief Executive Officer
Patrick J. Scannon, M.D., Ph.D.	54	Chief Scientific and Medical Officer, Senior Vice President and Director

Clarence L. Dellio	56	Senior Vice President, Operations
Marc D. Better, Ph.D.	46	Vice President, Technical Development and Santa Monica Operations
Daniel P. Cafaro	45	Vice President, Regulatory Affairs
Ronald H. Carlson, Ph.D.	49	Vice President, Quality
Stephen F. Carroll, Ph.D.	50	Vice President, Scientific and Product Development
Peter B. Davis	55	Vice President, Finance and Chief Financial Officer
Marvin R. Garovoy, M.D.	58	Vice President, Clinical and Medical Affairs
Christopher J. Margolin	55	Vice President, General Counsel and Secretary
Charles C. Wells	51	Vice President, Human Resources

</TABLE>

Officers serve at the discretion of the Board of Directors. There is no family relationship among any of the officers or directors.

PART II

Item 5. Market for Registrant's Common Equity and Related Shareholder Matters

The Company's common shares trade on the Nasdaq National Market under the symbol "XOMA". The following table sets forth the quarterly range of high and low reported sale prices of the Company's common shares on the Nasdaq National Market for the periods indicated.

	Price Range	
	High	Low
2000:		
First Quarter	$16.00	$2.75
Second Quarter	10.13	3.13
Third Quarter	14.75	4.00
Fourth Quarter	15.25	7.75
2001:		
First Quarter	$13.88	$6.03
Second Quarter	17.75	5.31
Third Quarter	17.09	6.74
Fourth Quarter	10.50	6.40

On February 28, 2002, there were approximately 3,184 record holders of XOMA's common shares.

The Company has not paid dividends on its common shares. The Company currently intends to retain any earnings for use in the development and expansion of its business. The Company, therefore, does not anticipate paying cash dividends on its common shares in the foreseeable future (see Note 4 to the Consolidated Financial Statements, "SHARE CAPITAL").

Item 6. Selected Financial Data

The following table contains selected financial information including statement of operations and balance sheet data of XOMA for the years 1997 through 2001. The selected financial information has been derived from the audited Consolidated Financial Statements of XOMA. The selected financial information should be read in conjunction with the Consolidated Financial Statements and notes thereto included in Item 8 of this report and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 7 below. The data set forth below is not necessarily indicative of the results of future operations.

<TABLE>
<CAPTION>

	Year Ended December 31,				
	2001	2000	1999	1998	1997

		(In thousands, except per share amounts)			
<S>	<C>	<C>	<C>	<C>	<C>
Statement of Operations Data					
Total revenues (1)	$ 17,279	$ 6,659	$ 2,361	$ 6,345	$ 18,383
Total operating costs and expenses (2)	44,610	36,075	47,534	54,184	35,552
Other income (expense), net	(709)	4	(606)	636	1,404
Net loss	$ (28,040)	$ (29,412)	$ (45,779)	$ (47,203)	$ (15,765)
Net loss per common share	$ (0.41)	$ (0.45)	$ (0.87)	$ (1.16)	$ (0.44)

	December 31,				
	2001	2000	1999	1998	1997
Balance Sheet Data					
Cash (3)	$ 67,320	$ 35,043	$ 18,539	$ 28,287	$ 55,146
Total assets	86,107	45,212	28,312	37,304	64,776
Long-term debt	50,980	39,488	34,724	26,513	24,773
Redeemable convertible preference shares	--	--	--	6,440	--
Accumulated deficit	(507,629)	(479,589)	(450,177)	(404,343)	(354,526)
Shareholders' equity (net capital deficiency)	$ 13,619	$ (8,590)	$ (16,846)	$ (6,190)	$ 31,240

(1) In 2001, includes $9.8 million from Baxter and $6.8 million from Onyx for license fees, contract revenue and products sales. In 2000, includes $6.5 million of license fees and contract revenue from Baxter. In 1999, includes non-refundable license fee and milestone payment from Allergan Sales, Inc. and proceeds from the assignment of intellectual property rights to IRC. In 1998, includes a $2.0 million milestone payment from Genentech and $4.3 million in license fees. In 1997, includes $17.0 million from the assignment of patent and royalty rights to Pharmaceutical Partners LLC.

(2) In 1998, includes non-recurring costs of $2.4 million to acquire rights to Incyte's BPI-related patents and $2.5 million of costs related to the change in domicile.

(3) Includes cash, cash equivalents, short-term investments and interest receivable.

Quarterly Results of Operations (Unaudited)

The following is a summary of the quarterly results of operations for the years ended December 31, 2001 and 2000.

	Statement of Operations				
	(In thousands, except per share amounts)				
2001	March 31	June 30	September 30	December 31	Total
<S>	<C>	<C>	<C>	<C>	<C>
Total revenues	$ 2,856	$ 5,212	$ 3,285	$ 5,926	$ 17,279
Total operating costs and expenses	10,080	11,560	10,164	12,806	44,610
Other income (expense), net	(351)	(300)	60	(118)	(709)
Net loss	$ (7,575)	$ (6,648)	$ (6,819)	$ (6,998)	$ (28,040)
Net loss per common share	$ (0.11)	$ (0.10)	$ (0.10)	$ (0.10)	$ (0.41)

	Statement of Operations				
	(In thousands, except per share amounts)				
2000	March 31	June 30	September 30	December 31	Total
Total revenues	$ 2,572	$ 2,283	$ 851	$ 953	$ 6,659
Total operating costs and expenses	8,720	8,979	8,182	10,194	36,075
Other income (expense), net	(136)	370	(67)	(163)	4

Net loss	$ (6,284)	$ (6,326)	$ (7,398)	$ (9,404)	$ (29,412)
Net loss per common share	$ (0.10)	$ (0.10)	$ (0.11)	$ (0.14)	$ (0.45)

</TABLE>

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

XOMA is a biopharmaceutical company that develops and manufactures recombinant antibodies and other protein products to treat cancer, immunological and inflammatory disorders, and infectious diseases.

The Company and Genentech are developing the Xanelim(TM) humanized monoclonal antibody product in collaboration. Data from two pivotal Phase III studies in which nearly 1,100 moderate-to-severe plaque psoriasis patients were presented in June and July of 2001. Both trials met all primary and secondary endpoints. In October of 2001, XOMA and Genentech announced plans to complete an additional pharmacokinetics study for inclusion in the potential biologics license application submission to the FDA. XOMA has also initiated and completed enrollment in a Phase I/II study of Xanelim(TM) in kidney transplant recipients. In January of 2002, XOMA announced plans to conduct a Phase II clinical study of Xanelim(TM) in patients suffering from rheumatoid arthritis. Genentech will continue to finance XOMA's share of development costs via long-term convertible subordinated notes.

Additional antibody products being developed by the Company include ING-1, which is in Phase I testing in adenocarcinomas.

The Company is developing novel therapeutic products from recombinant bactericidal/permeability-increasing protein, a human host-defense protein. The first BPI-derived product, NEUPREX(R), has completed a

Phase III trial in meningococcemia and has been in clinical trials in four additional indications. Further development of this product is continuing under license and supply agreements with Baxter.

In January of 2001, the Company entered into a strategic process development and manufacturing agreement with Onyx. XOMA's objectives are to increase the fermentation volume to commercial scale, to improve the purification process, to seek FDA licensure of its manufacturing facility for ONYX-015, and to produce material for use in clinical testing and for commercial sale upon approval. While dependent on the pace and outcome of clinical trials, regulatory approval, sales volume and other factors, the financial scope of the agreement during the initial term is projected to exceed $35 million. Certain payments under this agreement are pending clinical outcome.

In November of 2001, XOMA and Millennium announced an agreement to collaborate to develop two of Millennium's biotherapeutic agents: CAB2 and MLN01, for certain vascular inflammation indications. Under the terms of the agreement, XOMA will be responsible for development activities and related costs through the completion of Phase II trials. XOMA will make future payments to Millennium upon achievement of certain clinical milestones. After successful completion of Phase II, Millennium will have the right to commercialize the products and XOMA will have the option to choose between further participation in the development program and eventual profit sharing, or alternatively being entitled to future royalty and milestone payments.

In December of 1998, the shareholders of the Company (formerly XOMA Corporation) approved a proposal to change XOMA's legal domicile from Delaware to Bermuda. The change was made in anticipation of possible future approvals and commercialization of NEUPREX(R) and other products, to allow XOMA to take advantage of certain tax and other benefits not available under the prior corporate structure. The change was effective December 31, 1998, was tax free to the shareholders, had little or no tax cost to the Company, and did not affect operations.

In January of 2000, the Company's shareholders approved an increase in authorized share capital by 65,000,000 common shares to 135,000,000.

The Company incurred a net loss in each of the past three years and is expected to continue to operate at a loss until regulatory approval and commencement of commercial sales of its products. The timing of product approvals is uncertain, and there can be no assurance that approvals will be

granted or that revenues from product sales will be sufficient to attain profitability.

Critical Accounting Policies

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in our financial statements and accompanying notes. The items in our financial statements requiring significant estimates and judgments include useful lives of fixed assets for depreciation and amortization calculations, assumptions for valuing options and warrants and estimated lives of license and collaborative agreements related to deferred revenue. Actual results could differ materially from these estimates.

Revenue Recognition

Revenue is recognized when the related costs are incurred and the four basic criteria of revenue recognition are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services rendered; (3) the fee is fixed and determinable; and (4) collectibility is reasonably assured. Determination of criteria (3) and (4) are based on management's judgments regarding the nature of the fee charged for products or services delivered and the collectibility of those fees.

License and Collaborative Fees

Revenue from non-refundable, up-front license or technology access payments under license and collaborative agreements where the Company has a continuing obligation to perform are recognized as revenue over the period of the continuing performance obligation.

Milestone payments under collaborative arrangements are recognized as revenue upon achievement of the incentive milestone events, which represent the culmination of the earnings process because the Company has no future performance obligations related to the payment. Milestone payments that require a continuing performance obligation on the part of the Company are recognized over the period of the continuing performance obligation. Incentive milestone payments are triggered either by the results of our research efforts or by events external to the Company, such as regulatory approval to market a product or the achievement of specified sales levels by a marketing partner. Amounts received in advance are recorded as deferred revenue until the related milestone is achieved.

Contract Revenue

Contract revenue for research and development involves the Company providing research, development or manufacturing services on a best efforts basis to collaborative partners. The Company recognizes revenue under these arrangements as the related research and development costs are incurred.

Product Sales

The Company recognizes product revenue upon shipment when there is persuasive evidence that an arrangement exists, delivery has occurred, the price is fixed, and determinable and collectibility is reasonably assured. Allowances are established for estimated uncollectible amounts, product returns, and discounts, if any.

Change in Accounting Principle

The Company previously recognized non-refundable license fees as revenue when received and when all significant contractual obligations of the Company relating to the fees had been met. Effective January 1, 2000, the Company changed its method of accounting for non-refundable initial fees to recognize such fees over the period of continuing involvement by the Company such as the research and development period or the manufacturing period of the agreement, as applicable. The Company believes this accounting policy is preferable based on guidance provided in SEC Staff Accounting Bulletin No. 101 -- Revenue Recognition in Financial Statements. As of January 1, 2000, there was no cumulative effect of an accounting change as a result of the adoption of SAB 101 and there was no pro forma effect of the adoption of SAB 101 in any year presented. In connection with the license and supply and development agreement with Baxter on January 25, 2000, the Company received $10.0 million as an initial, nonrefundable fee. This initial fee was deferred and is being amortized over the period of continuing involvement, which period is estimated to be 36 months.

Results of Operations

Revenues

Total revenues in 2001 were $17.3 million, compared with $6.7 million in 2000 and $2.4 million in 1999.

License fee revenues in 2001 increased to $4.8 million from $3.2 million in 2000 and $2.3 million in 1999. These revenues include "up front" and milestone payments related to the outlicensing of XOMA's products

and technologies, and other collaborative arrangements. Certain of these agreements involve continuing commitments by XOMA for services, and in these cases the related licensing payments received is recorded as deferred revenue and then recognized as revenue over the period of continuing involvement. The following table illustrates the activity in deferred revenue for the years ended December 31, 2001, 2000 and 1999 (in thousands):

	2001	2000	1999
Beginning deferred revenue	$ 6,942	$ --	$--
Payments received	4,225	$ 10,000	--
Revenue recognized	(4,680)	(3,058)	--
Ending deferred revenue	$ 6,487	$ 6,942	$--

Of the $6.5 million balance in deferred revenue at December 31, 2001, $5.0 million will be recognized as revenue in 2002 and $0.7 million in 2003. Future amounts will also be impacted by additional consideration received, if any, under existing or any future licensing or other collaborative arrangements.

Revenues from contract services were $10.1 million in 2001, up from $3.4 million in 2000 and $0 million in 1999. These revenues relate primarily to service arrangements with Baxter and Onyx.

Product sales revenues, related primarily to supplying NEUPREX(TM) product to Baxter for use in clinical and other testing, were $2.4 million in 2001 compared with $0.1 million in both 2000 and 1999.

Research and Development Expenses

In 2001, research and development expense increased to $35.9 million, compared with $30.0 million in 2000 and $41.5 million in 1999. The $5.9 million increase in 2001 as compared to 2000 reflected spending related to our collaboration with Onyx, which was initiated in early 2001, an initial payment to Millennium in November of 2001 related to a collaboration on Millennium's CAB2 and MLN01 products, and increased spending on certain internal programs. The $11.5 million decrease in spending in 2000 as compared to 1999 was primarily due to lower spending on clinical trials for the NEUPREX(TM) product, partially offset by increased expenses for Xanelim(TM) and certain internal programs.

Our research and development activities can be divided into earlier stage programs, which include molecular biology, process development, pilot-scale production and preclinical testing, and later stage programs, which include clinical testing, regulatory affairs and manufacturing clinical supplies. The costs associated with these programs approximate the following (in millions):

	2001	2000	1999
Earlier stage programs	$9.5	$8.4	$8.6
Later stage programs	26.4	21.6	32.9
Total	$35.9	$30.0	$41.5

Our research and development activities can be divided into those related to our internal projects and those related to collaborative arrangements. The costs related to internal projects versus collaborative arrangements approximate the following (in millions):

	2001	2000	1999
Internal projects	$22.5	$14.3	$38.2
Collaborative arrangements	13.4	15.7	3.3
Total	$35.9	$30.0	$41.5

For 2000 and 2001, no single project accounted for more than 30% of our total research and development costs for that year. For 2001, only Xanelim(TM) accounted for more than 20% of our total research and development costs for that year. For 2000, only Xanelim(TM) and NEUPREX(R) accounted for more than 20% of our total research and development costs for that year. The corresponding figures are not available for 1999 as we did not begin to account for research and development costs by project until 2000.

The following table contains information regarding the products for which we are incurring research and development expenses, including indications, FDA regulatory status and names of our collaborators, if any:

<TABLE>
<CAPTION>

Program	Description	Indication	Status*	Collaborator
<S>	<C>	<C>	<C>	<C>
Xanelim(TM)	humanized anti-CD11a monoclonal antibody	moderate-to-severe psoriasis	Phase III	Genentech
		kidney transplant rejection	Phase I/II	Genentech
		rheumatoid arthritis	Phase II	Genentech
ONYX-015	genetically modified adenovirus	head and neck cancer	Phase III	Onyx
ING-1	Human Engineered(TM) antibody	adenocarcinomas	Phase I	None
rBPI21	IV formulation (NEUPREX(R))	severe pediatric meningococcemia	Phase III	Baxter
		Crohn's disease	Phase II	Baxter
CAB2	recombinant fusion protein complement inhibitor	cardiopulmonary bypass surgeries	Preclinical	Millennium
MLN01	humanized monoclonal antibody	vascular inflammation indications	Preclinical	Millennium
Other BPI-Derived Compounds	anti-angiogenic	retinal disorders	Preclinical	Joslin
	antibacterial	gram-negative and gram-positive infections	Research	None

</TABLE>

* Research: in vitro studies; Preclinical: in vivo studies.

We currently anticipate that research and development spending will increase in 2002, due primarily to increased spending on Xanelim(TM). Beyond this, the scope and magnitude of future research and development expenses are difficult to predict at this time. Generally speaking, biopharmaceutical development includes a series of steps, including in vitro and in vivo preclinical testing, and Phase I, II and III clinical studies in humans. Each of these steps is typically more expensive than the previous step, but actual timing and the cost to the Company depend on the product being tested, the nature of the potential disease indication, and also on the terms of any collaborative arrangements with other companies. After successful conclusion of all of these steps, regulatory filings for approval to market the products must be completed, including approval of manufacturing processes and facilities for the product. Our research and development expenses currently include costs of personnel, supplies, facilities and equipment, consultants, patent expenses, and third party costs related to preclinical and clinical testing.

Our most advanced product is Xanelim(TM), which has completed two pivotal Phase III trials for treating patients with moderate-to-severe psoriasis. XOMA and its collaborative partner Genentech are preparing a filing for regulatory approval in the United States, with an objective of completing the submission in the summer of 2002. The time for regulatory review and potential approval of this submission can be variable, but could normally be expected to take one year or more from the time of filing the application. Additional testing of Xanelim(TM) in psoriasis patients is ongoing to gather supplementary safety and efficacy data for use by treating physicians and patients. We have also initiated Phase II testing of Xanelim(TM) in patients suffering from rheumatoid arthritis. If this clinical trial is successful, one or more additional trials may be required before regulatory approval.

XOMA is working under a process development and manufacturing agreement to support the development of Onyx's ONYX-015 product, which is in Phase III testing in patients with head and neck cancer. The initial term of this agreement continues through January of 2006, with options to extend for additional periods. XOMA's spending under this agreement is billed back to Onyx on a cost-plus basis.

The Company's NEUPREX(TM) product is in Phase II testing in patients with Crohn's disease. This trial is being managed and funded by Baxter. Next steps will depend on results from this trial.

The Company's ING-1 product is in Phase I testing in patients suffering from adenocarcinomas. Additional testing will depend on results from the current clinical trials, and potentially on future collaborative arrangements.

The Company has a number of other products at various stages of preclinical development that may move into clinical testing in the future if warranted.

Marketing, General And Administrative Expenses

Marketing, general and administrative expenses increased from $6.1 million in both 1999 and 2000 to $8.7 million in 2001. This increase was due primarily to expenses related to litigation with Biosite Incorporated. Spending in 2001 also included XOMA's share of commercial development expenses related to activities in preparation for a potential future product launch of Xanelim(TM).

We expect further increases in 2002. Absent a settlement with Biosite, litigation expenses will continue at similar or higher levels. Commercial development costs related to Xanelim(TM) will increase as we approach the potential product launch.

Investment And Other Income

Investment income was $0.7 million less in 2001 than in 2000, as higher average cash balances were more than offset by lower interest rates. Investment income increased by $1.3 million in 2000 compared with 1999, reflecting a higher cash investment balance.

Interest And Other Expense

Interest expense in 2001, 2000 and 1999 mainly consisted of interest on the convertible notes due to Genentech in 2005, which compounds semi-annually and accrues interest at a rate of LIBOR plus 1% (4.9% at December 31, 2001), and has been increasing due to the higher convertible note balance.

Liquidity And Capital Resources

Cash, cash equivalents and short-term investments increased by $32.4 million to $67.6 million at December 31, 2001. Financing activities of $61.8

million include $43.3 million of net proceeds from an underwritten stock offering in June of 2001 and $12.2 million net funding from Genentech and Millennium under their respective development agreements. The Company's cash, cash equivalents and short-term investments are expected to continue to decrease while the Company pursues FDA licensure, except to the extent that the Company secures additional funding.

Net cash used in operating activities was $22.4 million in 2001, compared with $21.8 million in 2000 and $38.6 million in 1999. The increase in cash used in operating activities in 2001 compared with 2000 reflected reduced losses and favorable working capital movements being more than offset by a non-recurring $10 million initial payment received from Baxter, in 2000, related to the licensing of NEUPREX(TM). This payment is being recognized as revenue over 36 months. The decrease in cash used in operating activities in 2000 compared with 1999 reflects a lower net loss and the above referenced cash proceeds from the Baxter transaction.

Net capital expenditures for 2001, 2000 and 1999 were $7.4 million, $1.5 million and $1.0 million respectively. The increase in 2001 reflected costs of renovating a facility related to relocation of XOMA's technical development and pilot plant operations from Santa Monica to Berkeley, as well as initial work on installing a third 2750-liter fermentation line in our Berkeley manufacturing facility.

As of December 31, 2001, future contractual obligations are as follows (in thousands):

	Capital Leases	Operating Leases	Convertible Notes	Total
2002	$ 872	$ 2,845	$ 5,013	$ 8,730
2003	785	2,864	--	3,649
2004	572	2,895	--	3,467
2005	221	2,891	50,980	54,092
2006	--	2,901	--	2,901
Thereafter	--	3,932	--	3,932
Total	$ 2,450	$ 18,328	$ 55,993	$ 76,771

The present outlook is for somewhat higher losses in 2002 than recorded in 2001, due to increased expenses on Xanelim(TM) and on the Millennium collaboration, and the further expansion of the Company's development infrastructure. The Company's strategy is to attempt to continue broadening its product pipeline through additional development collaborations such as its arrangements with Genentech, Onyx and Millennium. To support these activities the Company is judiciously expanding its manufacturing capacity and other development capabilities. For example, the Company relocated its technical development and pilot plant facilities from Santa

Monica to Berkeley in 2001 to improve efficiencies. XOMA is also in the process of installing a third 2750-liter fermentation line in its Berkeley production facility, which is expected to be operational in the second half of 2002. The current outlook is for these increased expenses to be partially offset by increased revenues in 2002. Revenues from services and product sales are estimated to be similar to 2001, and licensing revenues are estimated to be higher in 2002.

Based on current spending levels, currently anticipated revenues, and debt financing provided by Genentech for XOMA's share of Xanelim(TM) development costs, the Company estimates it has sufficient cash resources to meet its operating needs through at least the middle of 2004. Any significant revenue shortfalls, or increases in planned spending on internal programs could shorten this period. Any change in spending on Xanelim(TM) should have no impact on liquidity due to the Company's financing arrangement with Genentech. Additional licensing arrangements or collaborations, or favorable market conditions supporting taking advantage of financing commitments from Millennium under the collaborative agreement between the companies, or otherwise entering into new equity or other financing arrangements, could extend this period. Genentech and XOMA have announced a target of the summer of 2002 for submitting a request for marketing approval of Xanelim(TM) for the treatment of moderate-to-severe psoriasis to the FDA. The timeliness of this submission and subsequent review by the FDA may have a material impact on the Company's cash flow, and its ability to raise new funding on acceptable terms. Progress or setbacks by potentially competing products may also affect XOMA's ability to raise new funding on acceptable terms. For a further discussion of the risks related to our business and their effects on our cash flow and ability to raise new funding on acceptable terms, see "Forward-Looking Statements And Cautionary Factors That May Affect Future Results" included in this Item 7 below.

In January of 2001, the Company entered into a strategic process development and manufacturing agreement with Onyx under which the Company will scale-up production to commercial volume and manufacture Onyx's ONYX-015 product. The initial term of the agreement is five years, with options to extend for additional periods. Terms of the agreement include an initial payment, payments for development work and product produced, and payments upon achieving key milestones. XOMA's objectives are to increase the fermentation volume to commercial scale, to improve the purification process, to seek FDA licensure of its manufacturing facility for ONYX-015, and to produce material for use in clinical testing and for commercial sale upon approval. While dependent on the pace and outcome of clinical trials, regulatory approval, sales volume and other factors, the financial scope of the agreement during the initial term is projected to exceed $35 million. Certain payments under this agreement are pending clinical and regulatory outcomes, and other contingencies, and no assurance can be given that any of the clinical trials will yield data that warrants pursuing continued development of this product.

In November of 2001, XOMA entered into a collaboration with Millennium for the development of Millennium's CAB2 and MLNM01 products. XOMA will perform certain process development activities and will be responsible for product development of the two products through Phase II testing. Millennium has committed to provide up to $50 million of convertible debt and equity financing to XOMA over the first three years of the collaboration. Upon the successful conclusion of Phase II testing, Millennium has the right to complete clinical testing and regulatory filings, and to commercialize the product. XOMA will have the option at that time to participate in further development costs and share in future U.S. profits, or alternatively, to receive development milestone payments and a royalty on sales. In 2002, XOMA will be performing process development and preclinical testing on these products. If supported by the data, our target is to file an investigational new drug application to begin human clinical testing in 2003.

Although operations are influenced by general economic conditions, the Company does not believe that inflation had a material impact on financial results for the periods presented. The Company believes that it is not dependent on materials or other resources that would be significantly impacted by inflation or changing economic conditions in the foreseeable future.

Recent Accounting Pronouncements

In July of 2001, the Financial Accounting Standards Board, or FASB, issued Statements of Financial Accounting Standards No. 141, or SFAS 141, "Business Combinations." SFAS 141 eliminates the pooling-of-interests method of accounting for business combinations except for qualifying business combinations that were initiated prior to July 1, 2001. In addition, SFAS 141 further clarifies the criteria to recognize intangible assets separately from goodwill. Specifically, SFAS 141 requires that an intangible asset may be separately recognized only if such an asset meets the contractual-legal criterion or the separability criterion. The requirements of SFAS 141 are effective for any business combination accounted for by the purchase method that is completed after June 30, 2001 (i.e., the acquisition date is July 1, 2001 or after). The application of SFAS 141 is expected to have no material impact on the Company's financial position or results of operations.

In July of 2001, the FASB issued Statements of Financial Accounting Standards No. 142, or SFAS 142, "Goodwill and Other Intangible Assets." Under SFAS 142, goodwill and indefinite lived intangible assets are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. For intangible assets with indefinite useful lives, the impairment review will involve a comparison of fair value to carrying value, with any excess of carrying value over fair value being recorded as an impairment loss. For goodwill, the impairment test shall be a two-step process, consisting of a comparison of the fair value of a reporting unit with its carrying amount, including the goodwill allocated to each reporting unit. If the carrying amount is in excess of the fair value, the implied fair value of the reporting unit goodwill is compared to the carrying amount of the reporting unit goodwill. Any excess of the carrying value of the reporting unit goodwill over the implied fair value of the reporting unit goodwill will be recorded as an impairment loss. Separable intangible assets that are deemed to have a finite life will continue to be amortized over their useful lives (but with no maximum life). Intangible assets with finite useful lives will continue to be reviewed for impairment in accordance with Statements of Financial Accounting Standards No. 121, or SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." The amortization provisions of SFAS 142 apply to goodwill and intangible assets acquired after June 30, 2001. The adoption of SFAS 142 on January 1, 2002 is expected to have no material impact on the Company's financial position or results of operations.

In August of 2001, the FASB issued SFAS 143, "Accounting for Asset

Retirement Obligations." SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated retirement costs. The Company is in the process of assessing the effect of adopting SFAS 143, which will be effective for the Company's fiscal year ending December 31, 2002.

In October of 2001, the FASB issued SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which supersedes SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." SFAS 144 addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of. However, SFAS 144 retains the fundamental provisions of SFAS 121 for: 1) recognition and measurement of the impairment of long-lived assets to be held and used; and 2) measurement of long-lived assets to be disposed of by sale. SFAS 144 is effective for fiscal years beginning after December 15, 2001. The Company does not expect the adoption of SFAS 144 to have a material effect on its financial position or results of operations.

Forward-Looking Statements And Cautionary Factors That May Affect Future Results

Certain statements contained herein related to the estimated size of the Company's loss for 2002, the sufficiency of its cash resources, existing and potential collaborative and licensing relationships and current plans for product development including the progress of clinical trials and timing of clinical trials and regulatory filings, or that otherwise relate to future periods are "forward-looking" information, as that term is defined in the Private Securities Litigation Reform Act of 1995. Such statements are based on the Company's current beliefs as

to the outcome and timing of future events, and actual results may differ materially from those projected or implied in the forward-looking statements. Further, certain forward-looking statements are based upon assumptions of future events that may not prove accurate. The forward-looking statements involve risks and uncertainties including, but not limited to, size and timing of expenditures, unanticipated expenditures, availability of funds, changes in the status of existing collaborative relationships, availability of additional collaboration opportunities, timing of results of pending or future clinical trials, market demand for products, the ability of collaborators and other partners to meet their obligations, actions by the FDA and future actions by the Patent Office, as well as more general risks and uncertainties related to regulatory approvals, product efficacy and development, the Company's financing needs and opportunities, the legal standards applicable to biotechnology patents, scale-up and marketing capabilities, intellectual property protection, competition, international operations and share price volatility. These risks are described in more detail in the remainder of this section.

None Of Our Pharmaceutical Products Have Received Regulatory Approval; If Our Products Do Not Receive Regulatory Approval, Neither We Nor Our Third Party Collaborators Will Be Able To Manufacture And Market Them

Even our most developed pharmaceutical product has yet to complete final clinical testing. We will be unable to manufacture and market our products without required regulatory approvals in the United States and other countries. The United States government and governments of other countries extensively regulate many aspects of our products, including:

- testing
- manufacturing
- promotion and marketing and
- exporting.

In the United States, the Food and Drug Administration regulates pharmaceutical products under the Federal Food, Drug, and Cosmetic Act and other laws, including, in the case of biologics, the Public Health Service Act. At the present time, we believe that our products will be regulated by the FDA as biologics. State regulations may also affect our proposed products.

The FDA has substantial discretion in both the product approval process and manufacturing facility approval process and, as a result of this discretion and uncertainties about outcomes of testing, we cannot predict at what point, or whether, the FDA will be satisfied with our submissions or whether the FDA will raise questions which may be material and delay or preclude product approval or manufacturing facility approval. As we accumulate additional clinical data, we will submit it to the FDA, which may have a material impact on the FDA product approval process.

Our potential products will require significant additional research and development, extensive preclinical studies and clinical trials and regulatory approval prior to any commercial sales. This process is lengthy, often taking a number of years, and expensive. As clinical results are frequently susceptible to varying interpretations that may delay, limit or prevent regulatory approvals, the length of time necessary to complete clinical trials and to submit an application for marketing approval for a final decision by a regulatory authority varies significantly. As a result, it is uncertain whether:

- our future filings will be delayed

- our studies will be successful
- we will be able to provided necessary additional data
- our future results will justify further development or
- we will ultimately achieve regulatory approval for any of these products.

For example,

- in 1996, we and Genentech began developing Xanelim(TM), which is also called Efalizumab, in patients with moderate to severe psoriasis. In October of 2001, we and Genentech announced that the FDA required an additional pharmacokinetics study to be included in the potential biologics license application submission to the FDA, and that this would delay the estimated filing date to the summer of 2002. Because this additional study has not been completed and we do not know the results, we do not know whether this study will be successful or whether this filing will be made on schedule. We are also conducting a Phase I/II study of Xanelim(TM)in kidney transplant recipients. Because no final decisions have been made, we do not know whether there will be follow-on studies, and if there are such follow-on studies we do not know whether any such studies will be sufficient for regulatory approval. We have also announced plans to initiate testing of Xanelim(TM)in patients suffering from rheumatoid arthritis. We do not know whether any such testing will demonstrate product safety and efficacy in this patient population or result in regulatory approval.

- in December of 1992, we began human testing of our NEUPREX(R)product, a genetically-engineered fragment of a particular human protein, and have licensed certain worldwide rights to Baxter. In April of 2000, members of the FDA and representatives of XOMA and Baxter discussed results from the Phase III trial that tested NEUPREX(R)in pediatric patients with a potentially deadly bacterial infection principally of children called meningococcemia, and senior representatives of the FDA indicated that the data presented were not sufficient to support the filing of an application for marketing approval at that time. Because we have not generated any additional data or completed any further analysis, we do not know whether we will be able to supply such additional data. If we conduct an additional trial to provide the requested additional data, we will not know whether the results will be adequate for approval until the trial has been completed and the resulting data reviewed by the FDA. In September of 1999, we discontinued patient enrollment in our Phase III clinical trial testing NEUPREX(R)in trauma patients with severe blood loss because an independent data safety monitoring board told us that interim results from the trial did not support continuing the trial. Baxter has initiated a Phase II study with NEUPREX(R)in Crohn's disease patients. Because this study has not been completed and we do not know the results, we do not know whether the results will support product approval or justify further development.

Given that regulatory review is an interactive and continuous process, we maintain 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.

Because All Of Our Products Are Still In Development, We Will Require Substantial Funds To Continue; We Cannot Be Certain That Funds Will Be Available And, If Not Available, We May Have To Take Actions Which Could Adversely Affect

Your Rights

If adequate funds are not available, we may have to dilute or otherwise adversely affect the rights of existing shareholders, curtail or cease operations or, in extreme circumstances, file for bankruptcy protection. We have spent, and we expect to continue to spend, substantial funds in connection with:

- research and development relating to our products and production technologies
- expansion of our production capabilities
- extensive human clinical trials and
- protection of our intellectual property.

Based on current spending levels and third party funding, we believe that we have enough cash to meet our currently anticipated needs for operating expenses, working capital, equipment acquisitions and current research projects through approximately the middle of 2004. However, to the extent we experience changes in the timing or size of expenditures or unanticipated expenditures, or if our collaborators do not meet their obligations to us, these funds may not be adequate for this period. As a result, we do not know whether:

- operations will generate meaningful funds
- additional agreements for product development funding can be reached
- strategic alliances can be negotiated or
- adequate additional financing will be available for us to finance our own development on acceptable terms, if at all.

Cash balances and operating cash flow are influenced primarily by the timing and level of payments by our licensees and development partners, as well as by our operating costs.

Because All Of Our Products Are Still In Development, We Have Sustained Losses In The Past And We Expect To Sustain Losses In The Future

We have experienced significant losses and, as of December 31, 2001, we had an accumulated deficit of approximately U.S.$507.6 million.

For the year ended December 31, 2001, we had a net loss of approximately U.S.$28.0 million, or U.S.$0.41 per common share (basic and diluted). We expect to incur additional losses in the future. Our ability to make profits is dependent in large part on obtaining regulatory approval for our products and entering into agreements for product development and commercialization, both of which are uncertain. Our ability to fund our ongoing operations is dependent on the foregoing factors and on our ability to secure additional funds. Because all of our products are still in development, we do not know whether we will ever make a profit or whether cash flow from future operations will be sufficient to meet our needs.

If Third Party Collaborators Do Not Successfully Develop and Market Our Products, We May Not Be Able To Do So On Our Own

Our financial resources and our marketing experience and expertise are limited. Consequently, we depend to a large extent upon securing the financial resources and marketing capabilities of third parties with whom we collaborate.

- In April of 1996, XOMA and Genentech entered into an agreement whereby XOMA agreed to co-develop Genentech's humanized monoclonal antibody product Xanelim(TM). In April of 1999, the companies extended and expanded the agreement.
- In January of 2000, we licensed the worldwide rights to all pharmaceutical compositions containing a particular human protein for treatment of meningococcemia and additional potential future human clinical indications to Baxter.
- In January of 2001, we entered into a strategic process development and manufacturing alliance with Onyx Pharmaceuticals, Inc. pursuant to which we are scaling up production to commercial volume and will manufacture one of Onyx's cancer products.
- In November of 2001, we entered into a collaboration with Millennium Pharmaceuticals, Inc. to develop two of Millennium's products for certain vascular inflammation indications.

Because our collaborators are independent third parties, they may be subject to different risks than we are and have significant discretion in determining the efforts and resources they will apply, we do not know whether Genentech, Baxter, Onyx or Millennium will successfully develop or market any of the products we are collaborating on.

Even when we have a collaboration relationship, other circumstances may prevent it from resulting in successful development of marketable products. For example, in June of 1999, we licensed certain genetically-engineered fragments of a particular human protein to Allergan Inc. to treat bacterial ophthalmic infections. In May of 2000, following successful product testing at Allergan, we expanded the collaboration. In November of 2000, Allergan advised us that for internal economic reasons they planned to discontinue development of ophthalmic anti-infective products derived from this protein.

Although we continue to evaluate additional strategic alliances and potential partnerships, we do not know whether or when any such alliances or partnerships will be entered into.

If Any Of Our Products Receives Regulatory Approval, We May Not Be Able To Increase Existing Or Acquire New Manufacturing Capacity Sufficient To Meet Market Demand

Because we have never commercially introduced any pharmaceutical products and none of our products have received regulatory approval, we do not know whether the capacity of our existing manufacturing facilities can be increased to produce sufficient quantities of our products to meet market demand. Also, if we need additional manufacturing facilities to meet market demand, we cannot predict that we will successfully obtain those facilities because we do not know whether they will be available on acceptable terms. In addition, any manufacturing facilities acquired or used to meet market demand must meet the FDA's quality assurance guidelines.

Because We Do Not And Cannot Currently Market Any Of Our Products For Commercial Sale, We Do Not Know Whether There Will Be A Viable Market For Our Products

Even if we receive regulatory approval for our products and we or our third party collaborators successfully manufacture them, our products may not be accepted in the marketplace. For example, physicians and/or patients may not accept a product for a particular indication because it has been biologically derived (and not discovered and developed by more traditional means) if no biologically-derived products are currently in widespread use in that indication, as is currently the case with psoriasis. Consequently, we do not know if physicians or patients will adopt or use our products for their approved indications.

If Our Patent Protection For Our Principal Products and Processes Is Not Enforceable, We Will Not Realize Our Profit Potential

Because of the length of time and the expense associated with bringing new products to the marketplace, we hold and are in the process of applying for a number of patents in the United States and abroad to protect our products and important processes and 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 involves complex legal and factual questions, and no consistent policy regarding the breadth of allowed claims has emerged from the actions of the U.S. Patent and Trademark Office with respect to biotechnology patents. Legal considerations surrounding the validity of biotechnology patents continue to be in transition, and historical legal standards surrounding questions of validity may not continue to be applied, and current defenses as to issued biotechnology patents may not in fact be considered substantial in the future. These factors have contributed to uncertainty as to:

- the degree and range of protection any patents will afford against competitors with similar technologies
- if and when patents will issue
- whether or not others will obtain patents claiming aspects similar to those covered by our patent applications or
- the extent to which we will be successful in avoiding infringement of any patents granted to others.

The Patent Office has issued 59 patents to us related to our products based on human bactericidal permeability-increasing protein, which we call BPI, including novel compositions, their manufacture, formulation, assay and use. In addition, we are the exclusive licensee of BPI-related patents and applications

owned by New York University and Incyte Pharmaceuticals Inc. The Patent Office has also issued and/or allowed nine patents to us related to our bacterial expression technology.

If certain patents issued to others are upheld or if certain patent applications filed by others issue and are upheld, we may require licenses from others in order to develop and commercialize certain potential products incorporating our technology or we may become involved in litigation to determine the proprietary rights of others. These licenses, if required, may not be available on acceptable terms, and any such litigation may be costly and may have other adverse effects on our business, such as inhibiting our ability to compete in the market place and absorbing significant management time.

Due to the uncertainties regarding biotechnology patents, we also have relied and will continue to rely upon trade secrets, know-how and continuing technological advancement to develop and maintain our competi-

tive position. All of our employees have signed confidentiality agreements under which they have agreed not to use or disclose any of our proprietary information. Research and development contracts and relationships between us and our scientific consultants and potential customers provide access to aspects of our know-how that are protected generally under confidentiality agreements. These confidentiality agreements may not be honored or may not be enforced by a court. To the extent proprietary information is divulged to competitors or to the public generally, such disclosure may adversely effect our ability to develop or commercialize our products by giving others a competitive advantage or by undermining our patent position.

Protecting Our Intellectual Property Can Be Costly And Exposes Us To Risks Of Counterclaims Against Us

We may be required to engage in litigation or other proceedings to protect our intellectual property. For example, we are currently engaged in litigation with Biosite Incorporated regarding certain license agreements and patents relating to our expression technology. Our amended complaint seeks unspecified monetary damages, injunctive and other relief for infringement of our expression technology patents, fraud and misrepresentation, breach of contract, misappropriation and unfair business practices. Biosite has made counterclaims for unspecified damages for breach of contract, breach of covenant of good faith and fair dealing, intentional interference with contracts and with prospective economic advantage, unfair business practices, violation of the Lanham Act and injunctive and declaratory relief. Biosite has also asserted, among other defenses, that the patents at issue are invalid. In February of 2002, Biosite announced that it has begun implementing an antibody expression technology intended to allow it to operate its business without using our patents and that it is launching a licensing program.

The cost to us of this and other patent litigation, even if resolved in our favor, could be substantial. Such litigation could also divert management's attention and resources. In addition, if this or other patent litigation is resolved against us, our patents may be declared invalid, and we could be held liable for significant damages. In addition, if the litigation included a claim of infringement by us of another party's patent that was resolved against us, we or our collaborators may be enjoined from developing, manufacturing, selling or importing products, processes or services without a license from the other party.

Other Companies May Render Some Or All Of Our Products Noncompetitive Or Obsolete

Developments by others may render our products or technologies obsolete or uncompetitive. Technologies developed and utilized by the biotechnology and pharmaceutical industries are continuously and substantially changing. Competition in the areas of genetically-engineered DNA-based and antibody-based technologies is intense and expected to increase in the future as a number of established biotechnology firms and large chemical and pharmaceutical companies advance in these fields. Many of these competitors may be able to develop products and processes competitive with or superior to our own for many reasons, including that they may have:

- significantly greater financial resources
- larger research and development and marketing staffs
- larger production facilities
- entered into arrangements with, or acquired, biotechnology companies to enhance their capabilities or
- extensive experience in preclinical testing and human clinical trials.

These factors may enable others to develop products and processes competitive with or superior to our own. 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.

Without limiting the foregoing, we are aware that:

- Biogen Inc. has announced that its Amevive(R) product achieved positive results in two Phase III clinical trials in patients with moderate to severe plaque psoriasis and that the FDA and the EMEA have officially accepted Biogen's filings for approval of Amevive(R) in psoriasis;

- Centocor Inc., a unit of Johnson & Johnson, has tested its rheumatoid arthritis and Crohn's disease drug in psoriasis, and it has been announced that the drug has shown clinical benefit,

- it has been announced that Immunex Corp. (which is in the process of being acquired by Amgen Inc.) has tested its rheumatoid arthritis and psoriatic arthritis drug in psoriasis with positive results;

- MedImmune, Inc. is testing its anti-T cell monoclonal antibody in psoriasis; and

- other companies, including Medarex, Inc., are developing monoclonal antibody or other products for treatment of inflammatory skin disorders.

Currently, there are several companies with marketed biologics that are approved for treating patients with rheumatoid arthritis:

- Immunex Corp. markets Enbrel,

- Amgen Inc. recently gained FDA approval for Kineret and

- Centocor Inc. is approved to market Remicade to rheumatoid arthritis patients.

In addition to approved products, a number of companies are developing drugs with a biologic mechanism of action for the treatment of rheumatoid arthritis. These companies include Cambridge Antibody Technology Group plc, Biogen Inc., Celltech Group plc and others.

A number of companies are developing monoclonal antibodies targeting cancers, which may prove more effective than ONYX-015 or the ING-1 antibody.

It is possible that one or more other companies may be developing one or more products based on the same human protein as our NEUPREX(R) product, and these product(s) may prove to be more effective than NEUPREX(R) or receive regulatory approval prior to NEUPREX(R) or any BPI-derived ophthalmic product developed by XOMA.

We Have Been Sued Under the California Unfair Competition Act

A complaint was filed in January of 2002 in the California Superior Court in San Diego County purporting to assert claims against us and Genentech under the California Unfair Competition Act, alleging that false and misleading statements were made concerning the anticipated timetable for the filing of a biologics license application with the FDA in connection with our development of Xanelim(TM). The complaint seeks injunctive relief, costs and expenses. Although we feel that this suit is without merit and intend to vigorously contest it, this

matter could be determined in favor of the plaintiffs and result in consequences materially adverse to us, such as restrictions on our ability to do business in California. Even if we prevail in this matter, such litigation could result in substantial costs and divert management's attention and resources.

If We Do Business Internationally, We Will Be Subject To Additional Political, Economic and Regulatory Uncertainties

We may not be able to successfully operate in any foreign market. 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. Foreign regulatory agencies often establish standards different from those in the United States, and an inability to obtain foreign regulatory approvals on a timely basis could put us at a competitive disadvantage or make it uneconomical to proceed with a product's development. International operations may be limited or disrupted by:

- imposition of government controls
- export license requirements
- political or economic instability
- trade restrictions
- changes in tariffs
- restrictions on repatriating profits
- taxation and
- difficulties in staffing and managing international operations.

Also, our financial results could be significantly affected by factors such as fluctuations in currency exchange rates or weak economic conditions in the foreign markets in which we or our collaborators seek to operate.

Because We Are A Relatively Small Biopharmaceutical Company With Limited Resources, We May Not Be Able To Attract And Retain Qualified Personnel, And The Loss Of Key Personnel Could Delay Or Prevent Achieving Our Objectives

Our success in developing marketable products and achieving a competitive position will depend, in part, on our ability to attract and retain qualified scientific and management personnel, particularly in areas requiring specific technical, scientific or medical expertise. There is intense competition for such personnel. Our research, product development and business efforts would be adversely affected by the loss of one or more of key members of our scientific or management staff, particularly our executive officers: John L. Castello, our Chairman of the Board, President and Chief Executive Officer; Patrick J. Scannon, M.D., Ph.D., our Chief Scientific and Medical Officer and Senior Vice President; Clarence L. Dellio, our Senior Vice President, Operations; Peter B. Davis, our Vice President, Finance and Chief Financial Officer; and Christopher J. Margolin, our Vice President, General Counsel and Secretary. We have employment agreements with Mr. Castello, Dr. Scannon and Mr. Davis. We currently have no key person insurance on any of our employees.

Because We Engage In Human Testing, We Are Exposed To An Increased Risk Of Product Liability Claims

The testing and marketing of medical products entails an inherent risk of allegations of product liability. We believe that we currently have adequate levels of insurance for our clinical trials; however, in the event of one or more large, unforeseen awards, such levels may not provide adequate coverage. We will seek to obtain additional insurance, if needed, if and when our products are commercialized; however, because we do not know when this will occur, we do not know whether adequate insurance coverage will be available or be available at acceptable costs. A significant product liability claim for which we were not covered by insurance would have to be paid from cash or other assets. To the extent we have sufficient insurance coverage, such a claim would result in higher subsequent insurance rates.

If You Were To Obtain A Judgment Against Us, It May Be Difficult To Enforce Against Us Because We Are A Foreign Entity

We are a Bermuda company. All or a substantial portion of our assets may be located outside the United States. As a result, it may be difficult for shareholders and others to enforce in United States courts judgments obtained against us. We have irrevocably agreed that we may be served with process with respect to actions based on offers and sales of securities made hereby in the United States by serving Christopher J. Margolin, c/o XOMA Ltd., 2910 Seventh Street, Berkeley, California 94710, our United States agent appointed for that purpose. We have been advised by our Bermuda counsel, Conyers Dill & Pearman, that there is doubt as to whether Bermuda courts would enforce judgments of United States courts obtained in (a) actions against XOMA or our directors and officers that are predicated upon the civil liability provisions of the U.S. securities laws or (b) original actions brought in Bermuda against XOMA or such persons predicated upon the U.S. securities laws. There is no treaty in effect between the United States and Bermuda providing for such enforcement, and there

are grounds upon which Bermuda courts may not enforce judgments of United States courts. Certain remedies available under the United States federal securities laws may not be allowed in Bermuda courts as contrary to that nation's policy.

Our Shareholder Rights Agreement Or Bye-laws May Prevent Transactions That Could Be Beneficial To Our Shareholders And May Insulate Our Management From Removal

Our shareholder rights agreement could make it considerably more difficult or costly for a person or group to acquire control of XOMA in a transaction that our board of directors opposes.

Our bye-laws:

- require certain procedures to be followed and time periods to be met for any shareholder to propose matters to be considered at annual meetings of shareholders, including nominating directors for election at those meetings;

- authorize our board of directors to issue up to 1,000,000 preference shares without shareholder approval and to set the rights, preferences and other designations, including voting rights, of those shares as the board of directors may determine; and

- contain provisions, similar to those contained in the Delaware General Corporation Law, that may make business combinations with interested shareholders more difficult.

These provisions of our shareholders rights agreement and our bye-laws, alone or in combination with each other, may discourage transactions involving actual or potential changes of control, including transactions that otherwise could involve payment of a premium over prevailing market prices to holders of common shares, could limit the ability of shareholders to approve transactions that they may deem to be in their best interests and could make it considerably more difficult for a potential acquiror to replace management.

Because We Have No History Of Profitability And Because The Biotechnology Sector Has Been Characterized By Highly Volatile Stock Prices, Announcements We Make And General Market Conditions For Biotechnology Stocks Could Result In A Sudden Change In The Value Of Our Common Shares

As a biopharmaceutical company, we have experienced significant volatility in our common shares. Fluctuations in our operating results and general market conditions for biotechnology stocks could have a significant impact on the volatility of our common share price. From December 31, 2000 through February 28, 2002, our share price has ranged from a low of U.S.$5.31 to a high of U.S.$17.75. On December 31, 2001 the last reported sale price of the common shares as reported on the Nasdaq National Market was U.S.$9.85 per share. Factors contributing to such volatility include:

- results of preclinical studies and clinical trials,

- information relating to the safety or efficacy of our products,

- developments regarding regulatory filings,

- announcements of new collaborations,

- failure to enter into collaborations,

- developments in existing collaborations,

- our funding requirements and the terms of our financing arrangements,

- announcements of technological innovations or new indications for our therapeutic products,

- government regulations,

- developments in patent or other proprietary rights,

- the number of shares outstanding,

- the number of shares trading on an average trading day,

- announcements regarding other participants in the biotechnology and pharmaceutical industries, and

- market speculation regarding any of the foregoing.

Item 7a. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk. The Company's exposure to market rate risk for changes in interest rates relates primarily to its investment portfolio. XOMA does not use derivative financial instruments in its investment portfolio. By policy, the Company places its investments with high quality debt security issuers, limits the amount of credit exposure to any one issuer, limits duration by restricting the term, and holds investments to maturity except under rare circumstances. The Company classifies its cash equivalents or short-term investments as fixed rate if the rate of return on an instrument remains fixed over its term. As of December 31, 2001, all cash equivalents and short-term investments are classified as fixed rate.

XOMA also has a long-term convertible note due to Genentech in 2005. Interest on this note of LIBOR plus 1% is reset at the end of June and December each year and, therefore, variable.

The table below presents the amounts and related weighted interest rates of the Company's cash equivalents at December 31, 2001:

	Maturity	Fair Value (in thousands)	Average Interest Rate
Cash equivalents, fixed rate	Daily	$67,320	1.9%

Other Market Risk. At December 31, 2001 the Company had a long-term convertible note outstanding, which is convertible into common shares based on the market price of the Company's common shares at the time of conversion. A 10% decrease in the market price of the Company's common shares would increase the number of shares issuable upon conversion of either security by approximately 11%. An increase in the market price of Company common shares of 10% would decrease the shares issuable by approximately 9%. (See Note 4 to the Consolidated Financial Statements.)

Item 8. Financial Statements and Supplementary Data

The following consolidated financial statements of the registrant, related notes, and report of independent auditors are set forth beginning on page F-1 of this report.

Report of Ernst & Young LLP, Independent Auditors
Consolidated Balance Sheets
Consolidated Statements of Operations
Consolidated Statement of Shareholders' Equity (Net Capital Deficiency)
Consolidated Statements of Cash Flows
Notes to Consolidated Financial Statements

PART III

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not Applicable.

Item 10. Directors and Executive Officers of the Registrant

The section labeled "Item 1 -- Election of Directors" appearing in the Company's proxy statement for the 2002 annual general meeting of shareholders is incorporated herein by reference. Certain information concerning the Company's executive officers is set forth in Part I of this Report on Form 10-K.

Item 11. Executive Compensation

The section labeled "Compensation of Executive Officers" appearing in the Company's proxy statement for the 2002 annual general meeting of shareholders is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The section labeled "Share Ownership" appearing in the Company's proxy statement for the 2002 annual general meeting of shareholders is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

The section labeled "Certain Transactions" appearing in the Company's proxy statement for the 2002 annual general meeting of shareholders is incorporated herein by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) List of documents filed as part of this Report.

(1) Financial Statements:

All financial statements of the registrant referred to in Item 8 of this Report on 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."

(b) Reports on Form 8-K:

Current report on Form 8-K dated and filed on November 27, 2001, as amended by an amendment on Form 8-K/A dated and filed on December 13, 2001 (file no. 0-14710).

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 29th day of March, 2002.

XOMA Ltd.

By: /s/ John L. Castello

John L. Castello
Chairman of the Board, President
and Chief Executive Officer

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.

<TABLE>
<CAPTION>

Signature	Title	Date
<S>	<C>	<C>
/s/ John L. Castello (John L. Castello)	Chairman of the Board, President and Chief Executive Officer	March 29, 2002
/s/ Patrick J. Scannon (Patrick J. Scannon)	Chief Scientific and Medical Officer, Senior Vice President and Director	March 29, 2002
/s/ Peter B. Davis (Peter B. Davis)	Vice President, Finance and Chief Financial Officer (Principal Financial and Accounting Officer)	March 29, 2002
/s/ James G. Andress (James G. Andress)	Director	March 29, 2002
/s/ William K. Bowes, Jr. (William K. Bowes, Jr.)	Director	March 29, 2002
/s/ Arthur Kornberg	Director	March 29, 2002

- ---------- (Arthur Kornberg)		
/s/ Steven C. Mendell - ---------- (Steven C. Mendell)	Director	March 29, 2002
/s/ W. Denman Van Ness - ---------- (W. Denman Van Ness)	Director	March 29, 2002

</TABLE>

INDEX TO FINANCIAL STATEMENTS

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of XOMA Ltd.

We have audited the accompanying consolidated balance sheets of XOMA Ltd. as of December 31, 2001 and 2000 and the related consolidated statements of operations, shareholders' equity (net capital deficiency) and cash flows for each of the three years in the period ended December 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of XOMA Ltd. as of December 31, 2001 and 2000 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

Palo Alto, California
February 8, 2002

<TABLE>
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XOMA LTD.

CONSOLIDATED BALANCE SHEETS
(In thousands, except par and per share amounts)

December 31,

ASSETS	2001	2000
CURRENT ASSETS:		
<S>	<C>	<C>
Cash and cash equivalents	$ 67,320	$ 35,043
Short-term investments	320	172
Related party receivables	418	237
Receivables	1,662	1,008
Inventory	1,299	--
Prepaid expenses and other	249	162
Total current assets	71,268	36,622
Property and equipment, net	14,645	8,421
Deposits and other	194	169
Total Assets	$ 86,107	$ 45,212
LIABILITIES AND SHAREHOLDERS' EQUITY (Net Capital Deficiency)		
CURRENT LIABILITIES:		
Accounts payable	$ 3,520	$ 2,515
Accrued liabilities	4,422	4,311
Capital lease obligations--current	673	185
Deferred revenue--current	5,017	3,333
Convertible subordinated note--current	5,013	--
Total current liabilities	18,645	10,344
Capital lease obligations--long-term	1,393	361
Deferred revenue--long-term	1,470	3,609
Convertible subordinated notes-long-term	50,980	39,488
Total Liabilities	72,488	53,802
COMMITMENTS AND CONTINGENCIES (Note 6)		
SHAREHOLDERS' EQUITY (Net Capital Deficiency):		
Preference shares, $.05 par value, 1,000,000 shares authorized, no shares issued and outstanding	--	--
Common shares, $.0005 par value, 135,000,000 shares authorized, and 70,184,693 and 66,107,946 shares outstanding at December 31, 2001 and 2000, respectively	35	33
Paid-in capital	521,163	471,066
Accumulated comprehensive income (loss)	50	(100)
Accumulated deficit	(507,629)	(479,589)
Total Shareholders' Equity (Net Capital Deficiency)	13,619	(8,590)
	$ 86,107	$ 45,212

The accompanying notes are an integral part of these consolidated financial statements.
</TABLE>

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XOMA LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	Year ended December 31,		
	2001	2000	1999
REVENUES:			
<S>	<C>	<C>	<C>
License and collaborative fees	$ 4,821	$ 3,194	$ 2,281
Contract revenue	10,078	3,400	--
Product sales	2,380	65	80
Total revenues	17,279	6,659	2,361
OPERATING COSTS AND EXPENSES:			
Research and development	35,929	30,006	41,454
Marketing, general and administrative	8,681	6,069	6,080

Total operating costs and expenses	44,610	36,075	47,534
Loss from operations	(27,331)	(29,416)	(45,173)
OTHER INCOME (EXPENSE):			
Investment and other income	1,959	2,684	1,159
Interest and other expense	(2,668)	(2,680)	(1,765)
Net loss	(28,040)	(29,412)	(45,779)
Preference share dividends	--	--	(55)
Net loss available to common shareholders	$(28,040)	$(29,412)	$(45,834)
BASIC AND DILUTED NET LOSS PER COMMON SHARE	$(0.41)	$(0.45)	$(0.87)
SHARES USED IN COMPUTING BASIC AND DILUTED NET LOSS PER COMMON SHARE	68,159	64,719	52,705

The accompanying notes are an integral part of these consolidated financial statements.
</TABLE>

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XOMA LTD.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(NET CAPITAL DEFICIENCY)
(In thousands)

	Shareholders' Equity (Net Capital Deficiency)				
	Preference Shares		Common Shares		Paid-In
	Shares	Amount	Shares	Amount	Capital
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE, DECEMBER 31, 1998	644	$ 6,440	47,029	$ 24	$ 398,129
Exercise of share options, contributions to 401(k) and incentive plans	--	--	195	--	661
Sale of common shares	--	--	8,613	4	27,827
Conversion of Series C redeemable convertible preference shares	(644)	(6,440)	2,394	1	6,439
Unrealized gain (loss) on investments	--	--	--	--	(1)
Dividends on preference shares	--	--	93	--	247
Net loss and comprehensive loss	--	--	--	--	--
BALANCE, DECEMBER 31, 1999	--	--	58,324	29	433,302
Exercise of share options, contributions to 401(k) and incentive plans	--	--	1,053	1	4,570
Exercise of warrants	--	--	204	--	1,192
Sale of common shares	--	--	6,145	3	28,967
Conversion of redeemable debentures into common shares	--	--	382	--	3,035
Comprehensive loss:					
Unrealized gain (loss) on investments	--	--	--	--	--
Net loss	--	--	--	--	--
Comprehensive loss	--	--	--	--	--
BALANCE, DECEMBER 31, 2000	--	--	66,108	33	471,066
Exercise of share options, contributions to 401(k) and incentive plans	--	--	324	--	1,541
Exercise of warrants	--	--	652	--	3,808
Sale of common shares	--	--	3,000	2	43,256
Conversion of redeemable debentures into common shares	--	--	100	--	1,492
Comprehensive loss:					
Unrealized gain (loss) on investments	--	--	--	--	--
Net loss and comprehensive loss	--	--	--	--	--
Comprehensive loss	--	--	--	--	--

BALANCE, DECEMBER 31, 2001	--	$--	70,184	$ 35	$ 521,163

	Shareholders' Equity (Net Capital Deficiency)		
	Accumulated Comprehensive Income (Loss)	Accumulated Deficit	Total Shareholders' Equity (Net Capital Deficiency)
BALANCE, DECEMBER 31, 1998	$--	$(404,343)	$(6,190)
Exercise of share options, contributions to 401(k) and incentive plans	--	--	661
Sale of common shares	--	--	27,831
Conversion of Series C redeemable convertible preference shares	--	--	6,440
Unrealized gain (loss) on investments	--	--	(1)
Dividends on preference shares	--	(55)	192
Net loss and comprehensive loss	--	(45,779)	(45,779)
BALANCE, DECEMBER 31, 1999	--	(450,177)	(16,846)
Exercise of share options, contributions to 401(k) and incentive plans	--	--	4,571
Exercise of warrants	--	--	1,192
Sale of common shares	--	--	28,970
Conversion of redeemable debentures into common shares	--	--	3,035
Comprehensive loss:			
Unrealized gain (loss) on investments	(100)	--	(100)
Net loss	--	(29,412)	(29,412)
Comprehensive loss	--	--	(29,512)
BALANCE, DECEMBER 31, 2000	(100)	(479,589)	(8,590)
Exercise of share options, contributions to 401(k) and incentive plans	--	--	1,541
Exercise of warrants	--	--	3,808
Sale of common shares	--	--	43,258
Conversion of redeemable debentures into common shares	--	--	1,492
Comprehensive loss:			
Unrealized gain (loss) on investments	150	--	150
Net loss	--	(28,040)	(28,040)
Comprehensive loss	--	--	(27,890)
BALANCE, DECEMBER 31, 2001	$ 50	$(507,629)	$ 13,619

The accompanying notes are an integral part of these consolidated financial statements.

</TABLE>

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XOMA LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year ended December 31,		
	2001	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:			
<S>	<C>	<C>	<C>
Net loss	$(28,040)	$(29,412)	$(45,779)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	1,254	1,189	1,233
Common shares contributed to 401(k) and management incentive plans	477	421	391
Increase (decrease) in convertible notes to (from) a collaborative partner for cost allocations	3,364	(700)	(4,500)

Accrued interest on convertible subordinated notes	2,456	2,679	1,711
Receipt of stock in exchange for technology license	--	--	(500)
Common shares received from a vendor	(231)	--	
Gain on investments	(20)	(278)	--
(Gain) loss on disposal/ retirement of property and equipment	(97)	2	2
Changes in assets and liabilities:			
- ----------			
Related party and other receivables	(835)	(868)	(487)
Inventory	(1,299)	--	--
Prepaid expenses and other	(87)	517	(20)
Deposits and other assets	(25)	(45)	7
Accounts payable	1,005	(1,400)	400
Accrued liabilities	111	(2,208)	(29)
Deferred revenue	(455)	6,942	--
Net cash used in operating activities	(22,422)	(23,161)	(47,571)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of short-term investments	253	506	59,738
Purchase of short-term investments	--	--	(43,309)
Purchase of property and equipment, net of sale proceeds	(7,381)	(1,519)	(991)
Net cash (used in) provided by investing activities	(7,128)	(1,013)	15,438
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from sale and leaseback transactions	1,828	546	--
Principal payments under capital lease obligations	(308)	--	(286)
Proceeds from issuance of convertible note	12,177	5,820	11,000
Proceeds from issuance of common or convertible preference shares and warrants	48,130	34,312	28,101
Net cash provided by financing activities	61,827	40,678	38,815
Net increase in cash and cash equivalents	32,277	16,504	6,682
Cash and cash equivalents at beginning of year	35,043	18,539	11,857
Cash and cash equivalents at end of year	$ 67,320	$ 35,043	$ 18,539

The accompanying notes are an integral part of these consolidated financial statements.
</TABLE>

XOMA LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

XOMA Ltd. ("XOMA" or the "Company"), a Bermuda company, is a biopharmaceutical company that develops and manufactures products to treat cancer, immunologic and inflammatory disorders, and infectious diseases. The Company's products are presently in various stages of development and all are subject to regulatory approval before the Company or its collaborators can commercially introduce any products. There can be no assurance that any of the products under development by the Company will be developed successfully, obtain the requisite regulatory approval or be successfully manufactured or marketed.

Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, if any, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

Concentration of Risk

Cash, cash equivalents, short term investments and accounts receivable are financial instruments, which potentially subject the Company to concentrations of credit risk. The Company maintains and invests excess cash in money market funds and repurchase agreements which bear minimal risk. The Company has not experienced any significant credit losses and does not generally require collateral on receivables. In 2001, two customers represented 57% and 39% of total revenues and as of December 31, 2001 billed and unbilled receivables totaled $476,000 and $1,181,000 for these customers, respectively. In 2000, one customer represented 97% of total revenues and the related receivable balance as of December 31, 2000 was $1,008,000.

Reclassifications

Certain reclassifications have been made to conform the prior years to the 2001 presentation.

Revenue Recognition

Revenue is recognized when the related costs are incurred and the four basic criteria of revenue recognition are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services rendered; (3) the fee is fixed and determinable; and (4) collectibility is reasonably assured. Determination of criteria (3) and (4) are based on management's judgments regarding the nature of the fee charged for products or services delivered and the collectibility of those fees.

License and Collaborative Fees

Revenue from non-refundable, up-front license or technology access payments under license and collaborative agreements where the Company has a continuing obligation to perform are recognized as revenue over the period of the continuing performance obligation.

Milestone payments under collaborative arrangements are recognized as revenue upon achievement of the incentive milestone events, which represent the culmination of the earnings process because the Company has no future performance obligations related to the payment. Milestone payments that require a continuing performance obligation on the part of the Company are recognized over the period of the continuing performance obligation. Incentive milestone payments are triggered either by the results of our research efforts or by events external to the Company, such as regulatory approval to market a product or the achievement of specified sales levels by a marketing partner. Amounts received in advance are recorded as deferred revenue until the related milestone is achieved.

Contract Revenue

Contract revenue for research and development involves the Company providing research, development or manufacturing services on a best efforts basis to collaborative partners. The Company recognizes revenue under these arrangements as the related research and development costs are incurred.

Product Sales

The Company recognizes product revenue upon shipment when there is persuasive evidence that an arrangement exists, delivery has occurred, the price is fixed, and determinable and collectibility is reasonably assured. Allowances are established for estimated uncollectible amounts, product returns, and discounts, if any.

Research and Development

The Company expenses research and development costs as incurred. Research and development expenses consist of direct and research-related allocated overhead costs such as facilities costs, salaries and related personnel costs and material and supply costs. In addition, research and development expenses include costs related to clinical trials to validate the Company's testing processes and procedures and related overhead expenses.

Comprehensive Income (Loss)

Unrealized gains or losses on the Company's available-for-sale securities are included in other comprehensive income. During the years ended December 31, 2001, 2000, and 1999 these unrealized gains and losses were not material and total comprehensive loss closely equaled net loss in each period.

Stock-Based Compensation

In accordance with the provisions of the Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), the Company has elected to follow Accounting Principles Board Opinion No. 25,

"Accounting for Stock Issued to Employees" (APB 25) and related interpretations, and to adopt the "disclosure only" alternative described in SFAS 123. Under APB 25, if the exercise price of the Company's employee share options equals or exceeds the fair market value on the date of the grant or the fair value of the underlying shares on the date of the grant as determined by the Company's Board of Directors, no compensation expense is recognized.

Income Taxes

Income taxes are computed using the asset and liability method, under which deferred income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using the currently enacted tax rates and laws. A valuation allowance is provided for the amount of deferred tax assets that, based on available evidence, are not expected to be realized.

Net Loss Per Common Share

Basic and diluted net loss per common share is based on the weighted average number of common shares outstanding during the period in accordance with Financial Accounting Standard No. 128.

The following potentially dilutive outstanding securities were not considered in the computation of diluted net loss per share because they would be antidilutive for each of the years ended December 31:

<TABLE>
<CAPTION>

Amount (in thousands):	2001	2000	1999
<S>	<C>	<C>	<C>
Options for common shares	4,167	3,753	4,231
Warrants for common shares	700	1,444	1,884
Convertible notes, debentures and related interest	6,499	3,887	12,141

</TABLE>

Cash, Cash Equivalents and Short Term Investments

The Company considers all highly liquid debt instruments with maturities of three months or less at the time the Company acquires them to be cash equivalents. Short term investments include equity securities classified as available-for-sale.

Available-for-sale securities are stated at fair value, with unrealized gains and losses, net of tax, if any, reported in other comprehensive income (loss). Realized gains and losses and declines in value judged to be other-than-temporary on available-for-sale securities are included in investment and other income. The cost of investments sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are also included in investment and other income.

Inventories

Inventories are stated at the lower of standard cost (which approximates first-in, first-out cost) or market. Inventories, which related principally to the Company's agreement with Baxter, consist of the following (in thousands):

	December 31,	
	2001	2000
Raw materials	$ 195	--
Finished goods	1,104	--
	$ 1,299	

Property and Equipment

Property and equipment, including equipment under capital leases, are stated at cost. Equipment depreciation is calculated using the straight-line method over the estimated useful lives of the assets (five to seven years). Leasehold improvements, buildings, and building improvements are amortized and depreciated using the straight-line method over the shorter of the lease terms or the useful lives (one to seven years).

Property and equipment consist of the following (in thousands):

	December 31, 2001	December 31, 2000
Equipment	$ 18,461	$ 17,330
Leasehold and building improvements	15,416	15,189
Construction-in-progress	10,919	5,293
	44,796	37,812
Less accumulated depreciation and amortization	(30,151)	(29,391)
Property and equipment, net	$ 14,645	$ 8,421

At December 31, 2001 and 2000, property and equipment includes equipment acquired under capital lease obligations which had a cost of approximately $2.4 million and $0.6 million, respectively and accumulated amortization of $0.4 million and $0.1 million, respectively.

Long-lived Assets

In accordance with FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," the Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets.

In the fourth quarter of 2000, the Company decided to renovate a facility which had previously been held for sale and consolidate a significant portion of its Santa Monica technical development and pilot plant functions into this facility. Due to this decision, the facility was reclassified from "Asset Held for Sale" to construction-in-progress as of December 31, 2001 and 2000. The renovations are expected to be completed by early 2002.

Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	December 31, 2001	December 31, 2000
Accrued payroll costs	$ 2,347	$ 2,255
Accrued clinical trial costs	445	1,151
Other	1,630	905
	$ 4,422	$ 4,311

Fair Value of Financial Instruments

The fair value of marketable debt and equity securities is based on quoted market prices. The carrying value of those securities approximates their fair value.

The fair value of notes is estimated by discounting the future cash flows using the current interest rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The carrying values of these obligations approximate their respective fair values.

The fair value of capital lease obligations is estimated based on current interest rates available to the Company for debt instruments with similar terms, degrees of risk and remaining maturities. The carrying values of these obligations approximate their respective fair values.

Supplemental Cash Flow Information

Cash paid for interest was $0.1 million, $0.0 million, and $0.0 million during the years ended December 31, 2001, 2000 and 1999, respectively. In addition, dividends paid in common shares were $0.0 million, $0.0 million and $0.2 million during the years ended December 31, 2001, 2000 and 1999, respectively.

Non-cash transactions from financing activities included the conversion of convertible subordinated notes held by Genentech, Inc. to equity of $1.5 million, $3.0 million and $0.0 million for the years ended December 31, 2001, 2000 and 1999, respectively.

Segment Information

Effective January 1, 1998, the Company adopted Statement No. 131, "Disclosure about Segments of an Enterprise and Related Information" (Statement 131). Statement 131 establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports. Statement 131 also establishes standards for related disclosures about products and services, geographic areas, and major customers. As the Company operates in a single segment, the adoption of Statement 131 had no significant effect on results of operations or the financial position of the Company.

Recent Accounting Pronouncements

In July of 2001, the Financial Accounting Standards Board, or FASB, issued Statements of Financial Accounting Standards No. 141, or SFAS 141, "Business Combinations." SFAS 141 eliminates the pooling-of-interests method of accounting for business combinations except for qualifying business combinations that were initiated prior to July 1, 2001. In addition, SFAS 141 further clarifies the criteria to recognize intangible assets separately from goodwill. Specifically, SFAS 141 requires that an intangible asset may be separately recognized only if such an asset meets the contractual-legal criterion or the separability criterion. The requirements of SFAS 141 are effective for any business combination accounted for by the purchase method that is completed after June 30, 2001 (i.e., the acquisition date is July 1, 2001 or after). The application of SFAS 141 is expected to have no material impact on the Company's position or results of operations.

In July of 2001, the FASB issued Statements of Financial Accounting Standards No. 142, or SFAS 142, "Goodwill and Other Intangible Assets." Under SFAS 142, goodwill and indefinite lived intangible assets are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. For intangible assets with indefinite useful lives, the impairment review will involve a comparison of fair value to carrying value, with any excess of carrying value over fair value being recorded as an impairment loss. For goodwill, the impairment test shall be a two-step process, consisting of a comparison of the fair value of a reporting unit with its carrying amount, including the goodwill allocated to each reporting unit. If the carrying amount is in excess of the fair value, the implied fair value of the reporting unit goodwill is compared to the carrying amount of the reporting unit goodwill. Any excess of the carrying value of the reporting unit goodwill over the implied fair value of the reporting unit goodwill will be recorded as an impairment loss. Separable intangible assets that are deemed to have a finite life will continue to be amortized over their useful lives (but with

no maximum life). Intangible assets with finite useful lives will continue to be reviewed for impairment in accordance with Statements of Financial Accounting Standards No. 121, or SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." The amortization provisions of SFAS 142 apply to goodwill and intangible assets acquired after June 30, 2001. The adoption of SFAS 142 on January 1, 2002 is expected to have no material impact on the Company's position or results of operations.

In August of 2001, the FASB issued SFAS 143, "Accounting for Asset Retirement Obligations." SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated retirement costs. The Company is in the process of assessing the effect of adopting SFAS 143, which will be effective for the Company's fiscal year ending December 31, 2002.

In October of 2001, the FASB issued SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which supersedes SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." SFAS 144 addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of. However, SFAS 144 retains the fundamental provisions of SFAS 121 for: 1) recognition and measurement of the impairment of long-lived assets to be held and used; and 2) measurement of long-lived assets to be disposed of by sale. SFAS 144 is effective for fiscal years beginning after December 15, 2001. The Company does not expect the adoption of SFAS 144 to have a material effect on its financial condition or results of operations.

2. CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

On December 31, 2001 and 2000, cash and cash equivalents consisted of money market funds and overnight deposits. These investments have short maturities and cost of investments approximates fair market value. The cost and gross unrealized holding gain on short term investments are $270,000 and $50,000, respectively, at December 31, 2001. The cost and gross unrealized holding loss on short term investments were $272,000 and $100,000, respectively, at December

31, 2000.

During the years ended December 31, 2001 and 2000, available-for-sale securities incurred no significant gross realized gains or losses. Gains and losses are determined on a specific identification basis.

3. COLLABORATIVE AGREEMENTS

Total research and development expenses incurred related to the Company's collaborative agreements were approximately $13.4 million, $15.7 million and $3.3 million in 2001, 2000 and 1999, respectively.

In November of 2001, XOMA announced its agreement with Millennium to develop two of Millennium's biotherapeutic agents, CAB2 and MLN01, for certain vascular inflammation indications. CAB2 is a recombinant fusion protein that inhibits complement activation and MLN01 is a humanized monoclonal antibody that inhibits inflammatory responses by blocking the attachment of Beta 2 integrins to their adhesion molecules. Under the terms of the agreement, XOMA will be responsible for development activities and related costs through the completion of Phase II trials. XOMA will make future payments to Millennium upon achievement of certain clinical milestones. After successful completion of Phase II, Millennium will have the right to commercialize the products and XOMA will have the option to choose between further participation in the development program and eventual profit sharing, or alternatively being entitled to future royalty and milestone payments.

In January of 2001, XOMA signed a strategic process development and manufacturing agreement with Onyx for its ONYX-015 product. XOMA is currently manufacturing ONYX-015 in a 500-liter bioreactor, which is substantially larger than the previous Onyx production scale. Development activities are progressing to

further increase the scale of production. ONYX-015 is in Phase III clinical trials for recurrent head and neck cancer and in Phase I/II trials for other cancers.

In January of 2000, Baxter's Hyland Immuno division acquired the worldwide rights to XOMA's NEUPREX(R) (rBPI21) for development in antibacterial and anti-endotoxin indications. XOMA received initial non-refundable license and signing fees of $10.0 million and may receive additional milestone payments and royalties if the product is successfully commercialized. The license and signing fees will be amortized over the period of continuing involvement, which period is expected to be 36 months. In 2000, the Company recorded an additional $3.4 million in revenue related to the continued development of the product. Under the Baxter agreements, the Company may receive payments of up to $35 million for meningococcemia. In addition, Baxter has committed to fund development of the product in multiple indications. Baxter will pay all future development costs, and XOMA may receive additional milestone payments related to additional indications. XOMA will receive royalties from future rBPI21 sales, and will supply initial product needs from its Berkeley manufacturing facility.

In July of 1998, XOMA signed an exclusive license with Incyte Genomics, Inc. ("Incyte") for all of Incyte's patents and patent applications relating to bactericidal/permeability-increasing protein ("BPI"), a human host-defense protein from which XOMA is developing a pipeline of pharmaceutical products. The license provides that XOMA will pay Incyte a royalty on sales of BPI products covered by the license, up to a maximum of $11.5 million. In July of 1998, XOMA made a non-refundable $1.5 million advance royalty payment consisting of $750,000 in cash and 158,103 XOMA common shares. Incyte also received warrants (the "Incyte Warrants") to purchase 250,000 XOMA common shares at $6.00 per share. The value of the warrants and the advance royalty payment have been included in a $2.4 million charge recorded in the second quarter of 1998. The entire value of the warrants has been recorded as a non-recurring charge in the Company's statement of operations in 1998 since the technology rights received relate to very early stage research which has no assurance of commercial viability and no alternative future use.

In April of 1996, the Company entered into a collaborative agreement with Genentech, Inc. ("Genentech") to jointly develop Xanelim(TM), for treatment of psoriasis and organ transplant rejection. In connection with the agreement, Genentech purchased 1.5 million common shares for approximately $9.0 million and has agreed to fund the Company's development costs for Xanelim(TM) until the completion of Phase III clinical trials through a series of convertible subordinated notes. During 1996, Genentech made loans totalling $13.5 million ($5.0 and $8.5 million, respectively, for funding 1996 and 1997 clinical trials and development costs) to XOMA under this arrangement. An additional loan of $10.0 million was made in December of 1997 to fund 1998 costs. Under the terms of the agreement, the Company will scale up and develop Xanelim(TM) and bring it through Phase II clinical trials. In December of 1998, Genentech made a $2.0 million milestone payment to XOMA for successful completion of a Phase II study. In April of 1999, the companies extended and expanded the agreement. XOMA is

entitled to receive a 25% interest in U.S. profits from Xanelim(TM) in all indications, and a royalty on sales outside the U.S. Genentech will continue to finance XOMA's share of development costs via a long-term convertible loan, which is due at the earlier of 2005 or first product approval. The Company received $10.5 million, $5.1 million and $6.5 million net funding from Genentech under the development agreement for the years ended December 31, 2001, 2000 and 1999, respectively.

In June of 1994, the Company assigned its exclusive worldwide rights in T cell receptor ("TCR") peptide technology to Connetics Corporation. In December of 1999, Connetics Corporation and XOMA assigned certain TCR intellectual property to The Immune Response Corporation ("IRC") in exchange for cash, IRC common stock and future royalties. IRC owns additional TCR-related intellectual property and is developing pharmaceutical products using this technology for the treatment of autoimmune diseases. In 2000, IRC announced it had started a Phase II study of a TCR-based vaccine against multiple sclerosis (MS).

XOMA has granted over 25 licenses to biotechnology and pharmaceutical companies for use of patented and proprietary technologies relating to a bacterial expression system used to manufacture recombinant pharmaceutical products. Licensees include: Affymax, Inc., Alexion Pharmaceuticals, Inc., Avecia Ltd., Cantab Pharmaceuticals Research Ltd., Celltech Ltd., Dompe S.p.A., Eli Lilly and Company, Enzon, Inc., Genentech, Inc., the Hoechst Group, ICOS Corporation, Invitrogen Corporation, MorphoSys AG, Pasteur Merieux Serums & Vaccins, The Pharmacia & Upjohn Group and ZymoGenetics, Inc.

4. SHARE CAPITAL

Common Shares

In June of 2001, the Company issued 3,000,000 common shares for net proceeds of $43.3 million in a registered public offering.

In February of 2000, the Company issued 6,145,000 common shares for net proceeds of $29.0 million. The Company also issued five-year warrants to purchase up to 250,000 common shares for $5.00 per share to each of the two placement agents in this transaction. These warrants were exercisable upon issuance and expire in February of 2005.

In July of 1999, the Company issued 3,024,086 common shares for net proceeds of $16.4 million. The Company also issued five-year warrants to purchase up to 150,000 common shares for $5.75 per share to the placement agents in this transaction.

In January of 1999, the Company issued 2,051,254 common shares for net proceeds of $11.4 million. In addition to the shares initially purchased, the financing transaction provided the investors with i) a conditional right to receive additional common shares for no additional consideration in the future; and ii) a five-year warrant to purchase an aggregate of 240,000 shares of common stock at an exercise price of $5.85. The initial purchase price to the investors of $5.85 per share represented approximately a 60% premium over the then current market value of XOMA's common shares at the date of the transaction. Since the 60% premium paid by the investors related to the value of the warrants as well as the value of the potential to receive additional shares under the reset provisions, the entire premium was accounted for as equity and included in "additional paid in capital." The common shares were to be held in an escrow account for up to three years or until such shares were released from the escrow account, as stipulated in the agreement.

Beginning August 31, 1999, and every ninety days after that first reset date, the investors were entitled to an adjustment to the number of shares remaining in the escrow account based on an 11% discount from the prevailing market price at each reset date. In the third quarter of 1999, based on the then current fair market value of XOMA's common shares, the Company contributed 768,751 additional common shares to the escrow account. In the fourth quarter of 1999, the Company contributed 2,768,865 additional common shares to the escrow account. In early 2000, all common shares in the escrow account were released, and as a result, the investors relinquished their rights with respect to any further reset privileges.

Preference Shares and Preferred Stock

Preference Shares

Series A. As of December 31, 2001, the Company has authorized 135,000 Series A Preference Shares of which none were outstanding at December 31, 2001, 2000, and 1999. (See "Shareholder Rights Plan" below.)

Series B. (See "Convertible Subordinated Notes" below.)

Convertible Subordinated Notes

Under an arrangement with Genentech (see Note 3), the Company receives financing for its share of Xanelim(TM) development costs through the issuance of convertible subordinated notes due at the earlier of 2005 or upon regulatory approval of Xanelim(TM). The notes bear interest at rates of LIBOR plus 1% (4.9% at December 31, 2001) compounded and reset at the end of June and December each year. Interest is payable at maturity.

As of December 31, 2001, the Company had an outstanding balance of $51.0 million under this loan agreement. The agreement as amended in April of 1999 includes development cost sharing provisions. Under the agreement, the loan balance is increased by cash advances from Genentech to XOMA and by interest accruing on the outstanding loan balance. Conversely, cash repayments of the debt or conversion of the debt to shares decreases the loan balance. Under the cost sharing provisions, the two companies compare their actual spending on Xanelim(TM) with their respective share of the aggregate costs under the agreement. Any differences are recorded as increases/decreases to the respective company's operating expenses and a related increase/decrease to the loan balance as appropriate. The Company received cash advances from Genentech under this agreement of $7.2 million, $5.8 million and $11 million, net of repayments of the loan of $1.5 million, $3.0 million and $0 million in 2001, 2000 and 1999, respectively. The loan balance was increased by $3.3 million in 2001 and decreased by $0.7 million in 2000 and $4.5 million in 1999, according to the cost sharing provisions of the loan agreement. At XOMA's option, the notes may be repaid in cash on or before the due date, or may be converted on the due date into one Series B Preference Share at the fair market value of common shares at the time of conversion (7,500 shares are so designated) for each $10,000 outstanding in notes. The Series B Preference Shares are convertible into common shares. The cumulative amount of interest accrued was $9.9 million, $7.4 million and $4.7 million as of December 31, 2001, 2000 and 1999, respectively.

As announced in November of 2001, under an investment agreement, Millennium has committed to purchase, at our option, up to $50.0 million worth of our common shares over the next three years in several tranches, through a combination of convertible debt and equity at the then prevailing market prices. We have agreed to register the resale of the common shares that we may sell to Millennium from each tranche and the common shares that we may issue to Millennium upon conversion of the convertible debt. The convertible note balance as of December 31, 2001 was $5.0 million and is due in November of 2002 at an interest rate of LIBOR (1.9% at December 31, 2001).

Management Incentive Compensation Plan

The Board of Directors of the Company established a Management Incentive Compensation Plan effective July 1, 1993 (as amended, the "Incentive Plan"), in which management employees (other than the Chief Executive Officer), as well as certain additional discretionary participants chosen by the Chief Executive Officer, are eligible to participate.

Awards under the Incentive Plan vest over a three-year period with 50% of each award payable during the first quarter of the following fiscal year, and 25% payable on each of the next two annual distribution dates, so long as the participant remains an employee of the Company. The 50% on the first distribution date is payable half in cash and half in common shares. The balance on the next two annual distribution dates is payable, at the election of the participant, all in cash or all in common shares or, for elections after December 31, 2000, half in cash and half in common shares. The maximum number of common shares issuable pursuant to awards made for the years ended December 31, 2001 and 2000 under the Incentive Plan were 44,781 and 28,673, respectively, and these shares have been reserved under the Restricted Plan (as defined below).

The amounts charged to expense under the Incentive Plan were $0.8 million, $0.9 million and $0.8 million for the plan years 2001, 2000 and 1999, respectively.

Employee Share Purchase Plan

In 1998, the shareholders approved the 1998 Employee Share Purchase Plan (the "Share Purchase Plan") which provides employees of the Company the opportunity to purchase common shares through payroll deductions. The Company has reserved 500,000 common shares for issuance under the Share Purchase Plan. An employee may elect to have payroll deductions made under the Share Purchase Plan for the purchase of common shares in an amount not to exceed 15% of the employee's compensation. The purchase price per common share will be either (i) an amount equal to 85% of the fair market value of a common share on the first day of a 24-month offering period or on the last day of such offering period, whichever is lower, or (ii) such higher price as may be set by the Compensation

Committee of the Board at the beginning of such offering period. As of December 31, 2001, payroll deductions under the Share Purchase Plan totaled $0.3 million.

Shareholder Rights Plan

In October of 1993, the Company's Board of Directors unanimously adopted a Shareholder Rights Plan (the "Rights Plan"). Under the Rights Plan, Preference Share Purchase Rights ("Rights") were distributed as a dividend at the rate of one Right for each common share held of record as of the close of business on November 12, 1993. Each Right entitles the registered holder of common shares to buy a fraction of a share of the new series of Preference Shares (the "Series A Preference Shares") at an exercise price of $30.00, subject to adjustment. The Rights will be exercisable, and will detach from the common share, only if a person or group acquires 20 percent or more of the common shares, announces a tender or exchange offer that if consummated will result in a person or group beneficially owning 20 percent or more of the common shares, or if the Board of Directors declares a person or group owning 10 percent or more of the outstanding common shares to be an Adverse Person (as defined in the Rights Plan). Once exercisable, each Right will entitle the holder (other than the acquiring person) to purchase units of Series A Preference Share (or, in certain circumstances, common shares of the acquiring person) with a value of twice the Rights exercise price. The Company will generally be entitled to redeem the Rights at $.001 per Right at any time until the close of business on the tenth day after the Rights become exercisable. The Rights will expire at the close of business on December 31, 2002.

Shares Reserved for Future Issuance

The Company has reserved common shares for future issuance as of December 31, 2001 as follows:

Share Option Plans	6,906,783
Employee Share Purchase Plan	245,253
Warrants	700,000
Total	7,852,036

The convertible subordinated notes held by Genentech are convertible into one Series B Preference Share at the market price of common shares at the time of conversion (7,500 shares are so designated) for each $10,000 in notes. The Series B Preference Shares are convertible into common shares.

5. SHARE OPTIONS AND WARRANTS

At December 31, 2001, the Company had three share-based compensation plans, which are described below. The aggregate number of common shares that may be issued under these plans is 8,950,000 shares.

Share Option Plan

Under the Company's amended 1981 Share Option Plan (the "Option Plan"), qualified and non-qualified options of the Company's common shares may be granted to certain employees and other individuals

as determined by the Board of Directors at not less than the fair market value of the shares at the date of grant. Options granted under the Option Plan may be exercised when vested and expire five years to ten years from the date of grant or three months from the date of termination of employment. Options granted generally vest over five years. The Option Plan will terminate on November 15, 2011. Up to 8,650,000 shares are authorized for issuance under the Option Plan. As of December 31, 2001, options covering 3,593,815 common shares were outstanding under the Option Plan.

Restricted Share Plan

The Company also has a Restricted Share Plan (the "Restricted Plan") which provides for the issuance of options or the direct sale of common shares to certain employees and other individuals as determined by the Board of Directors at not less than 85% of fair market value of the common shares on the grant date. Each option issued under the Restricted Plan will be a non-statutory share option under the federal tax laws and will have a term not in excess of ten years from the grant date. Options granted generally vest over five years. The Restricted Plan will terminate on November 15, 2011.

The Company has granted options with exercise prices at 85% of fair market value on the date of grant. Up to 1,250,000 shares are authorized for issuance under the Restricted Plan, subject to the condition that not more than 8,650,000 shares are authorized under both the Option Plan and the Restricted Plan. As of December 31, 2001, options covering 372,795 common shares were outstanding under the Restricted Plan.

The Company amortizes deferred compensation, which is the difference between the issuance price or exercise price as determined by the Board of Directors and the fair market value of the shares at the date of sale or grant over the period benefited.

Directors Share Option Plan

In 1992, the shareholders approved a Directors Share Option Plan (the "Directors Plan") which provides for the issuance of options to purchase common shares to non-employee directors of the Company at 100% of the fair market value of the shares on the date of the grant. Up to 300,000 shares are authorized for issuance during the term of the Directors Plan. Options vest on the date of grant and have a term of up to ten years. As of December 31, 2001, options for 200,000 common shares were outstanding under the Directors Plan.

The Company applies APB Opinion 25 and related interpretations in accounting for its plans. Accordingly, the financial statements reflect amortization of compensation resulting from options granted at exercise prices which were below market price at the grant date. Had compensation cost for the Company's shares-based compensation plans been based on the fair value at the grant dates for awards under these plans consistent with the provisions of FASB Statement 123, the Company's net loss and loss per share would have been increased to the pro forma amounts indicated below for the years ended December 31 (in thousands except per share amounts):

<TABLE>
<CAPTION>

		2001	2000	1999
<S>	<C>	<C>	<C>	<C>
Net loss	As reported	$(28,040)	$(29,412)	$(45,779)
	Pro forma	$(31,230)	$(31,447)	$(47,342)
Net loss per share	As reported	$(0.41)	$(0.45)	$(0.87)
	Pro forma	$(0.46)	$(0.49)	$(0.90)

</TABLE>

The fair value of each option grant under these plans is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants during the years indicated below:

<TABLE>
<CAPTION>

	2001	2000	1999
<S>	<C>	<C>	<C>
Dividend yield	0%	0%	0%
Expected volatility	92%	91%	84%
Risk-free interest rate	3.7%	5.8%	5.3%
Expected life	7.8 years	6.3 years	4.7 years

</TABLE>

A summary of the status of the Company's share option plans as of December 31, 2001, 2000, and 1999 and changes during years ending on those dates is presented below:

<TABLE>
<CAPTION>

	2001		2000		1999	
OPTIONS:	Shares	Price*	Shares	Price*	Shares**	Price*
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Outstanding at beginning of year	3,752,662	$ 5.00	4,230,884	$ 4.58	4,005,771	$ 4.78
Granted						
(1)	1,750	9.28	2,500	6.88	20,500	6.16
(2)	667,200	9.39	641,500	9.04	663,500	3.97
Exercised	(105,502)	4.11	(856,241)	4.40	(76,652)	3.59
Forfeited, expired or canceled	(149,500)	7.85	(265,981)	10.02	(382,235)	5.96
Outstanding at end of year	4,166,610	5.59	3,752,662	5.00	4,230,884	4.58
Exercisable at end of year	2,949,400		2,588,597		3,054,029	
Weighted average fair value of options granted						
(1)		$ 7.92		$ 3.87		$ 3.77
(2)		$ 7.45		$ 7.07		$ 2.65

</TABLE>

* Weighted-average exercise price

** Includes cancellation and granting of 1,820,385 new options

(1) Option price less than market price on date of grant.

(2) Option price equal to market price on date of grant. The Company adjusts for forfeitures as they occur.

The following table summarizes information about share options outstanding at December 31, 2001:

<TABLE>
<CAPTION>

	Options Outstanding				Options Exercisable	
Range of Exercise Prices	Number Outstanding	Life *	Price **	Number Exercisable	Price **
<S>	<C>	<C>	<C>	<C>	<C>
$ 1.86 - 2.38	178,612	3.20	$ 2.36	177,562	$ 2.36
2.56 - 2.56	1,115,481	3.03	2.56	1,115,481	2.56
2.60 - 4.56	797,020	6.08	3.87	582,599	3.99
4.68 - 6.75	713,726	5.78	5.66	585,025	5.75
6.81 - 8.94	703,066	7.64	8.18	284,517	7.76
9.56 - 22.75	658,705	8.48	10.82	204,216	11.86
1.86 - 22.75	4,166,610	5.73	5.59	2,949,400	4.61

</TABLE>

* Weighted-average remaining contractual life

** Weighted-average exercise price

Warrants

In February of 2000, warrants to purchase up to 250,000 common shares at $5.00 per share and expiring in February of 2005 were issued to the placement agents in conjunction with a private placement of common shares. As of December 31, 2001, all of these warrants were outstanding.

In July of 1999, warrants to purchase up to 150,000 common shares at $5.75 per share and expiring in July of 2004 were issued to the placement agents in conjunction with a private placement of common shares. As of December 31, 2001, all of these warrants were outstanding.

In January of 1999, warrants to purchase up to 240,000 common shares at $5.85 per share were issued to investors in a private placement of common shares. Additional warrants to purchase up to 64,000 common shares at $5.85 were issued to the placement agent and separately warrants for 75,000 common shares at $5.85 were issued to an advisor. All of these warrants expire in January of 2004. As of December 31, 2001, there were 175,000 of the January 1999 warrants still outstanding.

In July of 1998, warrants to purchase 250,000 common shares at $6.00 per share were issued to Incyte in partial payment of license fees. These warrants expire in July of 2008. As of December 31, 2001, there were 125,000 warrants still outstanding.

Warrants to purchase 550,000 common shares at $7.00 per share were issued in conjunction with the issuance of the Series H Preferred in June of 1998. These warrants were valued at $1.0 million in paid-in capital. Additional warrants to purchase 68,681 common shares at $7.00 per share were issued to placement agents. All of these warrants expired in June of 2001.

All of the above warrants were exercisable upon issuance. The fair value of the warrants issued to placement agents and advisors were determined using the Black Scholes valuation method and capitalized as issuance costs associated with the equity financing and charged against paid-in capital.

6. COMMITMENTS AND CONTINGENCIES

Collaborative Agreements and Royalties

The Company is obligated to pay royalties, ranging generally from 1.5% to 5% of the selling price of the licensed component and up to 25% of any sublicense fees to various universities and other research institutions based on future sales or licensing of products that incorporate certain products and technologies developed by those institutions.

Liability Insurance

The testing and marketing of medical and food additive products entails an

inherent risk of allegations of product liability. XOMA believes that its product liability insurance levels are adequate for its clinical trial activity. The Company will seek to obtain additional insurance, if needed, if and when its products are commercialized; however, there can be no assurance that adequate insurance coverage will be available or be available at acceptable costs or that a product liability claim would not materially adversely affect the business or financial condition of the Company.

The Company insures and indemnifies its directors and officers against actions brought against them as a result of their management of the Company's operations. There can be no assurance that adequate directors and officers insurance coverage will be available or be available at acceptable costs or that a claim against the directors and officers would not materially adversely affect the business or financial condition of the Company.

Leases

As of December 31, 2001, the Company leased administrative, research facilities, certain laboratory and office equipment under capital and operating leases expiring on various dates through 2008. Future minimum lease commitments are as follows (in thousands):

	Capital Leases	Operating Leases
2002	$ 872	$ 2,845
2003	785	2,864
2004	572	2,895
2005	221	2,891
2006	-	2,901
Thereafter	-	3,932
Net minimum lease payments	2,450	$ 18,328
Less: amount representing interest expense	(384)	
Present value of net minimum lease payments	2,066	
Less: current portion	(673)	
Long-term capital lease obligations	$ 1,393	

Total rental expense was approximately $3.2 million, $3.3 million, and $2.7 million for the years ended December 31, 2001, 2000 and 1999, respectively.

Legal Proceedings

On or about June 8, 2001, an action was commenced against the Company and certain of its affiliates styled Biosite Diagnostics Inc. v. XOMA Ltd., et al., No. C-01-2251 (PJH)(N.D. Cal.) (the "Biosite Action"). The action sought declarations that Biosite was not infringing certain XOMA patents and that certain licenses continued in effect despite XOMA's notice of termination thereof. The action sought an injunction against the Company and such affiliates maintaining the license agreements in effect. On June 13, 2001, the court denied Biosite's motion for a temporary restraining order. On or about July 5, 2001, the Company, XOMA Ireland Limited and XOMA Technology Ltd. brought an action against Biosite in the same court. The action, styled XOMA Ltd., et al. v. Biosite Inc., No. C-01-2580 (PJH) (N.D. Cal.) (the "XOMA Action"), seeks injunctive relief, compensatory and punitive damages for fraud and misrepresentation, breach of contract, patent infringement, misappropriation and unfair business practices. On September 24, 2001, the court denied Biosite's motion in its action for a preliminary injunction and granted the Company's motion to dismiss the Biosite Action. On that same day, the court granted a portion of Biosite's motion to dismiss the XOMA Action relating to the fraud allegations with leave to replead. On October 31, 2001, the plaintiffs in the XOMA Action filed their amended complaint asserting the same claims for relief. On November 7, 2001, Biosite answered the amended complaint denying the substantive allegations. On that same day, Biosite filed counterclaims seeking the same relief as the original Biosite Action and adding claims for breach of contract, breach of covenant of good faith and fair dealing, intentional interference with contracts and with prospective economic advantage, unfair business practices and violation of the Lanham Act. Biosite seeks damages in an unspecified amount, prejudgment interest, injunctive relief, punitive damages and attorneys' fees. On November 30, 2001, the Company answered the counterclaims denying the substantive allegations therein. On December 3, 2001, the court denied Biosite's motion to bifurcate the case such that Biosite's license validity claims would be tried first. On January 7, 2002, the court denied Biosite's motion to sever the patent issues from the license issues and to address the license issues first. In February of 2002, Biosite announced that it has begun implementing an antibody expression technology intended to allow it to operate its business without using XOMA's patents and that it is launching a licensing program. On or about March 5, 2002, Biosite filed an amended answer to

add additional defenses that certain of the patents at issue are invalid, that certain alleged inequitable conduct on the part of the XOMA enti-

ties renders certain of the patents unenforceable and that alleged patent misuse renders the patents at issue unenforceable. Discovery has commenced as to all claims, defenses and counterclaims and is continuing.

On November 15, 2001, a purported securities class action complaint was filed in the United States District Court for the Northern District of California against the Company and certain of its officers in an action captioned Tingle v. XOMA Ltd., et al., No. C-01-4256 (CW) (N.D. Calif.). On November 29, 2001 and December 20, 2001, respectively, two similar purported class action complaints, captioned Scala v. XOMA Ltd., et al., No. C-01-4610 (WHA) (N.D. Calif.) and Malmut v. XOMA Ltd., et al., No. C-01-5006 (MJJ) (N.D. Calif.), were filed in that same federal district court. (The three lawsuits are referred to collectively hereinafter as the "Class Action Lawsuits.") The complaints in the Class Action Lawsuits purported to assert claims, under Sections 11, 12(a)(2) and 15 of the Securities Act of 1933 and Sections 10(b) (and Rule 10b-5 promulgated thereunder) and 20(a) of the Securities Exchange Act of 1934, arising out of XOMA's joint development with Genentech of XanelimTM, a drug for the treatment of psoriasis. (Genentech and certain of its officers were also named as defendants in the Class Action Lawsuits.) The Class Action Lawsuits alleged that XOMA and Genentech made material misrepresentations and omissions concerning the anticipated timetable for the filing of a Biologics License Application ("BLA") with the Food and Drug Administration in connection with their development of XanelimTM. The complaints in the Class Action Lawsuits sought unspecified money damages, costs and expenses.

In January of 2002, a complaint was filed in the California Superior Court in San Diego County against XOMA, Genentech and certain unidentified "John Doe" defendants, which tracks many of the allegations that had been made in the Class Action Lawsuits, purporting to assert claims pursuant to the California Unfair Competition Act seeking injunctive relief and other equitable remedies in connection with the defendants alleged misrepresentations and omissions concerning the anticipated timetable for the filing of the XanelimTM BLA.

7. INCOME TAXES

The significant components of net deferred tax assets and liabilities as of December 31are as follows (in millions):

	2001	2000
Capitalized R&D expense	$ 29.4	$ 28.6
Net operating loss carryforwards	75.0	73.1
R&D and other credit carryforwards	19.7	18.5
Other	0.7	--
Valuation allowance	(124.8)	(120.2)
Total deferred tax asset	$ --	$ --

The net change in the valuation allowance was a $4.6 million increase, a $3.4 million decrease, and a $1.2 million increase for the years ended December 31, 2001, 2000 and 1999, respectively.

FASB Statement No. 109 provides for the recognition of deferred tax assets if realization of such assets is more likely than not. Based upon the weight of available evidence, which includes the Company's historical operating performance and carryback potential, the Company has determined that total deferred tax assets to be fully offset by a valuation allowance.

XOMA's accumulated federal and state tax net operating loss carryforwards ("NOLs") and credit carryforwards as of December 31, 2001 are as follows:

	Amounts (in millions)	Expiration Dates
Federal		
NOLs	$ 216.1	2002-2021
Credits	14.3	2002-2021
State		
NOLs	24.7	2002-2006
Credits	4.8	Do not expire

The availability of the Company's net operating loss and tax credit carryforwards may be subject to substantial limitation if it should be

determined that there has been a change in ownership of more than 50 percent of the value of the Company's shares over a three year period.

8. RELATED PARTY TRANSACTIONS

In 1993, the Company granted a short-term, secured loan to an officer, director and shareholder of the Company which has been extended annually.

9. DEFERRED SAVINGS PLAN

Under section 401(k) of the Internal Revenue Code of 1986, the Board of Directors adopted, effective June 1, 1987, a tax-qualified deferred compensation plan for employees of the Company. Participants may make contributions which defer up to 14% of their total salary, up to a maximum for 2001 of $10,500. The Company may, at its sole discretion, make contributions each plan year, in cash or in the Company's common shares in amounts which match up to 50% of the salary deferred by the participants. The expense related to these contributions was $328,000, $358,000 and $271,000 for the years ended December 31, 2001, 2000 and 1999, respectively.

10. SUBSEQUENT EVENTS (unaudited)

In January of 2002, XOMA and Genentech announced plans to conduct a Phase II clinical study of Efalizumab (anti-CD11a) in rheumatoid arthritis patients. The randomized, placebo controlled, double-blinded study will evaluate the efficacy and safety of Efalizumab in several hundred rheumatoid arthritis patients.

In February of 2002, XOMA and MorphoSys AG announced cross-licensing agreements for antibody-related technologies. Under the agreements, XOMA will receive license payments from MorphoSys in addition to a license to use the MorphoSys HuCAL(R) GOLD antibody library for its target discovery and research programs. MorphoSys and its partners receive a license to use the XOMA antibody expression technology for developing antibody products using MorphoSys's phage display-based HuCAL(R) antibody library. MorphoSys also receives a license for the production of antibodies under the XOMA patents.

On March 13, 2002, the Court entered an Order dismissing each of the following lawsuits without prejudice: Tingle v. XOMA Ltd., et al; Scala v. XOMA Ltd., et al.; and Malmut v. XOMA Ltd., et al. No consideration was exchanged, and neither plaintiffs nor their counsel received any compensation or reimbursement of expenses.

INDEX TO EXHIBITS

Exhibit Number	
1	Underwriting Agreement dated as of June 26, 2001 by and between XOMA Ltd. and the several underwriters named therein (Exhibit 2).1
3.1	Memorandum of Continuance of XOMA Ltd. (Exhibit 3.4).2
3.2	Bye-Laws of XOMA Ltd. (Exhibit 3.5).2
4.1	Amended and Restated Shareholder Rights Agreement dated as of October 27, 1993 and amended and restated December 31, 1998 by and among XOMA Corporation (to be renamed XOMA Ltd.) and Chase Mellon Shareholder Services L.L.C. (successor to First Interstate Bank of California) as Rights Agent as amended by Amendment No. 1 to Amended and Restated Shareholders rights Agreement dated as of February 21, 2001 (Exhibit 4.1).3
4.2	Form of Resolution Regarding Preferences and Rights of Series A Preference Shares (Exhibit 4.2).2
4.3	Form of Resolution Regarding Preferences and Rights of Series B Preference Shares (Exhibit 4.3).2
4.4	Form of Resolution Regarding Preferences and Rights of Series C Preference Shares (Exhibit 4.4).2
4.5	Form of Common Stock Purchase Warrant (1998 Warrants) (Exhibit 3).4
4.6	Form of Common Stock Purchase Warrant (Incyte Warrants) (Exhibit 2).5

4.7 Form of Common Share Purchase Warrant (January and March 1999 Warrants) (Exhibit 5).6

4.8 Form of Common Share Purchase Warrant (July 1999 Warrants) (Exhibit 4).7

4.9 Form of Common Share Purchase Warrant (2000 Warrants) (Exhibit 4).8

10.1 1981 Share Option Plan as amended and restated (Exhibit 10.1).9

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

10.2 Restricted Share Plan as amended and restated (Exhibit 10.2).9

10.2A Form of Share Option Agreement for Restricted Share Plan (Exhibit 10.2A).9

10.2B Form of Restricted Share Purchase Agreement for Restricted Share Plan (Exhibit 10.2B).10

10.3 1992 Directors Share Option Plan as amended and restated (Exhibit 10.4).10

10.3A Form of Share Option Agreement for 1992 Directors Share Option Plan (initial grants) (Exhibit 10.4A).9

10.3B Form of Share Option Agreement for 1992 Directors Share Option Plan (subsequent grants) (Exhibit 10.4B).9

10.4 Management Incentive Compensation Plan as amended and restated (Exhibit 10.5).9

10.5 1998 Employee Share Purchase Plan (Exhibit 10.1).10

10.5A Amendment No. 1 to 1998 Employee Share Purchase Plan (Exhibit 10.2).10

10.6 Form of indemnification agreement for officers (Exhibit 10.6).9

10.7 Form of indemnification agreement for employee directors (Exhibit 10.7).9

10.8 Form of indemnification agreement for non-employee directors (Exhibit 10.8).9

10.9 Employment Agreement dated April 29, 1992 between the Company and John L. Castello (Exhibit 10.9).9

10.10 Employment Agreement dated April 1, 1994 between the Company and Peter B. Davis (Exhibit 10.10).11

10.11 Employment Agreement dated March 26, 2001 between XOMA (US) LLC and Patrick J. Scannon, M.D., Ph.D.

10.12 Lease of premises at 890 Heinz Street, Berkeley, California dated as of July 22, 1987 (Exhibit 10.12).9

10.13 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).9

10.14 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).9

10.15 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).9

10.16 Lease of premises at 2910 Seventh Street, Berkeley, California dated March 25, 1992 (Exhibit 10.16).9

10.17 Sublease dated January 20, 1997, between the Company and UroGenesys, Inc. (Exhibit 10.18).9

10.18 Lease dated October 2, 1992, between the Company and Virginia Merritt, as Trustee of the Bowman Merritt and Virginia Merritt Trust (Exhibit 10.19).9

10.18A First Extension of Lease dated April 23, 1997, between the Company and Virginia Merritt and Kim Merritt Campot, as Trustees of the Bowman Merritt and Virginia Merritt 1987 Trust (Exhibit 10.19A).9

10.19 Lease of premises at 5860 and 5864 Hollis Street, Emeryville, California dated as of November 2, 2001 (with addendum).

10.20 Lease of premises at 2850 Seventh Street, Second Floor, Berkeley, California dated as of December 28, 2001 (with addendum and guaranty).

10.21 License Agreement dated as of August 31, 1988 between the Company and Sanofi (with certain confidential information deleted) (Exhibit 10.27).9

10.22 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).9

10.22A 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).9

10.22B Fourth Amendment to License Agreement dated December 23, 1998 between the Company and New York University (Exhibit 10.22B).12

10.22C Fifth Amendment to License Agreement dated June 25, 1999 between the Company and New York University (Exhibit 10.21C). 13

10.22D 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). 14

10.23 Cross License Agreement dated December 15, 1993 between Research Development Foundation and the Company (with certain confidential information deleted) (Exhibit 10.23).12

10.24 Cross License Agreement dated December 15, 1993 between the Company and Research Development Foundation (with certain confidential information deleted) (Exhibit 10.24).12

10.25 Technology Acquisition Agreement dated June 3, 1994 between Connective Therapeutics, Inc. (now called Connetics Corporation) and the Company (with certain confidential information deleted) (Exhibit 10.46).11

10.25A Amendment Number One to Technology Acquisition Agreement dated December 8, 1999 between Connetics Corporation and XOMA (US) LLC (with certain confidential information deleted) (Exhibit 10.23A).13

10.25B Agreement dated December 8, 1999 by and between The Immune Response Corporation and XOMA (US) LLC (with certain confidential information deleted) (Exhibit 10.23B).13

10.26 Collaboration Agreement, dated as of April 22, 1996, between the Company 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 10.1).14

10.26A Amendment to Collaboration Agreement, dated as of April 14, 1999, between the Company 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 10.5).16

10.27 Common Stock and Convertible Note Purchase Agreement, dated as of April 22, 1996, between the Company 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 10.2).15

10.27A Amendment to Common Stock and Convertible Note Purchase Agreement, dated as of April 14, 1999, between XOMA Ltd. and Genentech, Inc. (Exhibit 10.6).16

10.28 Convertible Subordinated Note Agreement, dated as of April 22, 1996, between the Company 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 10.3).15

10.28A Amendment to Convertible Subordinated Note Agreement, dated as of June 13, 1996, between the Company 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 10.4).15

10.28B Second Amendment to Convertible Subordinated Note Agreement, dated as of April 14, 1999, between the XOMA Ltd. 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 10.7).16

10.29 License Agreement between Incyte Pharmaceuticals, Inc. and XOMA Corporation effective as of July 9, 1998 (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 1).5

10.30 Registration Rights Agreement dated as of July 9, 1998 by and among the Company and Incyte Pharmaceuticals, Inc. (Exhibit 3).5

10.31 Form of Subscription Agreement, dated as of January 28, 1999, by and between XOMA Ltd. and the purchasers of Common Shares in the January 1999 Private Placement (Exhibit 2).6

10.32 Form of Registration Rights Agreement, dated as of January 28, 1999, by and between XOMA Ltd. and the purchasers of Common Shares in the January 1999 Private Placement (Exhibit 3).6

10.33 Form of Escrow Agreement, dated as of January 28, 1999, by and between XOMA Ltd., Brian W. Pusch, as Escrow Agent and the purchasers of Common Shares in the January 1999 Private Placement (Exhibit 4).6

10.34 License Agreement dated as of January 25, 2000 between XOMA Ireland Limited and Baxter Healthcare Corporation (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).17

10.35 Supply and Development Agreement dated as of January 25, 2000 between XOMA (US) LLC and Baxter Healthcare Corporation (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).17

10.36 Form of Subscription Agreement, dated as of February 8, 2000 by and between XOMA Ltd. and the purchasers of Common Shares in the February 2000 Private Placement (Exhibit 2).8

10.37 Form of Registration Rights Agreement, dated as of February 11, 2000 by and between XOMA Ltd. and the purchasers of Common Shares in February 2000 Private Placement (Exhibit 3).8

10.38 Form of Registration Rights Agreement, dated as of February 11, 2000 by and between XOMA Ltd. and the placement agents in the February 2000 private placement (Exhibit 5).8

10.39 Process Development and Manufacturing Agreement dated as of January 29, 2001 between XOMA (US) LLC and Onyx Pharmaceuticals, 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 2).18

10.40 Investment Agreement dated as of November 26, 2001 by and among XOMA, Millennium Pharmaceuticals, Inc. and mHoldings Trust (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).19

10.41 Convertible Subordinated Promissory Note dated November 26, 2001 (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 4).19

10.42 Registration Rights Agreement dated as of November 26, 2001 by and among XOMA, Millennium Pharmaceuticals, Inc. and mHoldings Trust (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 5).19

23.1 Consent of Ernst & Young LLP, Independent Auditors.

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Footnotes

1. Incorporated by reference to the referenced exhibit to Company's Current Report on Form 8-K dated and filed on June 27, 2001.

2. Incorporated by reference to the referenced exhibit to the Company's Registration Statement on Form S-4 filed November 17, 1998, as amended.

3. Incorporated by reference to the referenced exhibit to the Company's Registration Statement on Form 8-A filed May 21, 1999

4. Incorporated by reference to the referenced exhibit to the Company's Current Report on Form 8-K dated June 28, 1998 filed June 29, 1998.

5. Incorporated by reference to the referenced exhibit to the Company's Current Report on Form 8-K dated July 9, 1998 filed July 16, 1998.

6. Incorporated by reference to the referenced exhibit to the Company's Current Report on Form 8-K dated January 28, 1999 filed January 29, 1999, as amended.

7. Incorporated by reference to the referenced exhibit to the Company's Current Report on Form 8-K dated July 23, 1999 filed July 26, 1999.

8. Incorporated by reference to the referenced exhibit to the Company's Current Report on Form 8-K dated February 11, 2000 filed February 14, 2000.

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, 1997, as amended.

10. Incorporated by reference to the referenced exhibit to the Company's Registration Statement on Form S-8 filed October 27, 1998.

11. Incorporated by reference to the referenced exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1994.

12. 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.

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, 1999.

14. 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.

15. Incorporated by reference to the referenced exhibit to the Company's Registration Statement on Form S-3 filed June 28, 1996.

16. Incorporated by reference to the referenced exhibit to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1999.

17. Incorporated by reference to the referenced exhibit to the Company's Amendment No. 2 to Current Re-port on Form 8-K/A dated and filed March 9, 2000.

18. Incorporated by reference to the referenced exhibit to the Company's Amendment No. 1 on Form 8-K/A dated and filed February 13, 2001.

19. Incorporated by reference to the referenced exhibit to the Company's Amendment No. 1 to Current Report on Form 8-K/A dated and filed December 13, 2001.

EMPLOYMENT AGREEMENT

This Employment Agreement ("Agreement"), made and effective this 26th day of March, 2001, by and between XOMA (US) LLC ("XOMA" or the "Company"), a Delaware company with its principal office at 2910 Seventh Street, Berkeley, California, and Patrick J. Scannon, M.D., Ph.D., ("Executive"), an individual residing at 176 Edgewood, San Francisco, California.

WHEREAS, the Company wishes to enter into this Agreement to assure the Company of the continued services of Executive; and

WHEREAS, Executive is willing to enter into this Agreement and to serve in the employ of the Company upon the terms and conditions hereinafter provided;

NOW, THEREFORE, in consideration of the mutual covenants herein contained, the parties hereto hereby agree as follows:

1. Employment. The Company agrees to employ Executive, and Executive agrees to enter the employ of the Company, for the period referred to in Section 3 hereof and upon the other terms and conditions herein provided.

2. Position and Responsibilities. The Company agrees to employ Executive in the position of Chief Scientific and Medical Officer, and Executive agrees to serve as Chief Scientific and Medical Officer, for the term and on the conditions hereinafter set forth. Executive agrees to perform such services not inconsistent with his position as shall from time to time be assigned to him by the Chairman of the Board, President and Chief Executive Officer of the Company (the "Chairman").

3. Term and Duties.

(a) Term of Employment. This Agreement shall become effective and the term of employment pursuant to this Agreement shall commence on March 26, 2001 and will continue until March 25, 2002, when it will terminate unless it is extended by mutual written consent of Executive and the Company or unless Executive's employment is terminated by the Company or he resigns from the Company's employ as described herein.

(b) Duties. During the period of his employment hereunder Executive shall serve the Company as its Chief Scientific and Medical Officer, and except for illnesses, vacation periods and reasonable leaves of absence, Executive shall devote all of his business time, attention, skill and efforts to the faithful performance of his duties hereunder.

So long as Executive is Chief Scientific and Medical Officer of the Company, he will discharge all duties incidental to such office and such further duties as may be reasonably assigned to him from time to time by the Chairman.

4. Compensation and Reimbursement of Expenses.

(a) Compensation. For all services rendered by Executive as Chief Scientific and Medical Officer during his employment under this Agreement, the Company shall pay Executive as compensation a salary at a rate of not less than $340,000 per annum. All taxes and governmentally required withholding shall be deducted in conformity with applicable laws.

(b) Loan. In further consideration of Executive's agreement to the terms hereof, the Company has agreed to a one year extension of a loan previously provided to Executive in the principal amount of $143,547.44 (the "Loan") on the terms and subject to the conditions set forth herein. On the date on which Executive and the Company agreed that the Loan was to be funded (the "Loan Date"), Executive executed a promissory note in the form attached hereto as Exhibit A evidencing the Loan and a pledge agreement in the form attached hereto as Exhibit B granting to the Company a first priority security interest in all of the outstanding Common Shares owned by Executive on the effective date of this Agreement, whereupon the Company did lend to Executive the principal amount of the Loan. The full amount of the Loan will be repaid by Executive as soon as reasonably practicable and in any event no later than March 25, 2002, or on demand following any earlier termination of or resignation by Executive. Interest will accrue on the Loan at a rate of six percent (6%) per annum and will be payable as and when the Loan is repaid.

(c) Reimbursement of Expenses. The Company shall pay or reimburse Executive for all reasonable travel and other expenses incurred by Executive in performing his obligations under this Agreement in a manner consistent with past Company practice. The Company further agrees to furnish Executive with such assistance and accommodations as shall be suitable to the character of Executive's position with the Company, adequate for the performance of his duties and consistent with past Company practice.

5. Participation in Benefit Plans. The payments provided in Section 4 hereof are in addition to benefits Executive is entitled to under any group hospitalization, health, dental care, disability insurance, surety bond, death benefit plan, travel and/or accident insurance, other allowance and/or executive compensation plan, including, without limitation, any senior staff incentive plan, capital accumulation and termination pay programs, restricted or non-restricted share purchase plan, share option plan, retirement income or pension plan or other present or future group employee benefit plan or program of the Company for which key executives are or shall become eligible, and Executive shall be eligible to receive during the period of his employment under this Agreement, and during any subsequent period(s) for which he shall be entitled to receive payment from the Company under paragraph 6(b) below, all benefits and emoluments for which key executives are eligible under every such plan or program to the extent permissible under the general terms and provisions of such plans or programs and in accordance with the provisions thereof.

6. Payments to Executive Upon Termination of Employment.

(a) Termination. Upon the occurrence of an event of termination (as hereinafter defined) during the period of Executive's employment under this Agreement, the provisions of this paragraph 6(a) and paragraph 6(b) shall apply. As used in this Agreement, an "event of termination" shall mean and include any one or more of the following:

(i) The termination by the Company of Executive's employment hereunder for any reason other than pursuant to paragraph 6(c); or

(ii) Executive's resignation from the Company's employ, upon not less than thirty (30) days' prior written notice.

(b) Continuation of Salary and Other Benefits. Upon the occurrence of an event of termination under paragraph 6(a), the Company (i) shall, subject to the provisions of Section 7 below, pay Executive, or in the event of his subsequent death, his beneficiary or beneficiaries of his estate, as the case may be, as severance pay or liquidated damages, or both, semi-monthly for a period of twelve (12) months following the event of termination (the "Severance Payment Period"), a sum equal to his current salary in effect at the time of the event of termination, but in no case less than $340,000 per annum, (ii) shall continue to provide the other benefits referred to in Section 5 hereof until the end of the Severance Payment Period or until Executive becomes employed elsewhere, whichever is earlier, and (iii) shall continue to provide the benefits provided for in paragraph 4(c) to the extent of expenses incurred but not reimbursed prior to the event of termination. Such payments shall commence on the last day of the next regular pay period following the date of the event of termination, or, at the election of the Company, may be paid in one lump sum or in such other installments as may be mutually agreed between the Company and Executive or, in the event of his subsequent death, his beneficiary or beneficiaries or legal representative, as the case may be.

(c) Other Termination of Employment. Notwithstanding paragraphs 6(a) and (b) or any other provision of this Agreement to the contrary, if on or after the date of this Agreement and prior to the end of the term hereof:

(i) Executive has been convicted of any crime or offense constituting a felony under applicable law, including, without limitation, any act of dishonesty such as embezzlement, theft or larceny;

(ii) Executive shall act or refrain from acting in respect of any of the duties and responsibilities which have been assigned to him in accordance with this Agreement and shall fail to desist from such action or inaction within ten (10) days (or such longer period of time, not exceeding ninety (90) days, as Executive shall in good faith and the exercise of reasonable efforts require to desist from such action or inaction) after Executive's receipt of notice from the Company of such action or inaction and the Board of Directors determines

that such action or inaction constituted gross negligence or a willful act of malfeasance or misfeasance of Executive in respect of such duties; or

(iii) Executive shall breach any material term of this Agreement and shall fail to correct such breach within ten (10) days (or such longer period of time, not exceeding ninety (90) days, as Executive shall in good faith and the exercise of reasonable efforts require to cure such breach) after Executive's receipt of notice from the Company of such breach;

then, and in each such case, the Company shall have the right to give notice of

termination of Employee's services hereunder as of a date (not earlier than fourteen (14) days from such notice) to be specified in such notice and this Agreement (other than the provisions of Section 7 hereof) shall terminate on such date.

7. Post-Termination Obligations. All payments and benefits to Executive under this Agreement shall be subject to Executive's compliance with the following provisions during the term of his employment and for the Severance Payment Period:

(a) Confidential Information and Competitive Conduct. Executive shall not, to the detriment of the Company, disclose or reveal to any unauthorized person any trade secret or other confidential information relating to the Company or its affiliates or to any businesses operated by them, and Executive confirms that such information constitutes the exclusive property of the Company. Executive shall not otherwise act or conduct himself to the material detriment of the Company or its affiliates, or in a manner which is inimical or contrary to the interests thereof, and shall not, directly or indirectly, engage in, enter the employ of or render any service to any person, firm or business in direct competition with any part of the business being conducted by the Company; provided, however, that Executive's ownership less than five percent (5%) of the outstanding stock of a corporation shall not be itself be deemed to constitute such competition. Executive recognizes that the possible restrictions on his activities which may occur as a result of his performance of his obligations under this paragraph 7(a) are required for the reasonable protection of the Company and its investments. For purposes hereof, "direct competition" means the pursuit of one or more of the same therapeutic or diagnostic indications utilizing a substantially similar scientific basis.

(b) Failure of Executive to Comply. If, for any reason other than death or disability, Executive shall, without written consent of the Company, fail to comply with the provisions of paragraph 7(a) above, his rights to any future payments or other benefits hereunder shall terminate, and the Company's obligations to make such payments and provide such benefits shall cease.

(c) Remedies. Executive agrees that monetary damages would not be adequate compensation for any loss incurred by the Company by reason of a breach of the

provisions of this Section 7 and hereby agrees to waive the defense in any action for specific performance that a remedy at law would be adequate.

8. Effect of Prior Agreements. This Agreement contains the entire understanding between the parties hereto and supersedes any prior employment agreements between the Company and Executive.

9. General Provisions.

(a) Binding Agreement. This Agreement shall be binding upon, and inure to the benefit of, Executive and the Company and their respective permitted successors and assigns.

(b) Legal Expenses. In the event that Executive incurs legal expenses in contesting any provision of this Agreement and such contest results in a determination that the Company has breached any of its obligations hereunder, Executive shall be reimbursed by the Company for such legal expenses.

10. Successors and Assigns.

(a) Assignment by the Company. This Agreement shall be binding upon and inure to the benefit of the successors and assigns of the Company and, unless clearly inapplicable, reference herein to the Company shall be deemed to include its successors and assigns.

(b) Assignment by Executive. Executive may not assign this Agreement in whole or in part.

11. Modification and Waiver.

(a) Amendment of Agreement. This Agreement may not be modified or amended except by an instrument in writing signed by the parties hereto.

(b) Waiver. No term or condition of this Agreement shall be deemed to have been waived except by written instrument of the party charged with such waiver. No such written waiver shall be deemed a continuing waiver unless specifically stated therein, and each such waiver shall operate only as to the specific term or condition waived.

12. Severability. In the event any provision of this Agreement or any part

hereof is held invalid, such invalidity shall not affect any remaining part of such provision or any other provision. If any court construes any provision of this Agreement to be illegal, void or unenforceable because of the duration or the area or matter covered thereby, such court shall reduce the duration, area or matter of such provision, and, in its reduced form, such provision shall then be enforceable and shall be enforced.

13. Governing Law. This Agreement has been executed and delivered in the State of California, and its validity interpretation, performance, and enforcement shall be governed by the laws of said State.

IN WITNESS WHEREOF, XOMA has caused this Agreement to be executed by its duly authorized officer, and Executive has signed this Agreement, all as of the day and year first above written.

XOMA (US) LLC
//John L. Castello//
John L. Castello
Chairman of the Board, President
and Chief Executive Officer

//Patrick J. Scannon//
Patrick J. Scannon, M.D., Ph.D.

Exhibit A

PROMISSORY NOTE

$143,547.44 Berkeley, California
- -----------

March 26, 2001

FOR VALUE RECEIVED, the undersigned (the "Obligor") hereby unconditionally promises to pay to the order of XOMA Ltd., a Bermuda company (the "Obligee"), the principal sum of ONE HUNDRED FORTY-THREE THOUSAND FIVE HUNDRED FORTY-SEVEN AND 44/100 DOLLARS ($143,547.44) (the "Principal Amount") together with interest from the date hereof at a rate per annum of six percent (6%) on the earlier of (a) five (5) days after the demand of the Obligee if the Obligor ceases to be employed by the Obligee or (b) the 25TH day of March, 2002. Said principal sum, and/or any accrued interest, may be prepaid in whole or in part without premium or penalty.

1. It is hereby understood and agreed that if default be made in the payment of the Principal Amount or of interest accrued and unpaid thereon, then the Obligee may exercise any remedies available at law or in equity, including, but not limited to, foreclosure upon the shares of Obligee's common stock which have hereupon been pledged by the Obligor to the Obligee as security for the Obligor's obligations hereunder pursuant to a Pledge Agreement, but shall not be obligated to proceed first against such collateral and may proceed directly on this Promissory Note. In the event of any such default, the Obligee shall be entitled also to all costs of collection, including the reasonable fees of an attorney. In the event the Obligee proceeds against the collateral and the proceeds of the collateral are inadequate to pay any amounts due on this Promissory Note, the Obligor shall remain liable for any deficiency. In addition, and without limitation of any other provision of this Paragraph, in the event of any default described above, the Obligor authorizes and requests the Obligee to deduct and withhold from compensation otherwise payable by the Obligee to the Obligor an amount equal to the defaulted payment of the Principal Amount and/or of interest accrued and unpaid thereon; provided however, that the Obligee may not so deduct more than fifty (50) percent of any payment of compensation otherwise due the Obligor.

2. If application shall be made for the appointment of a receiver, trustee or liquidator of the Obligor or any of his property, or if the Obligor shall make a general assignment for the benefit of creditors, be adjudicated a bankrupt or file a voluntary petition in bankruptcy or seek reorganization of any arrangement with creditors, the Obligee may declare this Promissory Note to be due and payable, whereupon this Promissory Note shall forthwith become due and payable without presentment, demand, protest, or notice of protest, notice of dishonor, notice of nonpayment or any other notice of any kind, all of which

are hereby expressly waived.

3. No delay or omission on the part of the Obligee in exercising any right hereunder shall operate as a waiver of such right or of any other right, nor shall any delay,

omission or waiver on any one occasion be deemed a bar to or waiver of the same or any other right on any future occasion.

4. If any provision of this Promissory Note should be found to be invalid or unenforceable, all other provisions shall nevertheless remain in full force and effect. This Promissory Note and any of its terms may be changed, waived or terminated only by a written instrument signed by the party against which enforcement of that change, waiver or termination is sought. The rights and obligations of the parties hereunder shall be governed by and interpreted and enforced in accordance with the substantive laws of the State of California, without giving effect to principles of conflicts of law.

WITNESS the due execution hereof as of the date first above written.

_____

Patrick J. Scannon, M.D., Ph.D.

Exhibit B

PLEDGE AGREEMENT

PLEDGE AGREEMENT dated March 26, 2001, between Patrick J. Scannon, M.D., Ph.D. (the "Pledgor"), and XOMA Ltd., a Delaware corporation (the "Pledgee").

WHEREAS, the Pledgor is the owner of 69,993 shares (the "Pledged Shares") of Common Stock, par value $0.0005 per share, issued by the Pledgee; and

WHEREAS, the Pledgee has agreed to loan the Pledgee $143,547.44 in connection with the certain liabilities related to the Pledged Shares (the "Loan"), and the Pledgor has simultaneously with the execution of this Agreement executed a Promissory Note (the "Note") evidencing such indebtedness;

NOW THEREFORE, in consideration of the premises and in order to induce the Pledgee to make the Loan, the Pledgor hereby agrees with the Pledgee as follows:

SECTION 1. Pledge. The Pledgor hereby pledges to the Pledgee, and grants to the Pledgee a security interest in, the Pledged Shares and any and all proceeds therefrom.

SECTION 2. Security for Obligations. This Agreement secures the payment of all obligations of the Pledgor to the Pledgee now or hereafter existing pursuant to the Loan and the Note, whether for principal, interest, fees, expenses or otherwise (all such obligations of the Pledgor being the "Obligations").

SECTION 3. Delivery of Pledged Shares. All certificates or instruments representing or evidencing the Pledged Shares shall be delivered to and held by or on behalf of the Pledgee pursuant hereto and shall be in suitable form for transfer by delivery, or shall be accompanied by duly executed instruments of transfer or assignment in blank, all in forms and substance satisfactory to the Pledgee. In addition, the Pledgee shall have the right at any time to exchange certificates or instruments representing or evidencing Pledged Shares for certificates or instruments of smaller or larger denominations.

SECTION 4. Representations and Warranties. The Pledgor represents and warrants as follows:

(i) The Pledgor is the legal and beneficial owner of the Pledged Shares free and clear of any lien, security interest, option or other charge or encumbrance except for the security interest created by this Agreement.

(ii) The pledge of the Pledged Shares pursuant to this Agreement creates a valid and perfected first priority security interest in the Pledged Shares, securing the payment of the Obligations.

SECTION 5. Further Assurances. The Pledgor agrees that at any time and from time to time, at the expense of the Pledgor the Pledgor will promptly execute and deliver all further instruments and documents, and take all further action, that may be necessary or appropriate, or that the Pledgee may reasonably request, in order to perfect and protect any security interest granted or purported to be g ranted hereby or to enable the Pledgee to exercise and enforce its rights and remedies hereunder with respect to any Pledged Shares.

SECTION 6. Voting Rights; Dividends; Etc. (a) So long as no default exists under the Note:

(i) The Pledgor shall be entitled to exercise any and all voting and other consensual rights pertaining to the Pledged Shares.

(ii) The Pledgor shall be entitled to receive and retain any and all dividends in respect of the Pledged Shares, provided, however, that any and all dividends paid or payable other than in cash in respect of, and instruments and other property received, receivable or otherwise distributed in respect of, or in exchange for, any Pledged Shares, and any and all dividends and other distributions paid or payable in cash in respect of any Pledged Collateral in connection with a partial or total liquidation or dissolution or in connection with a reduction of capital, capital surplus or paid-in-surplus shall be delivered to the Pledgee to hold as collateral as if such were Pledged Shares (such Collateral, together with the Pledged Shares, the "Pledged Collateral") and shall, if received by the Pledgor, be received in trust for the benefit of the Pledgee, be segregated from the other property or funds of the Pledgor, and be forthwith delivered to the Pledgee as Pledged Collateral in the same for as so received (with any necessary indorsement).

(b) Upon the occurrence of a default under the Note, all rights of the Pledgor to exercise the voting and other consensual rights which it would otherwise be entitled to exercise pursuant to Section y(a)(i) and to receive the dividends which it would otherwise be authorized to receive and retain pursuant to Section (a)(ii) shall cease, and all such rights shall thereupon become vested in the Pledgee who shall thereupon have the sole right to exercise such voting and other consensual rights and to receive and hold as Pledged collateral such dividends, and all dividends which are received by the Pledgor contrary to the provisions of this Section (b) shall be received in trust for the benefit of the Pledgee, shall be segregated from other funds of the Pledgor and shall be forthwith paid over the Agent as Pledged Collateral in the same form as so received with any necessary indorsement).

SECTION 7. Pledgee Appointed Attorney-in-Fact. The Pledgor hereby irrevocably appoints the Pledgee the Pledgor's attorney-in-fact, with full authority in the place and stead of the Pledgor and in the name of the Pledgor or otherwise, from time to time in the Pledgee's discretion, to take any action and to execute any instrument which the Pledgee may deem necessary or advisable to accomplish the purposes of this Agreement, including, without limitation, to receive, indorse and collect all instruments made payable to the Pledgor repre-

senting any dividend or other distribution in respect of the Pledge Shares and to give full discharge for the same, when and to the extent permitted by this Agreement.

SECTION 8. Pledgee May Perform. If the Pledgor fails to perform any agreement contained herein, the Pledgee may itself perform, or cause performance of, such agreement, and the expenses of the Pledgee incurred in connection therewith shall be payable by the Pledgor under Section 11.

SECTION 9. Reasonable Care. The Pledgee shall be deemed to have exercised reasonable care in the custody and preservation of the Pledged Collateral in its possession if such Pledged Collateral is accorded treatment substantially equivalent to that which the Pledgee accords its own property, it being understood that the Pledgee shall not have responsibility for taking any necessary steps to preserve rights against any parties with respect to any of the Pledged Collateral.

SECTION 10. Remedies upon Default. If any default under the Note shall have occurred:

(a) The Pledgee may exercise in respect of the Pledged Collateral, in addition to other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a secured party on default under the Uniform Commercial Code (the "Code") in effect in the State of California at that time (in compliance with all applicable securities laws), and the Pledgee may also, without notice except as specified below, sell (in compliance with all applicable securities laws) the Pledged collateral or any part thereof in one or more parcels at public or private sale, at any exchange, broker's board, for cash, on credit or for future

delivery, and at such price or prices and upon such other terms as the Pledgee may deem commercially reasonable. The Pledgor agrees that, to the extent notice of sale shall be required by law, at least ten days' notice to the Pledgor of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification. The Pledgee shall not be obligated to make any sale of Pledged Collateral regardless of notice of sale having been given.

(b) Any cash held by the Pledgee as Pledged Collateral and all cash proceeds received by the Pledgee in respect of any sale of, collection from, or other realization upon all or any part of the Pledged Collateral may, in the discretion of the Pledgee, be held by the Pledgee as collateral for, and/or then or at any time thereafter applied (after payment of any amounts payable to the Pledgee pursuant to Section 11) in whole or in part by the Pledgee against all or any part of the Obligations in such order as the Pledgee shall elect. Any surplus of such cash or cash proceeds held by the Pledgee and remaining after payment in full of all the Obligations shall be paid over the Pledgor or to whomsoever may be lawfully entitled to receive such surplus.

SECTION 11. Expenses. The Pledgor will upon demand pay to the Pledgee the amount of any and all reasonable expenses, including the fees and expenses of its counsel

and of any agents, which the Pledgee may incur in connection with (i) the custody of, or the sale or other realization upon, any of the Pledged collateral, (ii) the exercise or enforcement of any of the rights of the Pledgee, or (iii) the failure by the Pledgor to perform or observe any of the provisions hereof.

SECTION 12. Security Interest Absolute. All rights of the Pledgee and security interests hereunder, and all obligations of the Pledgor hereunder, shall be absolute and unconditional.

SECTION 13. Amendments, Etc. No amendment or waiver of any provision of this Agreement nor consent to any departure by the Pledgor herefrom shall in any event be effective unless the same shall be in writing and signed by the Pledgee, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

SECTION 14. Addresses for Notices. Any notice or other communication to be given or made to the Pledgee hereunder shall be sent or otherwise communicated to the Pledgee at Xoma Corporation, Attention: Christopher Margolin, 1920 Seventh Street, Berkeley, California 94170, telecopy (510) 649-7571 or such other address and/or for such other attention as may be notified to the Pledgor in accordance with this Section. Any notice or other communication to be given to the Pledgor hereunder shall be sent or otherwise communicated to the Pledgor at 176 Edgewood, San Francisco, California 94117, or such other address and/or for such other attention as may be notified to the Pledgee in accordance with this Section. Any notice or other communication to be given or made pursuant to this Agreement may be given or made personally or by registered first class mail or by telecopier and shall be effective when actually received.

SECTION 15. Continuing Security Interest; Assignments. This Agreement shall create a continuing security interest in the Pledged Collateral and shall (I) remain in full force and effect until payment in full of the Obligations and (ii) inure, together with the rights and remedies of the Pledgee hereunder, to the benefit of the Pledgee, and successors, transferees and assigns. Upon the payment in full of the Obligations, the Pledgor shall be entitled to the return, upon its request and at its expense, of such of the Pledged Collateral as shall not have been sold or otherwise applied pursuant to the terms hereof.

SECTION 16. Governing Law; Terms. This Agreement shall be governed by and construed in accordance with the laws of the State of California, except as required by mandatory provisions of law and except to the extent that the validity or perfection of the security interest hereunder, or remedies hereunder, in respect of any particular Pledged Collateral are governed by the laws of a jurisdiction other than the State of California. Unless otherwise defined herein, terms defined in Article 9 of the Uniform Commercial Code in the State of California are used herein as therein defined.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered by their respective officers thereunto duly authorized, as of the date first above written.

PATRICK J. SCANNON, M.D., Ph.D.

XOMA Ltd.

By

John L. Castello
Chairman of the Board, President
and Chief Executive Officer

STANDARD INDUSTRIAL/COMMERCIAL MULTI-TENANT LEASE - NET
AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION

1. Basic Provisions ("Basic Provisions")

1.1 Parties: This Lease ("Lease"), dated for reference purposes only November 2, 2001, is made by and between Robin D. Miller as Trustee for the Daniel C. Cutter Trusts ("Lessor") and XOMA (US) LLC a Delaware Limited Liability Company ("Lessee"). (collectively the "Parties", or individually a "Party").

1.2 (a) Premises: That certain portion of the Project (as defined below), including all improvements therein or to be provided by Lessor under the terms of this Lease, commonly known by the street address of 5860 & 5864 Hollis Street located in the City of Emeryville, County of Alameda, State of California, with zip code 94608, as outlined on Exhibit A attached hereto ("Premises") and generally described as (describe briefly the nature of the Premises): Approximately 16,352 square feet of a larger building. In addition to Lessee's rights to use and occupy the Premises as hereinafter specified, Lessee shall have non-exclusive rights to the Common Areas (as defined in Paragraph 2.7 below) as hereinafter specified, but shall not have any rights to the roof, exterior walls or utility raceways of the building containing the Premises ("Building") or to any other buildings in the Project. The Premises, the Building, the Common Areas, the land upon which they are located, along with all other buildings and improvements thereon, are herein collectively referred to as the "Project". (See also Paragraph 2)

1.2 (b) Parking: N/A unreserved vehicle parking spaces ("Unreserved Parking Spaces"); and Six (6) reserved vehicle parking spaces ("Reserved Parking Spaces"). (See also Paragraph 2.6)

1.3 Term: Six (6) years and Six (6) months ("Original Term") commencing November 2, 2001 ("Commencement Date") and ending April 30, 2008 ("Expiration Date"). (See also Paragraph 3)

1.4 Early Possession: Upon Lease execution ("Early Possession Date"). (See also Paragraphs 3.2 and 3.3)

1.5 Base Rent: $ See Addendum per month ("Base Rent"), payable on the 1st day of each month commencing November 2, 2001. (See also Paragraph 4). There are provisions in this Lease for the Base Rent to be adjusted.

1.6 Lessee's Share of Common Area Operating Expenses: Forty-two percent (42%) ("Lessee's Share").

1.7 Base Rent and Other Monies Paid Upon Execution:

(a) Base Rent: $ See Addendum.

(b) Common Area Operating Expenses: $ See addendum

(c) Security Deposit: See Addendum ("Security Deposit"). (See also Paragraph 5)

(d) Other: $ (Left blank intentionally)

(e) Total Due Upon Execution of this Lease: $ See Addendum.

1.8 Agreed Use: The warehouse and distribution of medical supplies and incidental office/administrative uses. (See also Paragraph 6)

1.9 Insuring Party: Lessor is the "Insuring Party". (See also Paragraph 8)

1.10 Real Estate Brokers: (See also Paragraph 15)

(a) Representation: The following real estate brokers (the "Brokers") and brokerage relationships exist in this transaction: Cornish & Carey Commercial represents both Lessor and Lessee ("Dual Agency).

(b) Payment to Brokers: Upon execution and delivery of this Lease by both Parties, Lessor shall pay to the Brokers the brokerage fee agreed to in a separate written agreement (or if there is no such agreement, the sum of Per Agreement of the total Base Rent for the brokerage services rendered by the Brokers).

1.11 Guarantor. The obligations of the Lessee under this Lease are to be guaranteed by [space left blank] ("Guarantor"). (See also Paragraph 37)

1.12 Addenda and Exhibits. Attached hereto is an Addendum or Addenda consisting of Paragraphs 50 through 56 and Exhibits A through --, all of which constitute a part of this Lease.

2. Premises.

2.1 Letting. Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, the Premises, for the term, at the rental, and upon all of the terms, covenants and conditions set forth in this Lease. Unless otherwise provided herein, any statement of size set forth in this Lease, or that may have been used in calculating Rent, is an approximation which the

Parties agree is reasonable and any payments based thereon are not subject to revision whether or not the actual size is more or less.

2.2 Condition. Lessor shall deliver that portion of the Premises contained within the Building ("Unit") to Lessee broom clean and free of debris on the Commencement Date or the Early Possession Date, whichever first occurs ("Start Date"), and, so long as the required service contracts described in Paragraph 7.1(b) below are obtained by Lessee and in effect within thirty days following the Start Date, warrants that the existing electrical, plumbing, fire sprinkler, lighting, heating, ventilating and air conditioning systems ("HVAC"), loading doors, if any, and all other such elements in the Unit, other than those constructed by Lessee, shall be in good operating condition on said date and that the structural elements of the roof, bearing walls and foundation of the Unit shall be free of material defects. If a non-compliance with such warranty exists as of the Start Date, or if one of such systems or elements should malfunction or fail within the appropriate warranty period, Lessor shall, as Lessor's sole obligation with respect to such matter, except as otherwise provided in this Lease, promptly after receipt or written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, malfunction or failure, rectify same at Lessor's expense. The warranty periods shall be as follows: (i) 6 months as to the HVAC systems, and (ii) 30 days as to the remaining systems and other elements of the Unit. If Lessee does not give Lessor the required notice within the appropriate warranty period, correction of any such non-compliance, malfunction or failure shall be the obligation of Lessee at Lessee's sole cost and expense (except for the repairs to the fire sprinkler systems, roof, foundations, and/or bearing walls - see Paragraph 7).

2.3 Compliance.

(a) Subject to Paragraph 2.3(c) below, such Capital Expenditures are required as a result of the specific and unique use of the Premises by Lessee as compared with uses by tenants in general, Lessee shall be fully responsible for the cost thereof, provided, however that if such Capital Expenditure is required during the last 2 years of this Lease and the cost thereof exceeds 6 months' Base Rent, Lessee may instead terminate this Lease upon not less than six (6) months prior notice unless Lessor notifies Lessee, in writing, within 10 days after receipt of Lessee's termination notice that Lessor has elected to pay the difference between the actual cost thereof and the amount equal to 6 months' Base Rent. If Lessee elects termination, Lessee shall immediately cease the use of the Premises which required such Capital Expenditure and deliver to Lessor written notice specifying a termination date at lease 180 days thereafter. Such termination date shall, however, in no event be earlier than the last day that Lessee could legally utilize the Premises without commencing such Capital Expenditure.

(b) If such Capital Expenditure is not the result of the specific and unique use of the Premises by Lessee (such as, governmentally mandated seismic modifications), then Lessor and Lessee shall allocate the obligation to pay for the portion of such costs reasonably attributable to the Premises pursuant to the formula set out in Paragraph 7.1(d); provided, however, that if such Capital Expenditure is required during the last 2 years of this Lease or if Lessor reasonably determines that it is not economically feasible to pay its share thereof, Lessor shall have the option to terminate this Lease upon 180 days prior written notice to Lessee unless Lessee notifies Lessor, in writing, within 10 days after receipt of Lessor's termination notice that Lessee will pay for such Capital Expenditure. If Lessor does not elect to terminate, and falls to tender its share of any such Capital Expenditure, Lessee may advance such funds and deduct same, with Interest, from Rent until Lessor's share of such costs have been fully paid. If Lessee is unable to finance Lessor's share, or if the balance of the Rent due and payable for the remainder of this Lease is

not sufficient to fully reimburse Lessee on an offset basis, Lessee shall have the right to terminate this Lease upon 30 days written notice to Lessor.

(c) Notwithstanding the above, the provisions concerning Capital Expenditures are intended to apply only to non-voluntary, unexpected, and new Applicable Requirements. If the Capital Expenditures are instead triggered by Lessee as a result of an actual or proposed change in use, change in intensity of use, or modification to the Premises then, and in that event, Lessee shall be fully responsible for the cost thereof, and Lessee shall not have any right to terminate this Lease.

2.4 Acknowledgments. Lessee acknowledges that: (a) it has been advised by Lessor and/or Brokers to satisfy itself with respect to the condition of the Premises (including but not limited to the electrical, HVAC and fire sprinkler systems, security, environmental aspects, and compliance with Applicable Requirements and the Americans with Disabilities Act), and their suitability for Lessee's intended use, (b) Lessee has made such investigation as it deems necessary with reference to such matters and assumes all responsibility therefore as the same relate to its occupancy of the Premises, and (c) neither Lessor, Lessor's agents, nor Brokers have made any oral or written representations or warranties with respect to said matters other than as set forth in this Lease. In addition, Lessor acknowledges that: (i) Brokers have made no representations, promises or warranties concerning Lessee's ability to honor the Lease or suitability to occupy the Premises, and (ii) it is Lessor's sole responsibility to investigate the financial capability and/or suitability of all proposed tenants.

2.5 Lessee as Prior Owner/Occupant. The warranties made by Lessor in Paragraph 2 shall be of no force or effect if immediately prior to the Start Date Lessee was the owner or occupant of the Premises. In such event, Lessee shall be responsible for any necessary corrective work.

2.6 Vehicle Parking. Lessee shall be entitled to use the number of Unreserved Parking Spaces and Reserved Parking Spaces specified in Paragraph 1.2(b) on those portions of the Common Areas designated on Exhibit A. Lessee shall not use more parking spaces than said number. Said parking spaces shall be used for parking by vehicles no larger than full-size passenger automobiles or pick-up trucks, herein called "Permitted Size Vehicles." Lessor may regulate the loading and unloading of vehicles by adopting Rules and Regulations as provided in Paragraph 2.9. No vehicles other than Permitted Size Vehicles may be parked in the Common Area without the prior written permission of Lessor.

(a) Lessee shall not permit or allow any vehicles that belong to or are controlled by Lessee or Lessee's employees, suppliers, shippers, customers, contractors or invitees to be loaded, unloaded, or parked in areas other than areas designated for parking and loading or unloading on Exhibit A.

(b) Lessee shall not service or store any vehicles in the Common Areas.

(c) If Lessee permits or allows any of the prohibited activities described in this Paragraph 2.6, then Lessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove or tow away the vehicle involved and charge the cost to Lessee, which cost shall be immediately payable upon demand by Lessor.

2.7 Common Areas - Definition. The terms "Common Areas" is defined as all areas and facilities outside the Premises and within the exterior boundary line of the Project and interior utility raceways and installations within the Unit that are provided for the general non-exclusive use of Lessor, Lessee and other tenants of the Project and their respective employees, suppliers, shippers, customers, contractors and invitees, including parking areas, loading and unloading areas, trash areas, roadways, walkways, driveways and landscaped areas.

2.8 Common Areas - Lessee's Rights. Lessor grants to Lessee, for the benefit of Lessee and its employees, suppliers, shippers, contractors, customers and invitees, during the term of this Lease, the non-exclusive right to use, in common with others entitled to such use, the Common Areas designated as "Restricted Common Area" on Exhibit A, subject to any rights, powers, and privileges reserved by Lessor under the terms thereof or under the terms of any rules and regulations or restrictions governing the use of the Project. Under no circumstances shall the right herein granted to use the Common Areas be deemed to include the right to store any property, temporarily or permanently, in the Common Areas. Any such storage shall be permitted only by the prior written consent of Lessor or Lessor's designated agent, which consent may be revoked at any time. In the event that any unauthorized storage shall occur then Lessor shall have the right, without notice, in addition to such other rights and

remedies that it may have, to remove the property and charge the cost to Lessee, which cost shall be immediately payable upon demand by Lessor.

2.9 Common Areas - Rules and Regulations. Lessor or such other person(s) as Lessor may appoint shall have the exclusive control and management of the Common Areas and shall have the right, from time to time, to establish, modify, amend and enforce reasonable rules and regulations ("Rules and Regulations") for the management, safety, care and cleanliness of the grounds, the parking and unloading of vehicles and the preservation of good order, as well as for the convenience of other occupants or tenants of the Building and the Project and their invitees. Lessee agrees to abide by and conform to all such Rules and Regulations, and to cause its employees, suppliers, shippers, customers, contractors and invitees to so abide and conform. Lessor shall not be responsible to Lessee for the non-compliance with said Rules and Regulations by other tenants of the Project.

2.10 Common Areas - Changes. Lessor shall have the right, in Lessor's sole discretion, from time to time:

(a) To make reasonable changes to the Common Areas, including, without limitation, changes in the location, size, shape and number of driveways, entrances, parking spaces, parking areas, loading and unloading areas, ingress, egress, direction of traffic, landscaped areas, walkways and utility raceways;

(b) To close temporarily any of the common Areas for maintenance purposes so long as reasonable access to the Premises remains available;

(c) To designate other land outside the boundaries of the Project to be a part of the Common Areas;

(d) To add additional buildings and improvements to the Common Areas;

(e) To use the Common Areas while engaged in making additional improvements, repairs or alterations to the Project, or any portion thereof; and

(f) To do and perform such other acts and make such other changes in, to or with respect to the Common Areas and Project as Lessor may, in the exercise of sound business judgment, deem to be appropriate but not to materially interfere with Lessee's use of the Premises.

3. Term

3.1 Term. The Commencement Date, Expiration Date and Original Terms of this Lease are as specified in Paragraph 1.3.

3.2 Early Possession. If Lessee totally or partially occupies the Premises prior to the Commencement Date, the obligation to pay Base Rent shall be abated for the period of such early possession. All other terms of this Lease (including but not limited to the obligations to pay Lessee's Share of Common Area Operating Expenses, Real Property Taxes and insurance premiums and to maintain the Premises) shall, however, be in effect during such period. Any such early possession shall not affect the Expiration Date.

3.3 Delay in Possession. Lessor agrees to use its best commercially reasonable efforts to deliver possession of the Premises to Lessee by the Commencement Date. If, despite said efforts, Lessor is unable to deliver possession as agreed, Lessor shall not be subject to any liability therefor, nor shall such failure affect the validity of this Lease. Lessee shall not, however, be obligated to pay Rent or perform its other obligations until it receives possession of the Premises. If possession is not delivered within 10 days after the Commencement Date, Lessee may, at is option, by notice in writing within 10 days after the end of such 10 day period, cancel this Lease, in which event the Parties shall be discharged from all obligations hereunder. If such written notice is not received by Lessor within said 10 day period, Lessee's right to cancel shall terminate. Except as otherwise provided, if possession is not tendered to Lessee by the Start Date and the Lessee does not terminate this Lease, as aforesaid, any period of rent abatement that Lessee would otherwise have enjoyed shall run from the date of delivery of possession and continue for a period equal to what Lessee would otherwise have enjoyed under the terms hereof, but minus any days of delay caused by the acts or omissions of Lessee. If possession of the Premises is not delivered within 4 months after the Commencement Date, this Lease shall terminate unless other agreements are reached between Lessor and Lessee, in writing.

3.4 Lessee Compliance. Lessor shall not be required to tender possession of the Premises to Lessee until Lessee complies with its obligation to provide

evidence of insurance (Paragraph 8.5). Pending delivery of such evidence, Lessee shall be required to perform all of its obligations under this Lease from and after the Start Date, including the payment of Rent, notwithstanding Lessor's election to withhold possession pending receipt of such evidence of insurance. Further, if Lessee is required to perform any other conditions prior to or concurrent with the Start Date, the Start Date shall occur but Lessor may elect to withhold possession until such conditions are satisfied.

4. Rent.

4.1 Rent Defined. All monetary obligations of Lessee to Lessor under the terms of this Lease (except for the Security Deposit) are deemed to be rent ("Rent").

4.2 Common Area Operating Expenses. Lessee shall pay to Lessor during the terms hereof, in addition to the Base Rent, Lessee's Share (as specified in Paragraph 1.6) of all

Common Area Operating Expenses, as hereinafter defined, during each calendar year of the term of this Lease, in accordance with the following provisions:

(a) "Common Area Operating Expenses" are defined, for purposes of this Lease, as all costs incurred by Lessor relating to the ownership and operation of the Project, including, but not limited to, the following:

(i) The operation, repair and maintenance, in neat, clean, good order and condition of the following:

(aa) The Common Areas and Common Area Improvements, including parking areas, loading and unloading areas, trash areas, roadways, parkways, walkways, driveways, landscaped areas, bumpers, irrigation systems, Common Area lighting facilities, fences and gates, elevators, roofs, and roof drainage systems.

(bb) Exterior signs and any tenant directories.

(cc) Any fire detection and/or sprinkler systems.

(ii) The cost of water, gas, electricity and telephone to service the Common Areas and any utilities not separately metered.

(iii) Trash disposal, pest control services, property management, and the costs of any environmental inspections.

(iv) Deleted

(v) Real Property Taxes (as defined in Paragraph 10).

(vi) The cost of the premiums for the insurance maintained by Lessor pursuant to Paragraph 8.

(vii) Any deductible portion of an insured loss concerning the Building or the Common Areas.

(viii) The cost of any Capital Expenditure to the Building or the Project not covered under the provisions of Paragraph 2.3 provided; however, that Lessor shall allocate the cost of any such Capital Expenditure over a 12 year period and Lessee shall not be required to pay more than Lessee's Share of 1/144th of the cost of such Capital Expenditure in any given month.

(ix) Any other services to be provided by Lessor that are stated elsewhere in this Lease to be a Common Area Operating Expense.

(b) Any Common Area Operating Expenses and Real Property Taxes that are specifically attributable to the Unit, the Building or to any other building in the Project or to the operation, repair and maintenance thereof, shall be allocated entirely to such Unit, Building, or other building. However, any Common Area Operating Expenses and Real Property Taxes that are not specifically attributable to the Building or to any other building or to the operation, repair and maintenance thereof, shall be equitably allocated by Lessor to all buildings in the Project.

(c) The inclusion of the improvements, facilities and services set forth in Subparagraph 4.2(a) shall not be deemed to impose an obligation upon Lessor to either have said improvements or facilities or to provide those services unless the Project already has the same, Lessor already

provides the services, or Lessor has agreed elsewhere in this Lease to provide the same or some of them.

(d) Lessee's Share of Common Area Operating Expenses shall be payable by Lessee within 30 days after a reasonably detailed statement of actual expenses is presented to Lessee. At Lessor's option, however, an amount may be reasonably estimated by Lessor from time to time of Lessee's Share of annual Common Area Operating Expenses and the same shall be payable monthly or quarterly, as Lessor shall designate, during each 12 month period of the Lease term, on the same day as the Base Rent is due hereunder. Lessor shall deliver to Lessee within 60 days after the expiration of each calendar year a reasonably detailed statement showing Lessee's Share of the actual Common Area Operating Expenses incurred during the preceding year. If Lessee's payments under this Paragraph 4.2(d) during the preceding year exceed Lessee's Share as indicated on such statement, Lessor shall credit the amount of such over-payment against Lessee's Share of Common Area Operating Expenses next becoming due. If Lessee's payments under this Paragraph 4.2(d) during the preceding year were less than Lessee's Share as indicated on such statement, Lessee shall pay to Lessor the amount of the deficiency within 10 days after delivery by Lessor to Lessee of the statement.

4.3 Payment. Lessee shall cause payment of Rent to be received by Lessor in lawful money of the United States, without offset or deduction (except as specifically permitted in this Lease), on or before the day on which it is due. Rent for any period during the term hereof which is for less than one full calendar month shall be prorated based upon the actual number of days of said month. Payment of Rent shall be made to Lessor at its address stated herein or to such other persons or place as Lessor may from time to time designate in writing. Acceptance of a payment which is less than the amount then due shall not be a

waiver of Lessor's rights to the balance of such Rent, regardless of Lessor's endorsement of any check so stating. In the event that any check, draft, or other instrument of payment given by Lessee to Lessor is dishonored for any reason, Lessee agrees to pay to Lessor the sum of $25 in addition to any late charges which may be due.

5. Security Deposit.

Lessee shall deposit with Lessor upon execution hereof the Security Deposit as security for Lessee's faithful performance of its obligations under this Lease. If Lessee fails to pay Rent, or otherwise Defaults under this Lease, Lessor may use, apply or retain all or any portion of said Security Deposit for the payment of any amount due Lessor or to reimburse or compensate Lessor for any liability, expense, loss or damage which Lessor may suffer or incur by reason thereof. If Lessor uses or applies all or any portion of the Security Deposit, Lessee shall within 10 days after written request therefor deposit monies with Lessor sufficient to restore said Security Deposit to the full amount required by this Lease. Should the Agreed Use be amended to accommodate a material change in the business of Lessee or to accommodate a subleasee or assignee, Lessor shall have the right to increase the Security Deposit to the extent necessary, in Lessor's reasonable judgment, to account for any increased wear and tear that the Premises many suffer as a result thereof. If a change in control of Lessee occurs during this Lease and following such change the financial condition of Lessee is, in Lessor's reasonable judgment, significantly reduced, Lessee shall deposit such additional monies with Lessor as shall be sufficient to cause the Security Deposit to be at a commercially reasonable level based on such change in financial condition. Lessor shall not be required to keep the Security Deposit from its general accounts. Within 14 days after the expiration or termination of this Lease, if Lessor elects to apply the Security Deposit only to unpaid Rent, and otherwise within 30 days after the Premises have been vacated pursuant to Paragraph 7.4(c) below, Lessor shall return that portion of the Security Deposit not used or applied by Lessor. No part of the Security Deposit shall be considered to be held in trust, to bear interest or to be prepayment for any monies to be paid by Lessee under this Lease.

6. Use

6.1 Use. Lessee shall use and occupy the Premises only for the Agreed Use, or any other legal use which is reasonably comparable thereto, and for no other purpose. Lessee shall not use or permit the use of the Premises in a matter that is unlawful, creates damage, waste or a nuisance, or that disturbs occupants of or causes damage to neighboring premises or properties. Lessor shall not unreasonably withhold or delay its consent to any written request for a modification of the Agreed Use, so long as the same will not impair the structural integrity of the improvements on the Premises or the mechanical or electrical systems therein, and/or is not significantly more burdensome to the Premises. If Lessor elects to withhold

consent, Lessor shall within 7 days after such request give written notification of same, which notice shall include an explanation of Lessor's objections to the change in the Agreed Use.

6.2 Hazardous Substances.

(a) Reportable Uses Require Consent. The term "Hazardous Substance" as used in this Lease shall mean any product, substance, or waste whose presence, use, manufacture, disposal, transportation, or release, either by itself or in combination with other materials expected to be on the Premises, is either: (i) potentially injurious to the public health, safety or welfare, the environment or the Premises, (ii) regulated or monitored by any governmental authority, or (iii) a basis for potential liability of Lessor to any governmental agency or third party under any applicable statute or common law theory. Hazardous Substances shall include, but not be limited to, hydrocarbons, petroleum, gasoline, and/or crude oil or any products, by-products or fractions thereof. Lessee shall not engage in any activity in or on the Premises which constitutes a Reportable Use of Hazardous Substances without the express prior written consent of Lessor and timely compliance (at Lessee's expense) with all Applicable Requirements. "Reportable Use" shall mean (i) the installation or use of any above or below ground storage tank, (ii) the generation, possession, storage, use, transportation, or disposal of a Hazardous Substance that requires a permit from, or with respect to which a report, notice, registration or business plan is required to be filed with any governmental authority, and/or (iii) the presence at the Premises of a Hazardous Substance with respect to which any Applicable Requirements requires that a notice be given to persons entering or occupying the Premises or neighboring properties. Notwithstanding the foregoing, Lessee may use any ordinary and customary materials reasonably required to be used in the normal course of the Agreed Use, so long as such use is compliance with all Applicable Requirements, is not a Reportable Use, and does not expose the Premises or neighboring property to any meaningful risk of contamination or damage or expose Lessor to any liability therefor. In addition, Lessor may condition its consent to any Reportable Use upon receiving such additional assurances as Lessor reasonably deems necessary to protect itself, the public, the Premises and/or the environment against damage, contamination, injury and/or liability including, but not limited to, the installation (and removal on or before Lease expiration or termination) of protective modifications (such as concrete encasements) and/or increasing the Security Deposit.

(b) Duty to Inform Lessor. If Lessee knows, or has reasonable cause to believe, that a Hazardous Substance has come to be located in, on, under or about the Premises, other than as previously consented to by Lessor, Lessee shall immediately give written notice of such fact to Lessor, and provide Lessor with a copy of any re-

port, notice, claim or other documentation which it has concerning the presence of such Hazardous Substance.

(c) Lessee Remediation. Lessee shall not cause or permit any Hazardous Substance to be spilled or released in, on, under, or about the Premises (including through the plumbing or sanitary sewer system) and shall promptly, at Lessee's expense, take all investigatory and/or remedial action reasonably recommended, whether or not formally ordered or required, for the cleanup of any contamination of, and for the maintenance, security and/or monitoring of the Premises or neighboring properties, that was caused or materially contributed to by Lessee, or pertaining to or involving any Hazardous Substance brought onto the Premises during the term of this Lease, by or for Lessee or any third party.

(d) Lessee Indemnification. Lessee shall indemnify, defend and hold Lessor, it agents, employees, lenders and ground lessor, if any, harmless from and against any and all loss of rents and/or damages, liabilities, judgments, claims, expenses, penalties, and attorneys' and consultants' fees arising out of or involving any Hazardous Substance brought onto the Premises by or for Lessee, or any third party (provided, however, that Lessee shall have no liability under this Lease with respect to underground migration of any Hazardous Substance under the Premises from areas outside of the Project). Lessee's obligations shall include, but not be limited to, the effects of any contamination or injury to person, property or the environment created or suffered by Lessee, and the cost of investigation, removal, remediation, restoration and/or abatement, and shall survive the expiration or termination of this Lease. No termination, cancellation or release agreement entered into by Lessor and Lessee shall release Lessee from its obligations under this lease with respect to Hazardous Substances, unless specifically so agreed by Lessor in writing at the time of such agreement.

(e) Lessor Indemnification. Lessor and its successors and assigns shall indemnify, defend, reimburse and hold Lessee, its employees and lenders, harmless from and against any and all cost, expenses or damages (but not including consequential damages), including the cost of remediation, which existed as a result of Hazardous Substances on the Premises prior to the Start Date or which are caused by the negligence or willful misconduct of Lessor, its agents or employees. Lessor's obligations, as and when required by the Applicable Requirements, shall include, but not be limited to, the cost of investigation, removal, remediation, restoration and/or abatement, and shall survive the expiration or termination of this Lease.

(f) Investigations and Remediations. Lessor shall retain the responsibility and pay for any investigations or remediation measures required by governmental entities having jurisdiction with respect to the existence of Hazardous Substances on the

Premises prior to the Start Date, unless such remediation measure is required as a result of Lessee's use (including "Alterations", as defined in paragraph 7.3(a) below) of the Premises, in which event Lessee shall be responsible for such payment. Lessee shall cooperate fully in any such activities at the request of Lessor, including allowing Lessor and Lessor's agents to have reasonable access to the Premises at reasonable times in order to carry out Lessor's investigative and remedial responsibilities.

(g) Deleted

6.3 Lessee's Compliance with Applicable Requirements. Except as otherwise provided in this Lease, Lessee shall, at Lessee's sole expense, fully, diligently and in a timely manner, materially comply with all Applicable Requirements, the requirements of any applicable fire insurance underwriter or rating bureau, and the recommendations of Lessor's engineers and/or consultants which relate in any manner to the Premises, without regard to whether said requirements are now in effect or become effective after the Start Date. Lessee shall, within 10 days after receipt of Lessor's written request, provide Lessor with copies of all permits and other documents, and other information evidencing Lessee's compliance with any Applicable Requirements specified by Lessor, and shall immediately upon receipt, notify Lessor in writing (with copies of any documents involved) of any threatened or actual claim, notice, citation, warning, complaint or report pertaining to or involving the failure of Lessee or the Premises to comply with any Applicable Requirements.

6.4 Inspection; Compliance. Lessor and Lessor's "Lender" (as defined in Paragraph 30) and consultants shall have the right to enter into Premises at any time, in the case of an emergency, and otherwise at reasonable times, for the purpose of inspecting the condition of the Premises and for verifying compliance by Lessee with this Lease. The cost of any such inspections shall be paid by Lessor, unless a violation of Applicable Requirements, or a contamination is found to exist or be imminent, or the inspection, is requested or ordered by a governmental authority. In such case, Lessee shall upon request, reimburse Lessor for the cost of such inspection, so long as such inspection is reasonably related to the violation or contamination.

7. Maintenance; Repairs, Utility Installations; Trade Fixtures and Alterations.

7.1 Lessee's Obligations.

(a) In General. Subject to the provisions of Paragraph 2.2 (Condition), 2.3 (Compliance), 6.3 (Lessee's Compliance with Applicable Requirements), 7.2 (Lessor's Obligations), and 9 (Damage or Destruction), and 14 (Condemnation), Lessee shall, at Lessee's sole expense, keep the Premises, Utility Installations (intended for Lessee's exclusive use, no matter where located), and Alterations in good order, condition and repair (provided that the portion of the Premises requiring repairs, are made accessible

to Lessee, and whether or not the need for such repairs occurs as a result of Lessee's use, any prior use, the elements or the age of such portion of the Premises), including, but not limited to all equipment or facilities, such as plumbing, HVAC equipment, electrical, lighting facilities, boilers, pressure vessels, fixtures, interior walls, interior surfaces of exterior walls, ceilings, floors, windows, doors, plate glass, and skylights but excluding any items which are the responsibility of Lessor pursuant to Paragraph 7.2. Lessee, in keeping the Premises in good order, condition and repair, shall exercise and perform good maintenance practices, specifically including the procurement and maintenance of the service contracts required

by Paragraph 7.1(b) below. Lessee's obligations shall include restorations, replacements or renewals when necessary to keep the Premises and all improvements thereon or a part thereof in good order, condition and state of repair.

(b) Service Contracts. Lessee shall, at Lessee's sole expense, procure and maintain contracts, in customary form and substance for, and with contractors specializing and experienced in the maintenance of the following equipment and improvements, if any, if and when installed on the Premises: (i) HVAC equipment, (ii) boiler and pressure vessels, (iii) clarifiers, and (iv) any other equipment, if reasonably required by Lessor. However, Lessor reserves the right, upon notice to Lessee, to procure and maintain any or all of such service contracts, and if Lessor so elects, Lessee shall reimburse Lessor, upon demand, for the reasonable cost thereof.

(c) Failure to Perform. If Lessee fails to perform Lessee's obligations under this Paragraph 7.1, Lessor may enter upon Premises after 10 days' prior written notice to Lessee (except in the case of an emergency, in which case no notice shall be required), perform such obligations on Lessee's behalf, and put the Premises in good order, condition and repair, and Lessee shall promptly reimburse Lessor for the reasonable cost thereof.

(d) Deleted

7.2 Lessor's Obligations. Subject to the provisions of Paragraphs 2.2 (Condition), 2.3 (Compliance), 4.2 (Common Area Operating Expenses), 6 (Use), 7.1 (Lessee's Obligations), 9 (Damage or Destruction) and 14 (Condemnation), Lessor, subject to reimbursement pursuant to Paragraph 4.2, shall keep in good order, condition and repair the foundations, exterior walls, structural condition of interior bearing walls, exterior roof, fire sprinkler system, Common Area fire alarm and/or smoke detection systems, fire hydrants, parking lots, walkways, parkways, driveways, landscaping, fences, signs and utility systems serving the Common Areas and all parts thereof, as well as providing the services for which there is a Common Operating Area Operating Expense pursuant to Paragraph 4.2. Lessor shall not be obligated to paint the exterior or interior surfaces of exterior walls nor shall

Lessor be obligated to maintain, repair or replace windows, doors or plate glass of the Premises.

7.3 Utility Installations; Trade Fixtures; Alterations.

(a) Definitions. The term "Utility Installations" refers to all floor and window coverings, air lines, power panels, electrical distribution, security and fire protection systems, communication systems, lighting fixtures, HVAC equipment, plumbing, and fencing in or on the Premises. The term "Trade Fixtures" shall mean Lessee's machinery and equipment that can be removed without doing material damage to the Premises. The term "Alterations" shall mean any modification of the improvements, other than Utility Installations or Trade Fixtures, whether by addition or deletion. "Lessee Owned Alterations and/or Utility Installations" are defined as Alterations and/or Utility Installations made by Lessee that are not yet owned by Lessor pursuant to Paragraph 7.4(a).

(b) Consent. Lessee shall not make any Alterations or Utility Installations to the Premises without Lessor's prior written consent, which shall not unreasonably be withheld. Lessee may, however, make non-structural Utility Installations to the interior of the Premises (excluding the roof) without such consent but upon notice to Lessor, as long as they are not visible from the outside, do not involve puncturing, relocating or removing the roof or any existing walls, and the cumulative cost thereof during this Lease as extended does not exceed a sum equal to 3 months' Base Rent in the aggregate or a sum equal to one month's Base Rent in any one year. Notwithstanding the foregoing, Lessee shall not make or permit any roof penetrations and/or install anything on the roof without the prior written approval of Lessor. Lessor may, as a precondition to granting such approval, require Lessee to utilize a contractor chosen and/or approved by Lessor. Any Alterations or Utility Installations that Lessee shall desire to make and which require the consent of the Lessor shall be presented to Lessor in written form with detailed plans. Consent shall be deemed conditioned upon Lessee's: (i) acquiring all applicable governmental permits, (ii) furnishing Lessor with copies of both the permits and the plans and specifications prior to commencement of the work, and (iii) compliance with all conditions of said permits and other Applicable Requirements in a prompt and expeditious manner. Any Alterations or Utility Installations shall be performed in a workmanlike manner with good and sufficient materials. Lessee shall promptly upon completion furnish Lessor with as-built plans and specifications. For work which costs an amount in excess of one month's Base Rent, Lessor may condition its

consent upon Lessee providing a lien and completion bond in an amount equal to 150% of the estimated cost of such Alteration or Utility Installation and/or upon Lessee's posting an additional Security Deposit with Lessor.

(c) Indemnification. Lessee shall pay, when due, all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for use on the Premises, which claims are or may be secured by any mechanic's or materialman's lien against the Premises or any interest therein. Lessee shall give Lessor not less than 10 days notice prior to the commencement of any work in, on or about the Premises, and Lessor shall have the right to post notices of non-responsibility, If Lessee shall contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense defend and protect itself, Lessor and the Premises against the same and shall pay and satisfy any such adverse judgment that may be rendered thereon before the enforcement thereof. If Lessor shall require, Lessee shall furnish a surety bond in an amount equal to 150% of the amount of such contested lien, claim, or demand, indemnifying Lessor against liability for the same. If Lessor elects to participate in any such action, Lessee shall pay Lessor's attorneys' fees and costs.

7.4 Ownership; Removal; Surrender; and Restoration.

(a) Ownership. Subject to Lessor's right to require removal or elect ownership as hereinafter provided, all Alterations and Utility Installations made by Lessee shall be the property of Lessee, but considered a part of the Premises. Lessor may, at any time, elect in writing to be the owner of all or any specified part of the Lessee Owned Alterations and Utility Installations. Unless otherwise instructed per paragraph 7.4(b) hereof, all Lessee Owned Alterations and Utility Installations shall, at the expiration or termination of this Lease, become the property of Lessor and be surrendered by Lessee with the Premises.

(b) Removal. By delivery to Lessee of written notice from Lessor not earlier than 90 and not later than 30 days prior to the end of the term of this Lease, Lessor may require that any or all Lessee Owned Alterations or Utility Installations be removed by the expiration or termination of this Lease. Lessor may require the removal at any time of all or any part of any Lessee Owned Alterations or Utility Installations made without the required consent.

(c) Surrender; Restoration. Lessee shall surrender the Premises by the Expiration Date or any earlier termination date, with all of the improvements, parts and surfaces thereof broom clean and free of debris, and in good operating order, condition and state of repair, ordinary wear and tear excepted. "Ordinary wear and tear" shall not include any damage or deterioration that would have been prevented by good maintenance practice. Notwithstanding the foregoing, if this Lease is for 12 months or less, then Lessee shall surrender the Premises in the same condition as delivered to Lessee on the Start Date with NO allowance for ordinary wear and tear. Lessee shall repair any damage occasioned by the installation, maintenance or removal of Trade

Fixtures, Lessee owned Alternations and/or Utility Installations, furnishings, and equipment as well as the removal of any storage tank installed by or for Lessee. Lessee shall also completely remove from the Premises any and all Hazardous Substances brought onto the Premises by or for Lessee, or any third party (except Hazardous Substances which were deposited via underground migration from areas outside of the Project) even if such removal would require Lessee to perform or pay for work that exceeds statutory requirements. Trade Fixtures shall remain the property of Lessee and shall be removed by Lessee. The failure by Lessee to timely vacate the Premises pursuant to this Paragraph 7.4(c) without the express written consent of Lessor shall constitute a holdover under the provisions of Paragraph 26 below.

8. Insurance; Indemnity.

8.1 Payment of Premiums. The cost of the premiums for the insurance policies required to be carried by Lessor, pursuant to Paragraphs 8.2(b), 8.3(a) and 8.3(b), shall be a Common Area Operating Expense. Premiums for policy periods commencing prior to, or extending beyond, the term of this Lease shall be prorated to coincide with the corresponding Start Date or Expiration Date.

8.2 Liability Insurance.

(a) Carried by Lessee. Lessee shall obtain and keep in force a Commercial General Liability policy of insurance protecting Lessee against

claims for bodily injury, personal injury and property damage based upon or arising out of the ownership, use, occupancy or maintenance of the Premises and all areas appurtenant thereto. Such insurance shall be on an occurrence basis providing single limit coverage in an amount not less than $1,000,000 per occurrence with an annual aggregate of not less than $2,000,000, an "Additional Insured-Managers or Lessor of Premises Endorsement" and contain the "Amendment of the Pollution Exclusion Endorsement" for damage caused by heat, smoke or fumes from a hostile fire. The policy shall not contain any intra-insured exclusions as between insured persons or organizations, but shall include coverage for liability assumed under this Lease as an "insured contract" for the performance of Lessee's indemnity obligations under this Lease. The limits of said insurance shall not, however, limit the liability of Lessee nor relieve Lessee of any obligation hereunder. All insurance carried by Lessee shall be primary to and not contributory with any similar insurance carried by Lessor, whose insurance shall be considered excess insurance only.

(b) Carried by Lessor. Lessor shall maintain liability insurance as described in Paragraph 8.2(a), in addition to, and not in lieu of, the insurance required to be maintained by Lessee. Lessee shall not be named as an additional insured therein.

8.3 Property Insurance-Building, Improvements and Rental Value.

(a) Building and Improvements. Lessor shall obtain and keep in force a policy or policies of insurance in the name of Lessor, with loss payable to Lessor, any ground-lessor, and to any Lender insuring loss or damage to the Premises. The amount of such insurance shall be equal to the full replacement cost of the Premises, as the same shall exist from time to time, or the amount required by any Lender, but in no event more than the commercially reasonable and available insurable value thereof. Lessee Owned Alterations and Utility Installations, Trade Fixtures, and Lessee's personal property shall be insured by Lessee under Paragraph 8.4. If the coverage is available and commercially appropriate, such policy or policies shall insure against all risks of direct physical loss or damage (except the perils of flood and/or earthquake unless required by Lender), including coverage for debris removal and the enforcement of any Applicable Requirements requiring the upgrading, demolition, reconstruction or replacement of any portion of the Premises as a result of a covered loss. Said policy or policies shall also contain an agree valuation provision in lieu of any coinsurance clause, waiver of subrogation, and inflation guard protection causing an increase in the annual property insurance coverage amount by a factor of not less than the adjusted U.S. Department of Labor Consumer Price Index for All Urban Consumers for the city nearest to where the Premises are located. If such insurance coverage has a deductible clause, the deductible amount shall not exceed $1,000 per occurrence.

(b) Rental Value. Lessor shall also obtain and keep in force a policy or policies in the name of Lessor with loss payable to Lessor and any Lender, insuring the loss of the full Rent for one year with an extended period of indemnity for an additional 180 days ("Rental Value Insurance"). Said insurance shall contain an agreed valuation provision in lieu of any coinsurance clause, and the amount of coverage shall be adjusted annually to reflect the projected Rent otherwise payable by Lessee, for the next 12 month period.

(c) Adjacent Premises. Lessee shall pay for any increase in the premiums for the property insurance of the Building and for the Common Areas or other buildings in the Project if said increase is caused by Lessee's acts, omissions, use or occupancy of the Premises.

(d) Lessee's Improvements. Since Lessor is the Insuring Party, Lessor shall not be required to insure Lessee Owned Alterations and Utility Installations unless the item in question has become the property of Lessor under the terms of this Lease.

8.4 Lessee's Property; Business Interruption Insurance.

(a) Property Damage. Lessee shall obtain and maintain insurance coverage on all of Lessee's personal property, Trade Fixtures, and Lessee Owned Alterations and Utility Installations. Such insurance shall be full replacement cost coverage with a deductible of not to exceed $1,000 per occurrence. The proceeds from any such insurance shall be used by Lessee for the replacement of personal property, Trade Fixtures and Lessee Owned Alterations and Utility Installations. Lessee shall provide Lessor with written evidence that such insurance is in force.

(b) Business Interruption. Lessee shall obtain and maintain loss of income and extra expense insurance in amounts as will reimburse Lessee for direct or indirect loss of earnings attributable to all perils commonly insured against by prudent lessees in the business of Lessee or attributable to prevention of access to the Premises as a result of such perils.

(c) No Representation of Adequate Coverage. Lessor makes no representation that the limits or forms of coverage of insurance specified herein are adequate to cover Lessee's property, business operations or obligations under this Lease.

8.5 Insurance Policies. Insurance required herein shall be by companies duly licensed or admitted to transact business in the state where the Premises are located, and maintaining during the policy term a "General Policyholders Rating" of at least B+, V, as set forth in the most current issue of "Best's Insurance Guide", or such other rating as may be required by a Lender. Lessee shall not do or permit to be done anything which invalidates the required insurance policies. Lessee shall, prior to the Start Date, deliver to Lessor certified copies of policies of such insurance or certificates evidencing the existence and amounts of the required insurance. No such policy shall be cancelable or subject to modification except after 30 days prior written notice to Lessor. Lessee shall, at least 30 days prior to the expiration of such policies, furnish Lessor with evidence of renewals or "insurance binders" evidencing renewal thereof, or Lessor may order such insurance and charge the cost thereof to Lessee, which amount shall be payable by Lessee to Lessor upon demand. Such policies shall be for a term of at least one year, or the length of the remaining term of this Lease, whichever is less. If either Party shall fail to procure and maintain the insurance required to be carried by it, the other Party may, but shall not be required to, procure and maintain the same.

8.6 Waiver of Subrogation. Without affecting any other rights or remedies, Lessee and Lessor each hereby release and relieve the other, and waiver their entire right to recover damages against the other, for loss of or damage to its property arising out of or incident to the perils required to be insured against herein. The effect of such of such releases and waivers is not limited by the amount of insurance carried or required, or by any deductibles applicable hereto. The Parties agree to have their respective property damage insurance carriers waive

any right to subrogation that such companies may have against Lessor or Lessee, as the case may be, so long as the insurance is not invalidated thereby.

8.7 Indemnity. Except for Lessor sole negligence or willful misconduct, Lessee shall indemnify, protect, defend and hold harmless the Premises, Lessor and its agents, Lessor's master or ground lessor, partners and Lenders, from and against any and all claims, loss of rents and/or damages, liens, judgments, penalties, attorneys' and consultants' fees, expenses and/or liabilities arising out of, involving, or in connection with, the use and/or occupancy of the Premises by Lessee. If any action or proceeding is brought against Lessor by reason of any of the foregoing matters, Lessee shall upon notice defend the same at Lessee's expense by counsel reasonably satisfactory to Lessor and Lessor shall cooperate with Lessee in such defense. Lessor need not have first paid any such claim in order to be defended or indemnified.

8.8 Exemption of Lessor from Liability. Lessor shall not be liable for injury or damage to the person or goods, wares, merchandise or other property of Lessee, Lessee's employees, contractors, invitees, customers, or any other person in or about the Premises, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, fire sprinklers, wires, appliances, plumbing, HVAC or lighting fixtures, or from any other cause, whether the said injury or damage results from conditions arising upon the Premises or upon other portions of the Building, or from other sources or places. Lessor shall not be liable for any damages arising from any act or neglect of any other tenant of Lessor nor from the failure of Lessor to enforce the provisions of any other lease in the Project. Notwithstanding Lessor's negligence or breach of this Lease, Lessor shall under no circumstances be liable for injury to Lessee's business or for any loss of income or profit therefrom.

9. Damage or Destruction.

9.1 Definitions.

(a) "Premises Partial Damage" shall mean damage or destruction to the improvements on the Premises, other than Lessee Owned Alterations and Utility Installations, which can reasonably be repaired in 3 months or less from the date of the damage or destruction, and the cost thereof does not exceed a sum equal to 6 month's Base Rent. Lessor shall notify Lessee in writing within 30 days from the date of the damage or destruction as to

whether or not the damage is Partial or Total.

(b) "Premises Total Destruction" shall mean damage or destruction to the improvements on the Premises, other than Lessee Owned Alterations and Utility Installations and Trade Fixtures, which cannot reasonably be repaired in 3 months or less from the date of the damage or destruction and/or the cost thereof exceeds a sum equal

to 6 month's Base Rent. Lessor shall notify Lessee in writing within 30 days from the date of the damage or destruction as to whether or not the damage is Partial or Total.

(c) "Insured Loss" shall mean damage or destruction to improvements on the Premises, other than Lessee Owned Alterations and Utility Installations and Trade Fixtures, which was caused by an event required to be covered by the insurance described in Paragraph 8.3(a), irrespective of any deductible amounts or coverage limits involved.

(d) "Replacement Cost" shall mean the cost to repair or rebuild the improvements owned by Lessor at the time of the occurrence to their condition existing immediately prior thereto, including demolition, debris removal and upgrading required by the operation of Applicable Requirements, and without deduction for depreciation.

(e) "Hazardous Substance Condition" shall mean the occurrence or discovery of a condition involving the presence of, or a contamination by, a Hazardous Substance as defined in Paragraph 6.2(a), in, on, or under the Premises.

9.2 Partial Damage - Insured Loss. If a Premises Partial Damage that is an Insured Loss occurs, then Lessor shall, at Lessor's expense, repair such damage (but not Lessee's Trade Fixtures or Lessee Owned Alterations and Utility Installations) as soon as reasonably possible and this Lease shall continue in full force and effect; provided, however, that Lessee shall, at Lessor's election, make the repair of any damage or destruction the total cost to repair of which is $5,000 or less, and, in such event, Lessor shall make any applicable insurance proceeds available to Lessee on a reasonable basis for that purpose. Notwithstanding the foregoing, if the required insurance was not in force or the insurance proceeds are not sufficient to effect such repair, the Insuring Party shall promptly contribute the shortage in proceeds as and when required to complete said repairs. In the event, however, such shortage was due to the fact that, by reason of the unique nature of the improvements, full replacement cost insurance coverage was not commercially reasonable and available, Lessor shall have no obligation to pay for the shortage in insurance proceeds or to fully restore the unique aspects of the Premises unless Lessee provides Lessor with the funds to cover same, or adequate assurance thereof, within 10 days following receipt of written notice of such shortage and request therefor. If Lessor receives said funds or adequate assurance thereof within said 10 day period, the party responsible for making the repairs shall complete them as soon as reasonably possible and this Lease shall remain in full force and effect. If such funds or assurance are not received, Lessor may nevertheless elect by written notice to Lessee within 10 days thereafter to: (i) make such restoration and repair as is commercially reasonable with Lessor paying any shortage in proceeds, in which case this Lease shall remain in full force and effect, or (ii) have this Lease terminate 30 days thereafter. Lessee shall not be entitled to

reimbursement of any funds contributed by Lessee to repair any such damage or destruction. Premises Partial Damage due to flood or earthquake shall be subject to Paragraph 9.3, notwithstanding that there may be some insurance coverage, but the net proceeds of any such insurance shall be made available for the repairs if made by either Party.

9.3 Partial Damage - Uninsured Loss. If a Premises Partial Damage that is not an Insured Loss occurs, unless caused by a negligent or willful act of Lessee (in which event Lessee shall make the repairs at Lessee's expense), Lessor may either: (i) repair such damage as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) terminate this Lease by giving written notice to Lessee within 30 days after receipt by Lessor of knowledge of the occurrence of such damage. Such termination shall be effective 60 days following the date of such notice. In the event Lessor elects to terminate this Lease, Lessee shall have the right within 10 days after receipt of the termination notice to give written notice to Lessor of Lessee's commitment to pay for the repair of such damage without reimbursement from Lessor. Lessee shall provide Lessor with said funds or satisfactory assurance thereof within 30 days after making such commitment. In such event this Lease shall continue in full force and effect, and Lessor shall

proceed to make such repairs as soon as reasonably possible after the required funds are available. If Lessee does not make the required commitment, this Lease shall terminate as of the date specified in the termination notice.

9.4 Total Destruction. Notwithstanding any other provision hereof, if a Premises Total Destruction occurs, this Lease shall terminate 60 days following such Destruction. If the damage or destruction was caused by the gross negligence or willful misconduct of Lessee, Lessor shall have the right to recover Lessor's damages from Lessee, except as provided in Paragraph 8.6.

9.5 Damage Near End of Term. If at any time during the last 6 months of this Lease there is damage for which the cost to repair exceeds one month's Base Rent, whether or not an Insured Loss, Lessor may terminate this Lease effective 60 days following the date of occurrence of such damage by giving a written termination notice to Lessee within 30 days after the date of occurrence of such damage. Notwithstanding the foregoing, if Lessee at that time has an exercisable option to extend this Lease or to purchase the Premises, then Lessee may preserve this Lease by, (a) exercising such option and (b) providing Lessor with any shortage in insurance proceeds (or adequate assurance thereof) needed to make the repairs on or before the earlier of (i) the date which is 10 days after Lessee's receipt of Lessor's written notice purporting to terminate this Lease, or (ii) the day prior to the date upon which such option expires. If Lessee duly exercises such option during such period and provides Lessor with funds (or adequate assurance thereof) to cover any shortage in insurance proceeds, Lessor shall, at Lessor's commercially reasonable expense, repair such damage as soon as reasonably possible and this Lease shall continue in full force and effect. If Lessee fails to exercise such

option and provide such funds or assurance during such period, then this Lease shall terminate on the date specified in the termination notice and Lessee's option shall be extinguished.

9.6 Abatement of Rent; Lessee's Remedies.

(a) Abatement. In the event of Premises Partial Damage or Premises Total Destruction or a Hazardous Substance Condition for which Lessee is not responsible under this Lease, the Rent payable by Lessee for the period required for the repair, remediation or restoration of such damage shall be abated in proportion to the degree to which Lessee's use of the Premises is impaired, but not to exceed the proceeds received from the Rental Value insurance. All other obligations of Lessee hereunder shall be performed by Lessee, and Lessor shall have not liability for any such damage, destruction, remediation, repair or restoration except as provided herein.

(b) Remedies. If Lessor shall be obligated to repair or restore the Premises and does not commence, in a substantial and meaningful way, such repair or restoration within 30 days or such longer time as is reasonably necessary to obtain permits and insurance proceeds after such obligation shall accrue, Lessee may, at any time prior to the commencement of such repair or restoration, give written notice to Lessor and to any Lenders of which Lessee has actual notice, of Lessee's election to terminate this Lease on a date not less than 30 days following the giving of such notice. If Lessee gives such notice and such repair or restoration is not commenced within 30 days thereafter, this Lease shall terminate as of the date specified in said notice. If the repair or restoration is commenced within such 30 days, this Lease shall continue in full force and effect. "Commence" shall mean either the unconditional authorization of the preparation of the required plans, or the beginning of the actual work on the Premises, whichever first occurs.

9.7 Termination; Advance Payments. Upon termination of this Lease pursuant to Paragraph 6.2(g) or Paragraph 9, an equitable adjustment shall be made concerning advance Base Rent and any other advance payments made by Lessee to Lessor. Lessor shall, in addition, return to Lessee so much of Lessee's Security Deposit as has not been, or is not then required to be, used by Lessor.

9.8 Waive Statutes. Lessor and Lessee agree that the terms of this Lease shall govern the effect of any damage to or destruction of the Premises with respect to the termination of this Lease and hereby waive the provisions of any present or future statute to the extent inconsistent herewith.

10. Real Property Taxes.

10.1 Definition. As used herein, the term "Real Property Taxes" shall include any form of assessment; real estate, general, special, ordinary or extraordinary, or rental levy or tax (other than inheritance, personal income or estate taxes); improvement bond; and/or license fee imposed upon or levied

against any legal or equitable interest of Lessor in the Project, Lessor's right to other income therefrom, and/or Lessor's business of leasing, by any authority having the direct or indirect power to tax and where the funds are generated with reference to the Project address and where the proceeds so generated are to be applied by the city, county or other local taxing authority of a jurisdiction within which the Project is located. The term "Real Property Taxes" shall also include any tax, fee, levy, assessment or charge, or any increase therein, imposed by reason of events occurring during the term of this Lease, including but not limited to, a change in the ownership of the Project or any portion thereof or a change in the improvements thereon. In calculating Real Property Taxes for any calendar year, the Real Property Taxes for any real estate tax year shall be included in the calculation of Real Property Taxes for such calendar year based upon the number of days which such calendar year and tax year have in common.

10.2 Payment of Taxes. Lessor shall pay the Real Property Taxes applicable to the Project, and except as otherwise provided in Paragraph 10.3, any such amounts shall be included in the calculation of Common Area Operating Expenses in accordance with the provisions of Paragraph 4.2.

10.3 Additional Improvements. Common Area Operating Expenses shall not include Real Property Taxes specified in the tax assessor's records and work sheets as being caused by additional improvements placed upon the Project by other lessees or by Lessor for the exclusive enjoyment of such other lessees. Notwithstanding Paragraph 10.2 hereof, Lessee shall, however, pay to Lessor at the time Common Area Operating Expenses are payable under Paragraph 4.2, the entirety of any increase in Real Property Taxes if assessed solely by reason of Alterations, Trade Fixtures or Utility Installations placed upon the Premises by Lessee or at Lessee's request.

10.4 Joint Assessment. If the Building is not separately assessed, Real Property Taxes allocated to the Building shall be equitable proportion of the Real Property Taxes for all of the land and improvements included within the tax parcel assessed, such proportion to be determined by Lessor from the respective valuations assigned in the assessor's work sheets or such other information as may be reasonably available. Lessor's reasonable determination thereof, in good faith, shall be conclusive.

10.5 Personal Property Taxes. Lessee shall pay prior to delinquency all taxes assessed against and levied upon Lessee Owned Alterations and Utility Installations, Trade Fixtures, furnishings, equipment and all personal property of Lessee contained in the Premises. When possible, Lessee shall cause its Lessee Owned Alterations and Utility

Installations, Trade Fixtures, furnishings, equipment and all other personal property to be assessed and billed separately from the real property of Lessor. If any of Lessee's said property shall be assessed with Lessor's real property, Lessee shall pay Lessor the taxes attributable to Lessee's property within 30 days after receipt of a written statement setting forth the taxes applicable to Lessee's property.

11. Utilities. Lessee shall pay for all water, gas, heat, light, power, telephone, trash disposal and other utilities and services supplied to the Premises, together with any taxes thereon. Notwithstanding the provisions of Paragraph 4.2, if at any time in Lessor's sole judgment, Lessor determines that Lessee is using a disproportionate amount of water, electricity or other commonly metered utilities, or that Lessee is generating such a large volume of trash as to require an increase in the size of the dumpster and/or an increase in the number of times per month that the dumpster is emptied, then Lessor may increase Lessee's Base Rent by an amount equal to such increased costs. Lessor shall provide reasonable justification of the basis for any such increase in the Base Rent.

12. Assignment and Subletting.

12.1 Lessor's Consent Required.

(a) Lessee shall not voluntarily or by operation of law assign, transfer, mortgage or encumber (collectively, "assign or assignment") or sublet all or any part of Lessee's interest in this Lease or in the Premises without Lessor's prior written consent.

(b) Deleted

(c) Deleted

(d) An assignment or subletting without consent shall, at Lessor's option, be a Default curable after notice per Paragraph 13.1(c), or a noncurable Breach without the necessity of any notice and grace period. If Lessor elects to treat such unapproved assignment or subletting as a noncurable Breach, Lessor may either: (i) terminate this Lease, or (ii)

upon 30 days written notice, increase the monthly Base Rent to 110% of the Base Rent then in effect. Further, in the event of such Breach and rental adjustment, (i) the purchase price of any option to purchase the Premises held by Lessee shall be subject to similar adjustment to 110% of the price previously in effect, and (ii) all fixed and non-fixed rental adjustments scheduled during the remainder or the Lease term shall be increased to 110% of the scheduled adjusted rent.

(e) Lessee's remedy for any breach of Paragraph 12.1 by Lessor shall be limited to compensatory damages and/or injunctive relief.

12.2 Terms and Conditions Applicable to Assignment and Subletting.

(a) Regardless of Lessor's consent, no assignment or subletting shall: (i) be effective without the express written assumption by such assignee or sublessee of the obligations of Lessee under this Lease, (ii) release Lessee of any obligations hereunder, or (iii) alter the primary liability of Lessee for the payment of Rent or for the performance of any other obligations to be performed by Lessee.

(b) Lessor may accept Rent or performance of Lessee's obligations from any person other than Lessee pending approval or disapproval of an assignment. Neither a delay in the approval or disapproval of such assignment nor the acceptance of Rent or performance shall constitute a waiver or estoppel of Lessor's right to exercise its remedies for Lessee's Default or Breach.

(c) Lessor's consent to any assignment or subletting shall not constitute a consent to any subsequent assignment or subletting.

(d) In the event of any Default or Breach by Lessee, Lessor may proceed directly against Lessee, any Guarantors or anyone else responsible for the performance of Lessee's obligations under this Lease, including any assignee or sublessee, without first exhausting Lessor's remedies against any other person or entity responsible therefore to Lessor, or any security held by Lessor.

(e) Each request for consent to an assignment or subletting shall be in writing, accompanied by information relevant to Lessor's determination as to the financial and operational responsibility and appropriateness of the proposed assignee or sublessee. Lessee agrees to provide Lessor with such other or additional information and/or documentation as may be reasonably requested.

(f) Any assignee of, or sublessee under, this Lease shall, by reason of accepting such assignment or entering into such sublease, be deemed to have assumed and agreed to conform and comply with each and every term, covenant, condition and obligation herein to be observed or performed by Lessee during the term of said assignment or sublease, other than such obligations as are contrary to or inconsistent with provisions of an assignment or sublease to which Lessor has specifically consented to in writing.

(g) Lessor's consent to any assignment or subletting shall not transfer to the assignee or sublessee any Option granted to the original Lessee by this Lease unless such transfer is specifically consented to by Lessor in writing. (See Paragraph 39.2)

12.3 Additional Terms and Conditions Applicable to Subletting. The following terms and conditions shall apply to any subletting by Lessee of all or any part of the Premises and shall be deemed included in all subleases under this Lease whether or not expressly incorporated therein:

(a) Lessee hereby assigns and transfers to Lessor all of Lessee's interest in all Rent payable on any sublease, and Lessor may collect such Rent and apply same toward Lessee's obligations under this Lease; provided, however, that until a Breach shall occur in the performance of Lessee's obligations, Lessee may collect said Rent. Lessor shall not, by reason of the foregoing or any assignment of such sublease, nor by reason of the collection of Rent, be deemed liable to the sublessee for any failure of Lessee to perform and comply with any of Lessee's obligations to such sublessee. Lessee hereby irrevocably authorizes and directs any such sublessee, upon receipt of a written notice from Lessor stating that a Breach exists in the performance of Lessee's obligations under this Lease, to pay to Lessor all Rent due and to become due under the sublease. Sublessee shall rely upon any such notice from Lessor and shall pay all Rents to Lessor without any obligation or right to inquire as to whether

such Breach exists, notwithstanding any claim from Lessee to the contrary. Lessee shall pay to Lessor one-half of all amounts by which the consideration received by Lessee in connection with assignment or subletting by Lessee exceeds the payments Lessee is required to pay Lessor under this Lease.

(b) In the event of a Breach by Lessee, Lessor may, at its option require sublessee to attorn to Lessor, in which event Lessor shall undertake the obligations of the sublessor under such sublease from the time of the exercise of said option to the expiration of such sublease; provided, however, Lessor shall not be liable for any prepaid rents or security deposit paid by such sublessee to such sublessor or for any prior Defaults or Breaches of such sublessor.

(c) Any matter requiring the consent of the sublessor under a sublease shall also require the consent of Lessor.

(d) No sublessee shall further assign or sublet all or any part of the Premises without Lessor's prior written consent.

(e) Lessor shall deliver a copy of any notice of Default or Breach by Lessee to the sublessee, who shall have the right to cure the Default of Lessee within the grace period, if any, specified in such notice. The sublessee shall have a right of reimbursement and offset from and against Lessee for any such Defaults cured by the sublessee.

13. Default; Breach; Remedies.

13.1 Default; Breach. A "Default" is defined as a failure by the Lessee to comply with or perform any of the terms, covenants, conditions or Rules and Regulations under this Lease. A "Breach" is defined as the occurrence of one or more of the following Defaults, and the failure of Lessee to cure such Default within any applicable grace period:

(a) The abandonment of the Premises; or the vacating of the Premises without providing a commercially reasonable level of security, or where the coverage of the property insurance described in Paragraph 8.3 is jeopardized as a result thereof, or without providing reasonable assurances to minimize potential vandalism.

(b) The failure of Lessee to make any payment of Rent or Security Deposit required to be made by Lessee hereunder, whether to Lessor or to a third party, when due, to provide reasonable evidence of insurance or surety bond, or to fulfill any obligation under this Lease which endangers or threatens life or property, where such failure continues for a period of 3 business days following written notice to Lessee.

(c) The failure by Lessee to provide (i) reasonable written evidence of compliance with Applicable Requirements, (ii) the service contracts, (iii) the rescission of an unauthorized assignment or subletting, (iv) an Estoppel Certificate, (v) a requested subordination, (vi) evidence concerning any guaranty and/or Guarantor, (vii) any document requested under Paragraph 41 (easements), or (vii) any other documentation or information which Lessor may reasonably require of Lessee under the terms of this Lease, where any such failure continues for a period of 10 days following written notice to Lessee.

(d) A Default by Lessee as to the terms, covenants, conditions or provisions of this Lease, or of the rules adopted under Paragraph 2.9 hereof, other than those described in subparagraphs 13.1(a), (b), or (c), above, where such Default continues for a period of 30 days after written notice; provided, however, that if the nature of Lessee's Default is such that more than 30 days are reasonably required for its cure, then it shall not be deemed to be a Breach if Lessee commences such cure within said 30 day period and thereafter diligently prosecutes such cure to completion.

(e) The occurrence of any of the following events: (i) the making of any general arrangement or assignment for the benefit of creditors; (ii) becoming a "debtor" as defined in 11 U.S.C.ss. 101 or any successor statute thereto (unless, in the case of a petition filed against Lessee, the same is dismissed within 60 days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where possession is not restored to Lessee within 30 days; or (iv) the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where such seizure is not discharged within 30 days; provided,

however, in the event that any provision of this subparagraph (e) is contrary to any applicable law, such provision shall be of no force or effect, and not affect the validity of the remaining provisions.

(f) The discovery that any financial statement of Lessee or of any Guarantor given to Lessor was materially false.

(g) If the performance of Lessee's obligations under this Lease is guaranteed: (i) the death of a Guarantor, (ii) the termination of a Guarantor's liability with respect to this Lease other than in accordance with the terms of such guaranty, (iii) a Guarantor's becoming insolvent or the subject of a bankruptcy filing, (iv) a Guarantor's refusal to honor the guaranty, or (v) a Guarantor's breach of its guaranty obligation on an anticipatory basis, and Lessee's failure, within 60 days following written notice of any such event, to provide written alternative assurance or security, which, when coupled with the then existing resources of Lessee, equals or exceeds the combined financial resources of Lessee and the Guarantors that existed at the time of execution of this Lease.

13.2 Remedies. If Lessee fails to perform any of its affirmative duties or obligations, within 30 days after written notice (or in case of an emergency, without notice), Lessor may, at its option, perform such duty or obligation on Lessee's behalf, including but not limited to the obtaining of reasonably required bonds, insurance policies, or governmental licenses, permits or approvals. The costs and expenses of any such performance by Lessor shall be due and payable by Lessee upon receipt of invoice therefor. If any check given to Lessor by Lessee shall not be honored by the bank upon which it is drawn, Lessor, at is option, may require all future payments to be made by Lessee to be by cashier's check. In the event of a Breach, Lessor may, with or without further notice or demand, and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such Breach:

(a) Terminate Lessee's right to possession of the Premises by any lawful means, in which case this Lease shall terminate and Lessee shall immediately surrender possession to Lessor. In such event Lessor shall be entitled to recover from Lessee: (i) the unpaid Rent which had been earned at the time of termination; (ii) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that the Lessee proves could have been reasonably avoided; (iii) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that the Lessee proves could be reasonably avoided; and (iv) any other amount necessary to compensate Lessor for all the detriment proximately caused by the Lessee's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to

result therefrom, including but not limited to the cost of recovering possession of the Premises, expenses of reletting, including necessary renovation and alteration of the Premises, reasonable attorneys' fees, and that portion of any leasing commission paid by Lessor in connection with this Lease applicable to the unexpired term of this Lease. The worth at the time of award of the amount referred to in provision (iii) of the immediately preceding sentence shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of the District within which the Premises are located at the time of award plus one percent. Efforts by Lessor to mitigate damages caused by Lessee's Breach of this Lease shall not waive Lessor's right to recover damages under Paragraph 12. If termination of this Lease is obtained through the provisional remedy of unlawful detainer, Lessor shall have the right to recover in such proceeding any unpaid Rent and damages as are recoverable therein, or Lessor may reserve the right to recover all or any part thereof in a separate suit. If a notice and grace period required under Paragraph 13.1 was not previously given, a notice to pay rent or quit, or to perform or quit given to Lessee under the unlawful detainer statute shall also constitute the notice required by Paragraph 13.1. In such case, the applicable grace period required by Paragraph 13.1 and the unlawful detainer statute shall run concurrently, and the failure of Lessee to cure the Default within the greater of the two such grace periods shall constitute both an unlawful detainer and a Breach of this Lease entitling Lessor to the remedies provided for in this Lease and/or by said statute.

(b) Continue the Lease and Lessee's right to possession and recover the Rent as it becomes due, in which event Lessee may sublet or assign, subject only to reasonable limitations. Acts of maintenance, efforts to relet, and/or the appointment of a receiver to protect the Lessor's interests, shall not constitute a termination of the Lessee's right to possession.

(c) Pursue any other remedy now or hereafter available under the laws

or judicial decisions of the state wherein the Premises are located. The expiration or termination of this Lease and/or the termination of Lessee's right to possession shall not relieve Lessee from liability under any indemnity provisions of this Lease as to matters occurring or accruing during the term hereof or by reason of Lessee's occupancy of the Premises.

13.3 Inducement Recapture. Any agreement for free or abated rent or other charges, or for the giving or paying by Lessor to or for Lessee of any cash bonus, inducement or consideration for Lessee's entering into this Lease, all of which concessions are hereinafter referred to as "Inducement Provisions", shall be deemed conditioned upon Lessee's full and faithful performance of all of the terms, covenants and conditions of this Lease. Upon Breach of this Lease by Lessee, any such Inducement Provision shall automatically be deemed deleted from this Lease and of no further force or effect, and any rent, other charge, bonus,

inducement or consideration therefore abated, given or paid by Lessor under such an inducement Provision shall be immediately due and payable by Lessee to Lessor, notwithstanding any subsequent cure of said Breach by Lessee. The acceptance by Lessor of rent or the cure of the Breach which initiated the operation of this paragraph shall not be deemed a waiver by Lessor of the provisions of this paragraph unless specifically so stated in writing by Lessor at the time of such acceptance.

13.4 Late Charges. Lessee hereby acknowledges that late payment by Lessee of Rent will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed upon Lessor by any Lender. Accordingly, if any Rent shall be received by Lessor within 5 days after such amount shall be due, then, without any requirement for notice to Lessee, Lessee shall pay to Lessor a one-time late charge equal to 10% of each such overdue amount or $100, whichever is greater. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of such late payment. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's Default or Breach with respect to such overdue amount, nor prevent the exercise of any of the other rights and remedies granted hereunder. In the event that a late charge is payable hereunder, whether or not collected, for 3 consecutive installments of Base Rent, then notwithstanding any provision of this Lease to the contrary, Base Rent shall, at Lessor's option, become due and payable quarterly in advance.

13.5 Interest. Any monetary payment due Lessor hereunder, other than late charges, not received by Lessor, when due as to scheduled payments (such as Base Rent) or within 30 days following the date on which it was due for non-scheduled payment, shall bear interest from the date when due, as to scheduled payments, or the 31st day after it was due as to non-scheduled payments. The interest ("Interest") charged shall be equal to the prime rate reported in the Wall Street Journal as published closest prior to the date when due plus 4%, but shall not exceed the maximum rate allowed by law. Interest is payable in addition to the potential late charge provided for in Paragraph 13.4.

13.6 Breach by Lessor.

(a) Notice of Breach. Lessor shall not be deemed in breach of this Lease unless Lessor fails within a reasonable time to perform an obligation required to be performed by Lessor. For purposes of this Paragraph, a reasonable time shall in no event be less than 30 days after receipt by Lessor, and any Lender whose name and address shall have been furnished Lessee in writing for such purpose, of written notice specifying wherein such obligation of Lessor has not been performed; provided, however, that if the nature of Lessor's obligation is such that more than 30 days are rea-

sonably required for its performance, then Lessor shall not be in breach if performance is commenced within such 30 day period and thereafter diligently pursued to completion.

(b) Performance by Lessee on Behalf of Lessor. In the event that neither Lessor nor Lender cures said breach within 30 days after receipt of said notice, or if having commenced said cure they do not diligently pursue it to completion, then Lessee may elect to cure said breach at Lessee's expense and offset from Rent an amount equal to the greater of one month's Base Rent or the Security Deposit, and to pay an excess of such expense under protest, reserving Lessee's right to reimbursement from Lessor. Lessee shall document the cost of said cure and supply said documentation to Lessor.

14. Condemnation. If the premises or any portion thereof are taken under

the power of eminent domain or sold under the threat of the exercise of said power (collectively "Condemnation"), this Lease shall terminate as to the part taken as of the date the condemning authority takes title or possession, whichever first occurs. If more than 10% of the floor area of the Unit, is taken by Condemnation, Lessee may, at Lessee's option, to be exercised in writing within 30 days after Lessor shall have given Lessee written notice of such taking (or in the absence of such notice, within 30 days after the condemning authority shall have taken possession) terminate this Lease as of the date the condemning authority takes such possession. If Lessee does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the Premises remaining, except that the Base Rent shall be reduced in proportion to the reduction in utility of the Premises caused by such Condemnation. Condemnation awards and/or payments shall be the property of Lessor, whether such award shall be made as compensation for diminution in value of the leasehold, the value of the part taken, or for severance damages; provided, however, that Lessee shall be entitled to any compensation for Lessee's relocation expenses, loss of business goodwill and/or Trade Fixtures, without regard to whether or not this Lease is terminated pursuant to the provisions of this Paragraph. (In the event that this Lease is not terminated by reason of the Condemnation, Lessor shall repair any damage to the Premises caused by such Condemnation).

15. Brokerage Fees.

15.1 Deleted

15.2 Deleted

15.3 Representations and Indemnities of Broker Relationships. Lessee and Lessor each represent and warrant to the other that it has had no dealings with any person, firm, broker or finder (other than the Brokers, if any) in connection with this Lease, and that no one

other than said named Brokers is entitled to any commission or finder's fee in connection herewith. Lessee and Lessor do each hereby agree to indemnify, protect, defend and hold the other harmless from and against liability for compensation or charges which may be claimed by any such unnamed broker, finder or other similar party by reason of any dealings or actions of the indemnifying Party, including any costs, expenses, attorneys' fees reasonably incurred with respect thereto.

16. Estoppel Certificates.

(a) Each Party (as "Responding Party") shall within 10 days after written notice from the other Party (the "Requesting Party") execute, acknowledge and deliver to the Requesting Party a statement in writing in form similar to the then most current "Estoppel Certificate" form published by the American Industrial Real Estate Association, plus such additional information, confirmation and/or statements as may be reasonably requested by the Requesting Party.

(b) If the Responding Party shall fail to execute or delivery the Estoppel Certificate within such 10 day period, the Requesting Party may execute an Estoppel Certificate stating that: (i) the Lease is in full force and effect without modification except as may be represented by the Requesting Party, (ii) there are no uncured defaults in the Requesting Party's performance, and (iii) if Lessor is the Requesting Party, not more than one month's rent has been paid in advance. Prospective purchasers and encumbrances may rely upon the Requesting Party's Estoppel Certificate, and the Responding Party shall be estopped from denying the truth of the facts contained in said Certificate.

(c) If Lessor desires to finance, refinance, or sell the Premises, or any part thereof, Lessee and all Guarantors shall deliver to any potential lender or purchaser designated by Lessor such financial statements as may be reasonably required by such lender or purchaser, including but not limited to Lessee's financial statements for the past 3 years. All such financial statements shall be received by Lessor and such lender or purchaser in confidence and shall be used only for the purposes herein set forth.

17. Definition of Lessor.

The term "Lessor" as used herein shall mean the owner or owners at the time in question of the fee title to the Premises, or, if this is a sublease, of the Lessee's interest in the prior lease. In the event of a transfer of Lessor's title or interest in the Premises or this Lease, Lessor shall deliver to the transferee or assignee (in cash or by credit) any unused Security Deposit held by Lessor. Except as provided in Paragraph 15, upon such transfer or assignment and delivery of the Security Deposit, as aforesaid, the prior Lessor shall be relieved of all liability with respect to the obligations and/or covenants under

this Lease thereafter to be per-

formed by the Lessor. Subject to the foregoing, the obligations and/or covenants in this Lease to be performed by the Lessor shall be binding only upon the Lessor as hereinabove defined. Notwithstanding the above, and subject to the provisions of Paragraph 20 below, the original Lessor under this Lease, and all subsequent holders of the Lessor's interest in this Lease shall remain liable and responsible with regard to the potential duties and liabilities of Lessor pertaining to Hazardous Substances as outlined in Paragraph 6.2 above.

18. Severability.

The invalidity of any provision of this lease, as determined by a court of competent jurisdiction, shall in no way affect the validity of any other provision hereof.

19. Days.

Unless otherwise specifically indicated to the contrary, the word "days" as used in this Lease shall mean and refer to calendar days.

20. Limitation on Liability.

Subject to the provisions of Paragraph 17 above, the obligations of Lessor under this Lease shall not constitute personal obligations of Lessor, the individual partners of Lessor or its or their individual partners, directors, officers or shareholders, and Lease shall look to the Premises, and to no other assets of Lessor, for the satisfaction of any liability of Lessor with respect to this Lease, and shall not seek recourse against the individual partners of Lessor, or its or their individual partners, directors, officers or shareholders, or any of their personal assets for such satisfaction.

21. Time of Essence.

Time is of the essence with respect to the performance of all obligations to be performed or observed by the Parties under this Lease.

22. No Prior or Other Agreements; Broker Disclaimer.

This Lease contains all agreements between the Parties with respect to any matter mentioned herein, and no other prior or contemporaneous agreement or understanding shall be effective. Lessor and Lessee each represents and warrants to the Brokers that it has made, and is relying solely upon, its own investigation as to the nature, quality, character and financial responsibility of the other Party to this Lease and as to the use, nature, quality and character of the Premises. Brokers have no responsibility with respect thereto or with respect to any default or breach hereof by either Party. The liability (including court costs and attorneys' fees), of any Broker with respect to negotiation, execution, delivery or performance by either Lessor

or Lessee under this Lease or any amendment or modification hereto shall be limited to an amount up to the fee received by such Broker pursuant to this Lease; provided, however, that the foregoing limitation on each Broker's liability shall not be applicable to any gross negligence or willful misconduct of such Broker.

23. Notices.

23.1 All notices required or permitted by this Lease or applicable law shall be in writing and may be delivered in person (by hand or by courier) or may be sent by regular, certified or registered mail or U.S. Postal Service Express Mail, with postage prepaid, or by facsimile transmission, and shall be deemed sufficiently given if served in a manner specified in this Paragraph 23. The address noted adjacent to a Party's signature on this Lease shall be that Party's address for delivery or mailing of notices. Either Party may by written notice to the other specify a different address for notice, except that upon Lessee's taking possession of the Premises, the Premises shall constitute Lessee's address for notice. A copy of all notices to Lessor shall be concurrently transmitted to such party or parties at such addresses as Lessor may from time to time hereafter designate in writing.

23.2 Date of Notice. Any notice sent by registered or certified mail, return receipt requested, shall be deemed given on the date of delivery shown on the receipt card, or if no delivery date is shown, the postmark thereon. If sent by regular mail, the notice shall be deemed given 48 hours after the same is addressed as required herein and mailed with postage prepaid. Notices delivered by United States Express Mail or overnight courier that guarantee next day

delivery shall be deemed given 24 hours after delivery of the same to the Postal Service or courier. Notices transmitted by facsimile transmission or similar means shall be deemed delivered upon telephone confirmation of receipt (confirmation report from fax machine is sufficient), provided a copy is also delivered via delivery or mail. If notice is received on a Saturday, Sunday or legal holiday, it shall be deemed received on the next business day.

24. Waivers.

No waiver by Lessor of the Default or Breach of any term, covenant or condition hereof by Lessee, shall be deemed a waiver of any other term, covenant or condition hereof, or of any subsequent Default or Breach by Lessee of the same or of any other term, covenant or condition hereof. Lessor's consent to, or approval of, any act shall not be deemed to render unnecessary the obtaining of Lessor's consent to, or approval of, any subsequent or similar act by Lessee, or be construed as the basis of an estoppel to enforce the provision or provisions of this Lease requiring such consent. The acceptance of Rent by Lessor shall not be a waiver of any Default or Breach by Lessee. Any payment by Lessee may be accepted by Lessor on account of moneys or damages due Lessor, notwithstanding any qualifying statements or conditions made by Lessee in connection therewith, which such statements and/or conditions shall

be of no force or effect whatsoever unless specifically agreed to in writing by Lessor at or before the time of deposit of such payment.

25. Deleted

26. No Right to Holdover.

Lessee has no right to retain possession of the Premises or any part thereof beyond the expiration or termination of this Lease. In the event that Lessee holds over, then the Base Rent shall be increased to 150% of the Base Rent applicable immediately preceding the expiration or termination. Nothing contained herein shall be construed as consent by Lessor to any holding over by Lessee.

27. Cumulative Remedies.

No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies at law or in equity.

28. Covenants and Conditions; Construction of Agreement.

All provisions of this Lease to be observed or performed by Lessee are both covenants and conditions. In construing this Lease, all headings and titles are for the convenience of the Parties only and shall not be considered a part of this Lease. Whenever required by the context, the singular shall include the plural and vice versa. This Lease shall not be construed as if prepared by one of the Parties, but rather according to its fair meaning as a whole, as if both Parties had prepared it.

29. Binding Effect; Choice of Law.

This Lease shall be binding upon the parties, their personal representatives, successors and assigns and be governed by the laws of the State in which the Premises are located. Any litigation between the Parties hereto concerning this Lease shall be initiated in the county in which the Premises are located.

30. Subordination; Attornment; Non-Disturbance.

30.1 Subordination. This Lease and any Option granted hereby shall be subject and subordinate to any ground lease, mortgage, deed of trust, or other hypothecation or security device (collectively, "Security Device"), now or hereafter placed upon the Premises, to any and all advances made on the security thereof, and to all renewals, modifications, and extensions thereof. Lessee agrees that the holders of any such Security Devices (in this Lease together referred to as "Lender") shall have no liability or obligation to perform any of the obligations of Lessor under this Lease. Any Lender may elect to have this Lease and/or any

Option granted hereby superior to the lien of its Security Device by giving written notice thereof to Lessee, whereupon this Lease and such Options shall be deemed prior to such Security Device, notwithstanding the relative dates of the documentation or recordation thereof.

30.2 Attornment. In the event that Lessor transfers title to the Premises,

or the Premises are acquired by another upon the foreclosure or termination of a Security Device to which this Lease is subordinated (i) Lessee shall, subject to the non-disturbance provisions of Paragraph 30.3, attorn to such new owner, and upon request, enter into a new lease, containing all of the terms and provisions of this Lease, with such new owner for the remainder of the term hereof, or, at the election of such new owner, this Lease shall automatically become a new Lease between Lessee and such new owner, upon all of the terms and conditions hereof, for the remainder of the term hereof, and (ii) Lessor shall thereafter be relieved of any further obligations hereunder and such new owner shall assume all of the Lessor's obligations hereunder, except that such new owner shall not: (a) be liable for any act or omission of any prior lessor or with respect to events occurring prior to acquisition of ownership; (b) be subject to any offsets or defenses which Lessee might have against any prior lessor, (c) be bound by prepayment of more than one month's rent, or (d) be liable for the return of any security deposit paid to any prior lessor.

30.3 Non-Disturbance. With respect to Security Devices entered into by Lessor after the execution of this Lease, Lessee's subordination of this Lease shall be subject to receiving a commercially reasonable non-disturbance agreement (a "Non-Disturbance Agreement") from the Lender which Non-Disturbance Agreement provides that Lessee's possession of the Premises, and this Lease, including any options to extend the term hereof, will not be disturbed so long as Lessee is not in Breach hereof and attorns to the record owner of the Premises. Further, within 60 days after the execution of this Lease, Lessor shall use its commercially reasonable efforts to obtain a Non-Disturbance Agreement from the holder of any pre-existing Security Device which is secured by the Premises. In the event that Lessor is unable to provide the Non-Disturbance Agreement within said 60 days, then Lessee may, at Lessee's option, directly contact Lender and attempt to negotiate for the execution and delivery of a Non-Disturbance Agreement.

30.4 Self-Executing. The agreements contained in this Paragraph 30 shall be effective without the execution of any further documents; provided, however, that, upon written request from Lessor or a Lender in connection with a sale, financing or refinancing of the Premises, Lessee and Lessor shall execute such further writings as may be reasonably required to separately document any subordination, attornment and/or Non-Disturbance Agreement provided for herein.

31. Attorney's Fees.

If any Party or Broker brings an action or proceeding involving the Premises whether founded in tort, contract or equity, or to declare rights hereunder, the Prevailing Party (as hereafter defined) in any such proceeding, action, or appeal thereon, shall be entitled to reasonable attorneys' fees. Such fees may be awarded in the same suit or recovered in a separate suit, whether or not such action or proceeding is pursued to decision or judgment. The term, "Prevailing Party" shall include, without limitation, a Party or Broker who substantially obtains or defeats the relief sought, as the case may be, whether by compromise, settlement, judgment, or the abandonment by the other Party or Broker of its claim or defense. The attorneys' fees award shall not be computed in accordance with any court fee schedule, but shall be such as to fully reimburse all attorneys' fees reasonably incurred. In addition, Lessor shall be entitled to attorneys' fees, costs and expenses incurred in the preparation and service of notices of Default and consultations in connection therewith, whether or not a legal action is subsequently commenced in connection with such Default or resulting Breach ($200 is a reasonable minimum per occurrence for such services and consultation).

32. Lessor's Access; Showing Premises; Repairs.

Lessor and Lessor's agents shall have the right to enter the Premises at any time, in the case of an emergency, and otherwise at reasonable times for the purpose of showing the same to prospective purchasers, lenders, or tenants, and making such alterations, repairs, improvements or additions to the Premises as Lessor may deem necessary. All such activities shall be without abatement of rent or liability to Lessee. Lessor may at any time place on the Premises any ordinary "For Sale" signs and Lessor may during the last 6 months of the term hereof place on the Premises any ordinary "For Lease" signs. Lessee may at any time place on the Premises any ordinary "For Sublease" sign.

33. Auctions.

Lessee shall not conduct, nor permit to be conducted, any auction upon the Premises without Lessor's prior written consent. Lessor shall not be obligated to exercise any standard of reasonableness in determining whether to permit an auction.

34. Signs.

Except for ordinary "For Sublease" signs which may be placed only on the Premises, Lessee shall not place any sign upon the Project without Lessor's

prior written consent. All signs must comply with all Applicable Requirements.

35. Termination; Merger.

Unless specifically stated otherwise in writing by Lessor, the voluntary or other surrender of this Lease by Lessee, the mutual termination

or cancellation hereof, or a termination hereof by Lessor for Breach by Lessee, shall automatically terminate any sublease or lesser estate in the Premises; provided, however, that Lessor may elect to continue any one or all existing subtenancies. Lessor's failure within 10 days following any such event to elect to the contrary by written notice to the holder of any such lesser interest, shall constitute Lessor's election to have such event constitute the termination of such interest.

36. Consents.

Except as otherwise provided herein, wherever in this Lease the consent of a Party is required to an act by or for the other Party, such consent shall not be unreasonably withheld or delayed. Lessor's actual reasonable costs and expenses (including but not limited to architects', attorneys', engineers' and other consultants' fees) incurred in the consideration of, or response to, a request by Lessee for any Lessor consent, including but not limited to consents to an assignment, a subletting or the presence or use of a Hazardous Substance, shall be paid by Lessee upon receipt of an invoice and supporting documentation therefor. Lessor's consent to any act, assignment or subletting shall not constitute an acknowledgment that no Default or Breach by Lessee of this Lease exists, nor shall such consent be deemed a waiver of any then existing Default or Breach, except as may be otherwise specifically stated in writing by Lessor at the time of such consent. The failure to specify herein any particular condition to Lessor's consent shall not preclude the imposition by Lessor at the time of consent of such further other considerations as are then reasonable with reference to the particular matter for which consent is being given. In the event that either Party disagrees with any determination made by the other hereunder and reasonably requests the reasons for such determination, the determining party shall furnish its reasons in writing and in reasonable detail within 10 business days following such request.

37. Guarantor

37.1 Execution. The Guarantors, if any, shall each execute a guaranty in the form most recently published by the American Industrial Real Estate Association, and each such Guarantor shall have the same obligations as Lessee under this Lease.

37.2 Default. It shall constitute a Default of the Lessee if any Guarantor fails or refuses, upon request to provide: (a) evidence of the execution of the guaranty, including the authority of the party signing on Guarantor's behalf to obligate Guarantor, and in the case of a corporate Guarantor, a certified copy of a resolution of its board of directors authorizing the making of such guaranty, (b) current financial statements, (c) an Estoppel Certificate, or (d) written confirmation that the guaranty is still in effect.

38. Quiet Possession.

Subject to payment by Lessee of the Rent and performance of all of the covenants, conditions and provisions on Lessee's part to be observed and performed under this Lease, Lessee shall have quiet possession and quiet enjoyment of the Premises during the term hereof.

39. Options.

If Lessee is granted an option, as defined below, then the following provisions shall apply.

39.1 Definition. "Option" shall mean: (a) the right to extend the term of or renew this Lease or to extend or renew any lease that Lessee has on other property of Lessor; (b) the right of first refusal or first offer to lease either the Premises or other property of Lessor; (c) the right to purchase or the right of first refusal to purchase the Premises or other property of Lessor.

39.2 Options Personal to Original Lessee. Any Option granted to Lessee in this Lease is personal to the original Lessee, and cannot be assigned or exercised by anyone other than said original Lessee and only while the original Lessee is in full possession of the Premises and, if requested by Lessor, with Lessee certifying that Lessee has no intention of thereafter assigning or subletting.

39.3 Multiple Options. In the event that Lessee has any multiple Options to extend or renew this Lease, a later Option cannot be exercised unless the prior Options have been validly exercised.

39.4 Effect of Default on Options.

(a) Lessee shall have no right to exercise an Option: (i) during the period commencing with the giving of any notice of Default and continuing until said Default is cured, (ii) during the period of time any Rent is unpaid (without regard to whether notice thereof is given Lessee), (iii) during the time Lessee is in Breach of this Lease, or (iv) in the event that Lessee has been given 3 or more notices of separate Default, whether or not the Defaults are cured, during the 12 month period immediately preceding the exercise of the Option.

(b) The period of time within which an Option may be exercised shall not be extended or enlarged by reason of Lessee's inability to exercise an Option because of the provisions of Paragraph 39.4(a).

(c) An Option shall terminate and be of no further force or effect, notwithstanding Lessee's due and timely exercise of the Option, if, after such exercise and

prior to the commencement of the extended term, (i) Lessee fails to pay Rent for a period of 30 days after such Rent becomes due (without any necessity of Lessor to give notice thereof), (ii) Lessor gives to Lessee 3 or more notices of separate Default during any 12 month period, whether or not the Defaults are cured, or (iii) if Lessee commits a Breach of this Lease.

40. Security Measures.

Lessee hereby acknowledges that the Rent payable to Lessor hereunder does not include the cost of guard service or other security measures, and that Lessor shall have no obligation whatsoever to provide same. Lessee assumes all responsibility for the protection of the Premises, Lessee, its agents and invitees and their property from the acts of third parties.

41. Reservations.

Lessor reserves the right: (i) to grant, without the consent or joinder of Lessee, such easements, rights and dedications that Lessor deems necessary, (ii) to cause the recordation of parcel maps and restrictions, and (iii) to create and/or install new utility raceways, so long as such easements, rights, dedications, maps, restrictions, and utility raceways do not unreasonably interfere with the use of the Premises by Lessee. Lessee agrees to sign any documents reasonably requested by Lessor to effectuate such rights.

42. Performance Under Protest.

If at any time a dispute shall arise as to any amount or sum of money to be paid by one Party to the other under the provisions hereof, the Party against whom the obligation to pay the money is asserted shall have the right to make payment "under protest" and such payment shall not be regarded as a voluntary payment and there shall survive the right on the part of said Party to institute suit for recovery of such sum. If it shall be adjudged that there was no legal obligation on the part of said Party to pay such sum or any part thereof, said Party shall be entitled to recover such sum or so much thereof as it was not legally required to pay.

43. Authority.

If either Party hereto is a corporation, trust, limited liability company, partnership, or similar entity, each individual executing this Lease on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on its behalf. Each party shall, within 30 days after request, deliver to the other party satisfactory evidence of such authority.

44. Conflict.

Any conflict between the printed provisions of this Lease and the typewritten or handwritten provisions shall be controlled by the typewritten or handwritten provisions.

45. Offer.

Preparation of this Lease by either party or their agent and submission of same to the other Party shall not be deemed an offer to lease to the other Party. This Lease is not intended to be binding until executed and delivered by all Parties hereto.

46. Amendments.

This Lease may be modified only in writing, signed by the Parties in interest at the time of the modification. As long as they do not materially change Lessee's obligations hereunder, Lessee agrees to make such reasonable non-monetary modifications to this Lease as may be reasonably required by a Lender in connection with the obtaining of normal financing or refinancing of the Premises.

47. Multiple Parties.

If more than one person or entity is named herein as either Lessor or Lessee, such multiple Parties shall have joint and several responsibility to comply with the terms of this Lease.

48. Waiver of Jury Trial.

The Parties hereby waive their respective rights to trial by jury in any action or proceeding involving the Property or arising out of this Agreement.

49. Mediation and Arbitration of Disputes.

An Addendum requiring the Mediation and/or the Arbitration of all disputes between the Parties and/or Brokers arising out of this Lease is not attached to this Lease.

Lessor and Lessee have carefully read and reviewed this Lease and each term and provision contained herein, and by the execution of this Lease show their informed and voluntary consent thereto. The Parties hereby agree that, at the time this Lease is executed, the terms of this Lease are commercially reasonable and effectuate the intent and purpose of lessor and lessee with respect to the premises.

Attention: No representation or recommendation is made by the American Industrial Real Estate Association or by any broker as to the legal sufficiency, legal effect, or tax consequences of this Lease or the transaction to which it relates. The Parties are urged to:

1. Seek advice of counsel as to the legal and tax consequences of this Lease.

2. Retain appropriate consultants to review and investigate the condition of the Premises. Said investigation should include but not be limited to: the possible presence of hazardous substances, the zoning of the premises, the structural integrity, the condition of the roof and operating systems, compliance with the Americans with Disabilities Act and the suitability of the Premises for Lessee's intended use.

Warning: if the Premises are located in a State other than California, certain provisions of the Lease may need to be revised to comply with the laws of the State in which the Premises are located.

The parties hereto have executed this Lease at the place and on the dates specified above their respective signatures.

Executed at: [blank]
On: [blank]
By LESSOR: Robin D. Miller as Trustee for the
Daniel C. Cutter Trusts
By: //Robin D. Miller// 11/02/01
Name Printed: Robin D. Miller
Title: Trustee
Address: P.O. Box 852
Kentfield, CA 94914
Telephone: (415) 461-5005
Facimile: (415) 461-8309

Executed at: [blank]
On: [blank]
By LESSEE:XOMA (US) LLC, a Delaware
Limited Liability Company
By: //C L Dellio// 11/02/01
Name Printed: C L. Dellio
Title: SR V-P Operations

Address: 2910-7th Street
Berkeley, CA 94710
Telephone: (510) 644-1170 x 2170
Facimile: (510) 649-0315

ADDENDUM TO STANDARD
INDUSTRIAL/COMMERCIAL MULTI-TENANT LEASE - NET

Addendum to Lease
Between Robin D. Miller Trustee for the
Daniel C. Cutter Trusts, Lessor and
XOMA (US) LLC, a Delaware Limited Liability Company, Lessee
Dated November 2, 2001

This Addendum is attached to and forms a part of the above-entitled Lease Form ("the Lease Form"). All references to the "Lease" shall be deemed to refer to the Lease Form together with this Addendum.

50. Base Rent:

(Paragraph 1.5 is modified as follows.)

November 2, 2001	November 30, 2001	$11,539.06
December 1, 2001-	October 31, 2002	$11,936.96 per month
November 1, 2002-	October 31, 2003	$11,936.96 per month
November 1, 2003-	October 31, 2004	$12,414.44 per month
November 1, 2004-	October 31, 2005	$12,414.44 per month
November 1, 2005-	October 31, 2006	$12,911.02 per month
November 1, 2006-	October 31, 2007	$12,911.02 per month
November 1, 2007-	October 31, 2008	$13,427.46 per month
November 1, 2008	October 31, 2009	$13,427.46 per month
November 1, 2009	October 31, 2010	$13,964.56 per month
November 1, 2010	April 30, 2011	$13,964.56 per month

51. To be done by Landlord at Landlord's sole cost and effect.

1. Delivery warehouse and office (as is) in broom clean condition free of all debris.

2. Ensure all existing electrical, lighting, windows, plumbing, loading doors, fire sprinkler system and roof structure are in good working condition.

52. Security Deposit (Paragraph 1.7(c) modified as follows.)

A security deposit of eleven thousand nine hundred thirty six dollar and ninety six cents ($11,936.96).

53. Option to Extend Term

Lessor hereby grants to Lessee one (1) option (the "Option") to extend the Lease term for a period of three (3) years (the "Extension") on the same terms and conditions as set forth in the Lease. Base Rent during the Extension shall be as set forth in Paragraph 50 above. The Option shall be exercised only by written notice delivered to Lessor at least one hundred eighty (180) days before the expiration of the initial Lease Term and provided that Lessee is not then in default.

54. Base Rent and Other Monies Paid upon Execution: (Paragraph 1.7(e) modified as follows)

A check for twenty three thousand four hundred seventy six dollars and two cents ($23,476.02) due upon execution which accounts for the security deposit, plus the first month's base rent not to include operating expenses. Lessee's share of operating expenses will be billed and shall be payable in addition to the base rent.

55. Hazardous Materials:

1. The subject property is owned by a family trust and managed by a trustee. With the exception of an Asbestos Screening Assessment dated December 4, 1989 attached hereto, the Trustee of the trusts does not have knowledge of any hazardous materials being present at the subject property. Landlord is not able to represent or warrant the condition of the property

or its compliance with existing environmental laws and Lessee shall accept the premises in its "as is" condition upon delivery of possession.

2. Lessee hereby acknowledges receipt and review of the Asbestos Screening Assessment dated December 4, 1989 by Earth Metrics Incorporated (the "Assessment"), which assessment is the only report that has been made available to the trustee of the Daniel C. Cutter Trusts with respect to the presence of asbestos and/or hazardous materials at the Premises. Lessee acknowledges and agrees that, with respect to asbestos and/or hazardous material at the Premises, Lessee shall take possession of the Premises subject to the information contained in the Assessment.

56. Other Terms and Conditions:

1. This lease is not contingent upon the City Emeryville granting Lessee the right to make improvements within the Premises, nor will commencement be delayed awaiting City approval.

2. In no event shall Lessee apply for City approval for use of the Premises, nor shall Lessee use the Premises, nor make any improvements within or to the Premises, which would or may increase the parking which is legally required for the use or occupancy of the Building or the Premises. Lessee acknowledges that the parking presently provided for the Premises and the Building may not meet current legal requirements.

3. Lessee will be responsible for costs to comply with the Americans with Disabilities Act (ADA) within the Premises including but not limited to walkways, entrances and restrooms. In the event Lessee's improvements to its Premises cause governmental mandated ADA alterations or modifications to entrances or parking areas not within its Premises the cost of said improvements shall be paid by Lessee. Restrooms outside the demised premises are excluded from this provision. Should Lessee make ADA improvements to the building's exterior, said improvements shall be subject to Lessor's prior consent, which shall not unreasonably be withheld. If alterations required to comply with ADA requirements necessitate a loss of any parking space, such space shall be subtracted from the parking allocated to Lessee under Paragraph 1.2(b).

4. Lessor acknowledges that all trade fixtures placed or installed within the Premises, including, but not limited to, refrigeration equipment and cold storage facilities, and any generator installed with Lessor's consent adjacent to the Premises, shall be and remain the property of Lessee and shall be removed prior to or upon the expiration or earlier termination of this Lease.

5. Lessor shall not make changes to the configuration of the portions of the Common Area designated "Restricted Common Area" on Exhibit A.

6. Lessee and Lessor agree that the provisions of the Lease regarding damage and destruction of the Premises and the Building and the relative rights and obligations of the parties relating to maintenance and repair are as set forth in the Lease and will supercede the provisions of any statutes pertaining to such subject matter noW or hereafter in effect. In particular, Lessee waives the provision of California Civil Code Section 1942.

IN WITNESS WHEREOF, Lessor and Lessee have executed this Addendum as of the date of the Lease.

Lessor: Robin D. Miller As Trustee for the Daniel C. Cutter Trusts	Lessee: XOMA (US) LLC a Delaware Limited Liability Company
By: Robin D. Miller Trustee	By: C L Dellio Its SR V-P Operations
Date: 11/2/01	Date: 11/2/01

All checks to be made payable to Daniel C. Cutter Marital Trust and mailed to:

PCOM.Inc.
2600 Central Avenue, Suite H
Union City, CA 94587

EXHIBIT "A"

Plan of the Premises inserted here.

STANDARD INDUSTRIAL/COMMERCIAL
MULTI-TENANT LEASE - GROSS
AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION

1. Basic Provisions ("Basic Provisions").

1.1. Parties: This Lease ("Lease"), dated for reference purposes only December 28, 201, is made by and between Temescal, L.P., a California limited partnership and Contra Costa Industrial Park, Ltd., a California limited partnership ("Lessor") and XOMA (US) LLC, a Delaware limited liability company ("Lessee"), (collectively the "Parties", or individually a "Party").

1.2. (a) Premises: That certain portion of the Project (as defined below), including all improvements therein or to be provided by Lessor under the terms of Lease, commonly known by the street address of 2850 7th Street, Second Floor, located in the City of Berkeley, County of Alameda, State of CA, with zip code 94710, as outlined on Exhibit A attached hereto ("Premises") and generally described as (describe briefly the nature of the Premises): The second floor of the building at 2850 7th Street, Berkeley in the Temescal Business Center, also designated as "Suite 200". In addition to Lessee's rights to use and occupy the Premises as hereinafter specified, Lessee shall have non-exclusive rights to the Common Areas (as defined in Paragraph 2.7 below) as hereinafter specified, but shall not have any rights to the roof, exterior walls or utility raceways of the building containing the Premises ("Building") or to any other buildings in the Project. The Premises, the Building, the Common Areas, the land upon which they are located, along with all other buildings and improvements thereon, are herein collectively referred to as the "Project." (See also Paragraph 2.)

1.2. (b) Parking: 17 unreserved vehicle parking spaces ("Unreserved Parking Spaces"); and 0 reserved vehicle parking spaces ("Reserved Parking Spaces"). (See also Paragraph 2.6.)

1.3. Term: 6 years and 4 months ("Original Term") commencing January 1, 2002 ("Commencement Date") and ending April 30, 2008 ("Expiration Date"). (See also Paragraph 3.)

1.4. Early Possession: N/A ("Early Possession Date"). (See also Paragraphs 3.2 and 3.3.)

1.5. Base Rent: $11,678.85 per month ("Base Rent"), payable on the 1st day of each month commencing 1/1/2002. (See also Paragraph 4.) There are provisions in this Lease for the Base Rent to be adjusted.

1.6. Lessee's Share of Common Area Operating Expenses: 4.8% (See Addn P 52) percent (4.8%) (Lessee's Share").

1.7. Base Rent and Other Monies Paid Upon Execution:

(a) Base Rent: $11,678.85 for the period of January, 2002.

(b) Common Area Operating Expenses: $605.57 for the period January, 2002.

(c) Security Deposit: $11,679.00 (Security Deposit"). (See also Paragraph 5.)

(d) Other: $_____ (space left blank intentionally).

(e) Total Due Upon Execution of this Lease: $23,963.42.

1.8. Agreed Use: General Office Use. (See also Paragraph 6.)

1.9. Insuring Party. Lessor is the "Insuring Party". (See also Paragraph 8.)

1.10. Real Estate Brokers: (See also Paragraph 15.)

(a) Representation: The following real estate brokers (the "Brokers") and brokerage relationships exist in this transaction:

John Norheim; Norheim & Yost represents Lessor exclusively ("Lessor's Broker");

Eli Ceryak; Aegis Realty Partners represents Lessee exclusively (Lessee's Broker").

(b) Payment to Brokers: Upon execution and delivery of this Lease by both

Parties, Lessor shall pay to the Brokers the brokerage fee agreed to in a separate written agreement (or if there is no such agreement, the sum of _____ or _____% of the total Base Rent for the brokerage services rendered by the Brokers).

1.11. Guarantor. The obligations of the Lessee under this Lease are to be guaranteed by XOMA Ltd., a Bermuda company with limited liability ("Guarantor"). (See also Paragraph 37.)

1.12. Addenda and Exhibits. Attached hereto is an Addendum or Addenda consisting of Paragraphs 50 through 57 and Exhibits A through B, all of which constitute a part of this Lease.

2. Premises.

2.1. Letting. Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, the Premises, for the term, at the rental, and upon all terms, covenants and conditions set forth in this Lease. Unless otherwise provided herein, any statement of size set forth in this Lease, or that may have been used in calculating Rent, is an approximation which the Parties agree is reasonable and any payments based thereon are not subject to revision whether or not the actual size is more or less.

2.2. Condition. Lessor shall deliver that portion of the Premises contained within the Building ("Unit") to Lessee broom clean and free of debris on the Commencement Date or the Early Possession Date, whichever first occurs ("Start Date"), warrants that the existing electrical, plumbing, fire sprinkler, lighting, heating, ventilating and air conditioning systems ("HVAC"), loading doors, if any, and all other such elements in the Unit, other than those constructed by Lessee, shall be in good operating condition on said date and that the structural elements of the roof, bearing walls and foundation of the Unit shall be free of material defects. If a non-compliance with such warranty exists as of the Start Date, or if one of such systems or elements should malfunction or fail within the appropriate warranty period, Lessor shall, as Lessor's sole obligation with respect to such matter, except as otherwise provided in this Lease, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, malfunction or failure, rectify same at Lessor's expense. The warranty periods shall be as follows: (i) 30 days as all systems and the elements of the Unit (which shall exclude the HVAC, which shall be maintained and repaired pursuant to Addendum Para. 55). If Lessee does not give Lessor the required notice within the appropriate warranty period, correction of any such non-compliance, malfunction or failure shall be the obligation of Lessee at Lessee's sole cost and expense (except for the repairs to the fire sprinkler systems, roof, foundations, and/or bearing walls - see Paragraph 7).

2.3. Compliance. Lessor warrants that the improvements on the Premises and the Common Areas comply with the building codes that were in effect at the time that each such improvement, or portion thereof, was constructed, and also with all applicable laws, covenants or restrictions of record, regulations, and ordinances in effect on the Start Date ("Applicable Requirements"). Said warranty does not apply to the use to which Lessee will put the Premises of to any Alterations or Utility Installations (as defined in Paragraph 7.3(a).) made or to be made by Lessee. Note: Lessee is responsible for determining whether or not the zoning is appropriate for Lessee's intended use, and acknowledges that past uses of the

Premises may no longer be allowed. If the Premises do not comply with said warranty, Lessor shall, except as otherwise provided, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, rectify the same at Lessor's expense. If Lessee does not give Lessor written notice of a non-compliance with this warranty within 6 months following the Start Date, correction of that non-compliance shall be the obligation of Lessee at Lessee's sole cost and expense. If the Applicable Requirements are hereafter changed so as to require during the term of this Lease the construction of an addition to or an alteration of the Unit, Premises and/or Building, the remediation of any Hazardous Substance, or the reinforcement or other physical modification of the Unit, Premises and/or Building ("Capital Expenditure"), Lessor and Lessee shall allocate the cost of such work as follows:

(a) Subject to Paragraph 2.3(c) below, if such Capital Expenditures are required as a result of the specific and unique use of the Premises by Lessee as compared with uses by tenants in general, Lessee shall be fully responsible for the cost thereof, provided, however, that if such Capital Expenditure is required during the last 2 years of this Lease and the cost thereof exceeds 6

months' Base Rent, Lessee may instead terminate this Lease unless Lessor notifies Lessee, in writing, within 10 days after receipt of Lessee's termination notice that Lessor has elected to pay the difference between the actual cost thereof and the amount equal to 6 months' Base Rent. If Lessee elects termination, Lessee shall immediately cease the use of the Premises which requires such Capital Expenditure and deliver to Lessor written notice specifying a termination date at least 90 days thereafter. Such termination date shall, however, in no event be earlier than the last day that Lessee could legally utilize the Premises without commencing such Capital Expenditure.

(b) If such Capital Expenditure is not the result of the specific and unique use of the Premises by Lessee (such as, governmentally mandated seismic modifications), then Lessor and Lessee shall allocate the obligation to pay for the portion of such costs reasonably attributable to the Premises pursuant to the formula set out in Paragraph 7.1(d); provided, however, that if such Capital Expenditure is required during the last 2 years of this Lease or if Lessor reasonably determines that it is not economically feasible to pay its share thereof, Lessor shall have the option to terminate this Lease upon 90 days prior written notice to Lessee unless Lessee notifies Lessor, in writing, within 10 days after receipt of Lessor's termination notice that Lessee will pay for such Capital Expenditure. Lessor acknowledges that Lessee's stated intended use of the Premises for general office use is not a specific and unique use as such term is used in this Paragraph 2. If Lessor does not elect to terminate, and fails to tender its share of any Capital Expenditure, Lessee may advance such funds and deduct same, with interest, from rent until Lessor's share of such costs have fully paid. If Lessee is unable to finance Lessor's share, or if the balance of the Rent due and payable for the remainder of this Lease is not sufficient to fully reimburse Lessee on an offset basis, Lessee shall have the right to terminate this Lease upon 30 days written notice to Lessor.

(c) Notwithstanding the above, the provisions concerning Capital Expenditures are intended to apply only to non-voluntary, unexpected, and new Applicable Requirements. If the Capital Expenditures are instead triggered by Lessee as a result of an actual or proposed change in use, change in intensity of use, or modification to the Premises then, and in that event, Lessee shall be fully responsible for the cost thereof, and Lessee shall not have any right to terminate this Lease.

2.4. Acknowledgments. Lessee acknowledges that: (a) it has been advised by Lessor and/or Brokers to satisfy itself with respect to the condition of the Premises (including but not limited to the electrical, HVAC and fire sprinkler systems, security, environmental aspects, and compliance with Applicable Requirements and the Americans with Disabilities Act), and their suitability for Lessee's intended use, (b) Lessee has made such investigation as it deems necessary with reference to such matters and assumes all responsibility therefor as the same relate to its occupancy of the Premises, and (c) neither Lessor, Lessor's agents, nor Brokers have made any oral or written representations or warranties with respect to said matters other than as set forth in this Lease. In addition, Lessor acknowledges that: (i) Brokers have made no representations, promises or warranties concerning Lessee's ability to honor the Lease or suitability to occupy the Premises, and (ii) it is Lessor's sole responsibility to investigate the financial capability and/or suitability of all proposed tenants.

2.5. Lessee as Prior Owner/Occupant. The warranties made by Lessor in Paragraph 2 shall be of no force or effect if immediately prior to the Start Date Lessee was the owner or occupant of the Premises. In such event, Lessee shall be responsible for any necessary corrective work.

2.6. Vehicle Parking. Lessee shall be entitled to use the number of Unreserved Parking Spaces and Reserved Parking Spaces specified in Paragraph 1.2(b) on those portions of the Common Areas designated from time to time by Lessor for parking. Lessee shall not use more parking spaces than said number. Said parking spaces shall be used for parking by vehicles no larger than full-size passenger automobiles or pick-up trucks, herein called "Permitted Size Vehicles." Lessor may regulate the loading and unloading of vehicles by adopting Rules and Regulations as provided in Paragraph 2.9. No vehicles other than Permitted Size Vehicles may be parked in the Common Area without the prior written permission of Lessor.

(a) Lessee shall not permit or allow any vehicles that belong to or are controlled by Lessee or Lessee's employees, suppliers, shippers, customers, contractors or invitees to be loaded, unloaded, or parked in areas other than those designated by Lessor for such activities.

(b) Lessee shall not service or store any vehicles in the Common Areas.

(c) If Lessee permits or allows any of the prohibited activities described in this Paragraph 2.6, then Lessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove or tow away the vehicle involved and charge the cost to Lessee, which cost shall be immediately payable upon demand by Lessor.

2.7. Common Areas - Definition. The term "Common Areas" is defined as all areas and facilities outside the Premises and within the exterior boundary line of the Project and interior utility raceways and installations within the Unit that are provided and designated by the Lessor from time to time for the general non-exclusive use of Lessor, Lessee and other tenants of the Project and their respective employees, suppliers, shippers, customers, contractors and invitees, including parking areas, loading and unloading areas, trash areas, roadways, walkways, driveways and landscaped areas. 2.8. Common Areas - Lessee's Rights. Lessor grants to Lessee, for the benefit of Lessee and its employees, suppliers, shippers, contractors, customers and invitees, during the term of this Lease, the non-exclusive right to use, in common with others entitled to such use, the Common Areas as they exist from time to time, subject to any rights, powers, and privileges reserved by Lessor under the terms hereof or under the terms of any rules and regulations or restrictions governing the use of the Project. Under no circumstances shall the right herein granted to use the Common Areas be deemed to include the right to store any property, temporarily or permanently, in the Common Areas. Any such storage shall be permitted only by the prior written consent of Lessor or Lessor's designated agent, which consent may be revoked at any time. In the event that any unauthorized storage shall occur, then Lessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove the property and charge the cost to Lessee, which cost shall be immediately payable upon demand by Lessor.

2.9. Common Areas - Rules and Regulations. Lessor or such other person(s) as Lessor may appoint shall have the exclusive control and management of the Common Areas and shall have the right, from time to time, to establish, modify, amend and enforce reasonable rules and regulations ("Rules and Regulations") for the management, safety, care and cleanliness of the grounds, the parking and unloading of vehicles and the preservation of good order, as well as for the convenience of other occupants or tenants of the Building and the Project and their invitees. Lessee agrees to abide by and conform to all such Rules and Regulations, and to cause its employees, suppliers, shippers, customers, contractors and invitees to so abide and conform. Lessor shall not be responsible to Lessee for the non-compliance with said Rules and Regulations by other tenants of the Project.

2.10. Common Areas - Changes. Lessor shall have the right, in Lessor's sole discretion, from time to time:

(a) To make reasonable changes to the Common Areas, including, without limitation, changes in the location, size, shape and number of driveways, entrances, parking spaces, parking areas, leading and unloading areas, ingress, egress, direction of traffic, landscaped areas, walkways and utility raceways, provided, however, that any such change that will meaningfully interfere with Lessee's use of the Premises shall be made only upon the approval of Lessee;

(b) To close temporarily any of the Common Areas for maintenance purposes so long as reasonable access to the Premises remains available;

(c) To designate other land outside the boundaries of the Project to be a part of the Common Areas;

(d) To add additional buildings and improvements to the Common Areas;

(e) To use the Common Areas while engaged in making additional improvements, repairs or alterations to the Project, or any portion thereof; and

(f) To do and perform such other reasonable acts and make such other changes in, to or with respect to the Common Areas and Project as Lessor may, in the exercise of sound business judgment, deem to be appropriate.

3. Term.

3.1. Term. The Commencement Date, Expiration Date and Original Term of this Lease are as specified in Paragraph 1.3.

3.2. Early Possession. If Lessee totally or partially occupies the Premises prior to the Commencement Date, the obligation to pay Base Rent shall be abated for the period of such early possession. All other terms of this Lease (including but not limited to the obligations to pay Lessee's Share of Common Area Operating Expenses, Real Property Taxes and insurance premiums and to maintain the Premises) shall, however, be in effect during such period. Any such early possession shall not affect the Expiration Date.

3.3. Delay in Possession. Lessor agrees to use its best commercially reasonable efforts to deliver possession of the Premises to Lessee by the Commencement Date. If, despite said efforts, Lessor is unable to deliver possession as agreed, Lessor shall not be subject to any liability therefor, nor shall such failure affect the validity of this Lease. Lessee shall not, however, be obligated to pay Rent or perform its other obligations until it receives possession of the Premises. If possession is not delivered with 30 days after the Commencement Date, Lessee may, at its option, by notice in writing with 10 days after the end of such 30 day period, cancel this Lease, in which event the Parties shall be discharged from all obliga-

tions hereunder. If such written notice is not received by Lessor within said 10 day period, Lessee's right to cancel shall terminate. Except as otherwise provided, if possession is not tendered to Lessee by the Start Date and Lessee does not terminate this Lease, as aforesaid, any period of rent abatement that Lessee would otherwise have enjoyed shall run from the date of delivery of possession and continue for a period equal to what Lessee would otherwise have enjoyed under the terms hereof, but minus any days of delay caused by the acts or omissions of Lessee. If possession of the Premises is not delivered within 4 months after the Commencement Date, this Lease shall terminate unless other agreements are reached between Lessor and Lessee, in writing.

3.4. Lessee Compliance. Lessor shall not be required to tender possession of the Premises to Lessee until Lessee complies with its obligation to provide evidence of insurance (Paragraph 8.5). Pending delivery of such evidence, Lessee shall be required to perform all of its obligations under this Lease from and after the Start Date, including the payment of Rent, notwithstanding Lessor's election to withhold possession pending receipt of such evidence of insurance. Further, if Lessee is required to perform any other conditions prior to or concurrent with the Start Date, the Start Date shall occur but Lessor may elect to withhold possession until such conditions are satisfied.

4. Rent.

4.1. Rent Defined. All monetary obligations of Lessee to Lessor under the terms of this Lease (except for the Security Deposit) are deemed to be rent ("Rent").

4.2. Common Area Operating Expenses. Lessee shall pay to Lessor during the term hereof, in addition to the Base Rent, Lessee's Share (as specified in Paragraph 1.6.) of all Common Area Operating Expenses, as hereinafter defined, during each calendar year of the term of this Lease, in accordance with the following provisions:

(a) "Common Area Operating Expenses" are defined, for purposes of this Lease, as all costs incurred by Lessor relating to the ownership and operation of the Project, including, but not limited to, the following:

(i) The operation, repair and maintenance, in neat, clean, good order and condition, but not the replacement (see subparagraph (e)), of the following:

(aa) The Common Areas and Common Area improvements, including parking areas, loading and unloading areas, trash areas, roadways, parkways, walkways, driveways, landscaped areas, bumpers, irrigation systems, Common Area lighting facilities, fences and gates, elevators, roofs and roof drainage systems.

(bb) Exterior signs and any tenant directories.

(cc) Any fire sprinkler systems.

(ii) The cost of water, gas, electricity and telephone to service the Common Areas and any utilities not separately metered.

(iii) Trash disposal, pest control services, property management, security services, and the costs of any environmental inspections.

(iv) Reserves set aside for maintenance and repair of Common Areas.

(v) Any increase above the Base Real Property Taxes (as defined in Paragraph 10).

(vi) Any "Insurance Cost Increase" (as defined in Paragraph 8).

(vii) Any deductible portion of an insured loss concerning the Building or the Common Areas.

(viii) The cost of any Capital Expenditure to the Building or the Project not covered under the provisions of Paragraph 2.3 provided; however, that Lessor shall allocate the cost of any such Capital Expenditure over a 12 year period and Lessee shall not be required to pay more than Lessee's Share of 1/144th of the cost of such Capital Expenditure in any given month.

(ix) Any other services to be provided by Lessor that are stated elsewhere in this Lease to be a Common Area Operating Expense.

(b) Any Common Area Operating Expenses and Real Property Taxes that are specifically attributable to the Unit, the Building or to any other building in the Project or to the operation, repair and maintenance thereof, shall be allocated entirely to such Unit, Building, or other building. However, any Common Area Operating Expenses and Real Property Taxes that are not specifically attributable to the Building or to any other building or to the operation, repair and maintenance thereof, shall be equitably allocated by Lessor to all buildings in the Project.

(c) The inclusion of the improvements, facilities and services set forth in Subparagraph 4.2(a) shall not be deemed to impose an obligation upon Lessor to either have said improvements or facilities or to provide those services unless the project already has the same, Lessor already provides the services, or Lessor has agreed elsewhere in this Lease to provide the same or some of them.

(d) Lessee's Share of Common Area Operating Expenses shall be payable by Lessee within 15 days after a reasonably detailed statement of actual expenses is presented to Lessee. At Lessor's option, however, an amount may be estimated by Lessor from time to time of Lessee's Share of annual Common Area Operating Expenses and the same shall be payable monthly, as Lessor shall designate, during each 12 month period of the Lease term, on the same day as the Base Rent is due hereunder. Lessor shall deliver to Lessee within 60 days after the expiration of each calendar year a reasonably detailed statement showing Lessee's Share of the actual Common Area Operating Expenses incurred during the preceding year. If Lessee's payments under this Paragraph 4.2(d) during the preceding year exceed Lessee's Share as indicated on such statement, Lessor shall credit the amount of such over-payment against Lessee's Share of Common Area operating Expenses next becoming due. If Lessee's payments under this Paragraph 4.2(d) during the preceding year were less than Lessee's Share as indicated on such statement, Lessee shall pay to Lessor the amount of the deficiency within 15 days after delivery by Lessor to Lessee of the statement.

(e) When a capital component such as the roof, foundations, exterior walls, HVAC or a Common Area capital improvement, such as the parking lot paving, elevators, fences, etc. requires replacement, rather than repair or maintenance, Lessor shall, at Lessor's expense, be responsible for such replacement. Such expenses and/or costs are not Common Area Operating Expenses.

4.3. Payment. Lessee shall cause payment of Rent to be received by Lessor in lawful money of the United States, without offset or deduction (except as specifically permitted in this Lease), on or before the day on which it is due. Rent for any period during the term hereof which is for less than one full calendar month shall be prorated based upon the actual number of days of said month. Payment of Rent shall be made to Lessor at its address stated herein or to such other persons or place as Lessor may from time to time designate in writing. Acceptance of a payment which is less than the amount then due shall not be a waiver of Lessor's rights to the balance of such Rent, regardless of Lessor's endorsement of any check so stating. In the event that any check, draft, or other instrument of payment given by Lessee to Lessor is dishonored for any reason, Lessee agrees to pay to Lessor the sum of $25.

5. Security Deposit. Lessee shall deposit with Lessor upon execution hereof the Security Deposit as security for Lessee's faithful performance of its obligations under this Lease. If Lessee fails to pay Rent, or otherwise Defaults under this Lease, Lessor may use, apply or retain all or any potion of said Security Deposit for the payment of any amount due Lessor or to reimburse or compensate Lessor for any liability, expense, loss or damage which Lessor may suffer or incur by reason thereof. If Lessor uses or applies all or any portion of the Security Deposit, Lessee shall within 15 days after written request therefor deposit monies with Lessor sufficient to restore said Security Deposit to the full amount required by this Lease. Should

the Agreed Use be amended to accommodate a material change in the business of Lessee or to accommodate a sublessee or assignee, Lessor shall have the right to increase the Security Deposit to the extent necessary, in Lessor's reasonable judgment, to account for any increase wear and tear that the Premises may suffer

as a result thereof. Lessor shall not be required to keep the Security Deposit separate from its general accounts. Within 14 days after the expiration or termination of this Lease, if Lessor elects to apply the Security Deposit only to unpaid Rent, and otherwise within 21 days after the Premises have been vacated pursuant to Paragraph 7.4(c) below, Lessor shall return that portion of the Security Deposit not used or applied by Lessor. No part of the Security Deposit shall be considered to be held in trust, to bear interest or to be prepayment for any monies to be paid by Lessee under this Lease.

6. Use.

6.1. Use. Lessee shall use and occupy the Premises only for the Agreed Use, or any other legal use which is reasonably comparable thereto, and for no other purpose. Lessee shall not use or permit the use of the Premises in a manner that is unlawful, creates damage, waste or a nuisance, or that disturbs occupants of or causes damage to neighboring premises or properties. Lessor shall not unreasonably withhold or delay its consent to any written request for a modification of the Agreed Use, so long as the same will not impair the structural integrity of the improvements on the Premises or the mechanical or electrical systems therein, and/or is not significantly more burdensome to the Premises. If Lessor elects to withhold consent, Lessor shall within 7 days after such request give written notification of same, which notice shall include an explanation of Lessor's objections to the change in the Agreed Use.

6.2. Hazardous Substances.

(a) Reportable Uses Require Consent. The term "Hazardous Substance" as used in this Lease shall mean any product, substance, or waste whose presence, use, manufacture, disposal, transportation, or release, either by itself or in combination with other materials expected to be on the Premises, is either: (i) potentially injurious to the public health, safety or welfare, the environment or the Premises, (ii) regulated or monitored by any governmental authority, or (iii) a basis for potential liability of Lessor to any governmental agency or third party under any applicable statute or common law theory. Hazardous Substances shall include, but not limited to, hydrocarbons, petroleum, gasoline, and/or crude oil or any products, by-products or fractions thereof. Lessee shall not engage in any activity in or on the Premises which constitutes a Reportable Use of Hazardous Substances without the express prior written consent of Lessor and timely compliance (at Lessee's expense) with all Applicable Requirements. "Reportable Use" shall mean (i) the installation or use of any above or below ground storage tank, (ii) the generation, possession, storage, use, transportation, or disposal of a Hazardous Substance that requires a permit from, or with respect to which a report,

notice, registration or business plan is required to be filed with, any governmental authority, and/or (iii) the presence at the Premises of a Hazardous Substance with respect to which any Applicable Requirements requires that a notice be given to persons entering or occupying the Premises or neighboring properties. Notwithstanding the foregoing, Lessee may use any ordinary and customary materials reasonably required to be used in the normal course of the Agreed Use, so long as such use is in compliance with all Applicable Requirements, is not a Reportable Use, and does not expose the Premises or neighboring property to any meaningful risk of contamination or damage or expose Lessor to any liability therefor. In addition, Lessor may condition its consent to any Reportable Use upon receiving such additional assurances as Lessor reasonably deems necessary to protect itself, the public, the Premises and/or the environment against damage, contamination, injury and/or liability, including, but not limited to, the installation (and removal on or before Lease expiration or termination) of protective modifications (such as concrete encasements) and/or increasing the Security Deposit.

(b) Duty to Inform Lessor. If Lessee knows, or has reasonable cause to believe, that a Hazardous Substance has come to be located in, on, under or about the Premises, other than as previously consented to by Lessor, Lessee shall immediately give written notice of such fact to Lessor, and provide Lessor with a copy of any report, notice, claim or other documentation which it has concerning the presence of such Hazardous Substance.

(c) Lessee Remediation. Lessee shall not cause or permit any Hazardous Substance to be spilled or released in, on, under or about the Premises (including through the plumbing or sanitary sewer system) and shall promptly, at Lessee's expense, take all investigatory and/or remedial action reasonably recommended, whether or not formally ordered or required, for the cleanup of any contamination of, and for the maintenance, security and/or monitoring of the Premises and neighboring properties, that was caused or materially contributed to by Lessee, or pertaining to or involving any Hazardous Substance brought onto the Premises during the term of this Lease, by or for Lessee, or any third party.

(d) Lessee Indemnification. Lessee shall indemnify, defend and hold Lessor, its agents, employees, lenders and ground lessor, if any, harmless from and

against any and all loss of rents and/or damages, liabilities, judgments, claims, expenses, penalties, and attorneys' and consultants' fees arising out of or involving any Hazardous Substance brought onto the Premises by or for Lessee, or any third party present at the invitation of Lessee (provided, however, that Lessee shall have no liability under this Lease with re-

spect to underground migration of any Hazardous Substance under the Premises from areas outside of the Project). Lessee's obligations shall include, but not limited to, the effects of any contamination or injury to person, property or the environment created or suffered by Lessee, and the cost of investigation, removal, remediation, restoration and/or abatement, and shall survive the expiration or termination of this Lease. No termination, cancellation or release agreement entered into by Lessor and Lessee shall release Lessee from its obligations under this Lease with respect to Hazardous Substances, unless specifically so agreed by Lessor in writing at the time of such agreement.

(e) Lessor Indemnification. Lessor and its successors and assigns shall indemnify, defend, reimburse and hold Lessee, its employees and lenders, harmless from and against any and all environmental damages, including the cost of remediation, which existed as a result of Hazardous Substances on the Premises prior to the Start Date or which are caused by the gross negligence or willful misconduct of Lessor, its agents or employees. Lessor's obligations, as and when required by the Applicable Requirements, shall include, but not be limited to, the cost of investigation, removal, remediation, restoration and/or abatement, and shall survive the expiration or termination of this Lease.

(f) Investigations and Remediations. Lessor shall retain the responsibility and pay for any investigations or remediation measures required by governmental entities having jurisdiction with respect to the existence of Hazardous Substances on the Premises prior to the Start Date, unless such remediation measure is required as a result of Lessee's use (including "Alterations", as defined in paragraph 7.3(a) below) of the Premises, in which event Lessee shall be responsible for such payment. Lessee shall cooperate fully in any such activities at the request of Lessor, including allowing Lessor and Lessor's agents to have reasonable access to the Premises at reasonable times in order to carry out Lessor's investigative and remedial responsibilities.

(g) Lessor Termination Option. Is a Hazardous Substance Condition (see Paragraph 9.1(e)) occurs during the term of this Lease, unless Lessee is legally responsible therefor (in which case Lessee shall make the investigation and remediation thereof required by the Applicable Requirements and this Lease shall continue in full force and effect, but subject to Lessor's rights under Paragraph 6.2(d) and Paragraph 13), Lessor may, at Lessor's option, either (i) investigate and remediate such Hazardous Substance Condition, if required, as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) if the estimated cost to remediate such condition exceeds 12 times the then monthly Base Rent or $100,000, whichever is greater, give written notice to Lessee, within 30 days after receipt by Lessor of knowledge of the occurrence of such Hazardous Substance Condition, of Lessor's desire to terminate this Lease as of the date 90 days following the date of such notice. In the event Lessor elects to give a termination notice, Lessee may, within 15 days thereafter, give written notice to Lessor of Lessee's commitment to pay the amount by which the cost of the remediation of such Hazardous Substance Condition exceeds an amount equal to 12 times the then monthly Base Rent or $100,000, whichever is greater. Lessee shall provide Lessor with satisfactory assurance

thereof within 30 days following such commitment. In such event, this Lease shall continue in full force and effect, and Lessor shall proceed to make such remediation as soon as reasonably possible after the required funds are available. If Lessee does not give such notice and provide the required funds or assurance thereof within the time provided, this Lease shall terminate as of the date specified in Lessor's notice of termination.

6.3. Lessee's Compliance with Applicable Requirements. Except as otherwise provided in this Lease, Lessee shall, at Lessee's sole expense, fully, diligently and in a timely manner, materially comply with all Applicable Requirements, the requirements of any applicable fire insurance underwriter or rating bureau, and the recommendations of Lessor's engineers and/or consultants which relate in any manner to the Premises, without regard to whether said requirements are now in effect or become effective after the Start Date. Lessee shall, within 15 days after receipt of Lessor's written request, provide Lessor with copies of all permits and other documents, and other information evidencing Lessee's compliance with any Applicable Requirements specified by Lessor, and shall promptly upon receipt, notify Lessor in writing (with copies of any documents involved) of any threatened or actual claim, notice, citation, warning, complaint or report pertaining to or involving the failure of Lessee or

the Premises to comply with any Applicable Requirements.

6.4. Inspection; Compliance. Lessor and Lessor's "Lender" (as defined in Paragraph 30) and consultants shall have the right to enter into Premises at any time, in the case of an emergency, and otherwise at reasonable times, for the purpose of inspecting the condition of the Premises and for verifying compliance by Lessee with this Lease. The cost of any such inspections shall be paid by Lessor, unless a violation of Applicable Requirements, or a contamination is found to exist or be imminent, or the inspection is requested or ordered by a governmental authority. In such case, Lessee shall upon request reimburse Lessor for the cost of such inspection, so long as such inspection is reasonably related to the violation or contamination.

7. Maintenance; Repairs; Utility Installations; Trade Fixtures and Alterations.

7.1. Lessee's Obligations.

(a) In General. Subject to the provisions of Paragraph 2.2 (Condition), 2.3 (Compliance), 6.3 (Lessee's Compliance with Applicable Requirements), 7.2 (Lessor's Obligations), 9 (Damage or Destruction), and 14 (Condemnation), Lessee shall, at Lessee's sole expense, keep the Premises, Utility Installations (intended for Lessee's exclusive use, no matter where located), and Alterations in good order, condition and repair, including, but not limited to, all equipment or facilities (but exclusive of HVAC as set forth in Addendum Para. 55), such as plumbing (which shall be defined to end at the point at which the relevant pipe(s) meet(s) the pipes of any other unit in the Building), electrical, lighting facilities, fixtures, interior walls, interior surfaces of exterior walls, ceilings, floors, windows, doors, and plate glass but excluding any items which are the responsibility of Lessor pursuant to Paragraph 7.2. Lessee, in keeping the Premises in good order, condition and repair, shall exercise and perform good maintenance practices. Lessee's obligations shall include restorations, replacements or

renewals when necessary to keep the Premises and all improvements thereon or a part thereof in good order, condition and state of repair.

(b) Service Contracts. Lessee shall, at Lessee's sole expense, procure and maintain contracts, in customary form and substance for, and with contractors specializing and experienced in the maintenance of the following equipment and improvements, if any, if and when installed on the premises: (i) the alarm equipment (if use of the alarm is desired by Lessee), if reasonably required by Lessor. However, in addition to the provisions of Para. 55, Lessor reserves the right, upon notice to Lessee, to procure and maintain any or all of such service contracts.

(c) Failure to Perform. If Lessee fails to perform Lessee's obligations under this Paragraph 7.1, Lessor may enter upon the Premises after 15 days' prior written notice to Lessee (except in the case of an emergency, in which case not notice shall be required), perform such obligations on Lessee's behalf, and put the Premises in good order, condition and repair, and Lessee shall promptly reimburse Lessor for the cost thereof.

(d) Replacement. Subject to Lessee's indemnification of Lessor as set forth in Paragraph 8.7 below, and without relieving Lessee of liability resulting from Lessee's failure to exercise and perform good maintenance practices, if an item described in Paragraph 7.1(b) cannot be repaired other than at a cost which is in excess of 50% of the cost of replacing such item, then such item shall be replaced by Lessor, and the cost thereof shall be prorated between the Parties and Lessee shall only be obligated to pay, each month during the remainder of the term of this Lease, on the date on which Base Rent is due, an amount equal to the product of multiplying the cost of such replacement by a fraction, the numerator of which is one, and the denominator of which is 144 (i.e. 1/144th of the cost per month).

7.2. Lessor's Obligations. Subject to the provisions of Paragraphs 2.2 (Condition), 2.3 (Compliance), 4.2 (Common Area Operating Expenses), 6 (Use), 7.1 (Lessee's Obligations), 9 (Damage or Destruction) and 14 (Condemnation), Lessor, subject to reimbursement pursuant to Paragraph 4.2, shall keep in good order, condition and repair the foundations, exterior walls, structural condition of interior bearing walls, exterior roof, fire sprinkler system, Common Area fire alarm and/or smoke detection systems, fire hydrants, parking lots, walkways, parkways, driveways, landscaping, fences, signs and utility systems serving the Common Areas and all parts thereof, as well as providing the services for which there is a Common Area Operating Expense pursuant to Paragraph 4.2. Lessor shall not be obligated to paint the exterior or interior surfaces of exterior walls nor shall Lessor be obligated to maintain, repair or replace windows, doors or plate glass of the Premises. Lessor (except as to matters governed by the laws concerning Unlawful Detainer actions) and Lessee expressly waives the benefit of any statue now or hereafter in effect to the extent it is inconsistent with the terms of this Lease.

7.3. Utility Installations; Trade Fixtures; Alterations.

(a) Definitions. The term "Utility Installations" refers to all floor and window coverings, air lines, power panels, electrical distribution, security and fire protection systems, communication systems, lighting fixtures, HVAC equipment, plumbing, and fencing in or on the Premises. The term "Trade Fixtures" shall mean Lessee's machinery and equipment that can be removed without doing material damage to the Premises. The term "Alterations" shall mean any modification of the improvements, other than Utility Installations or Trade Fixtures, whether by addition or deletion. "Lessee Owned Alterations and/or Utility Installations" are defined as Alterations and/or Utility Installations made by Lessee that are not yet owned by Lessor pursuant to Paragraph 7.4(a).

(b) Consent. Lessee shall not make any Alterations or Utility Installations to the Premises without Lessor's prior written consent, which shall not be unreasonably withheld. Lessee may, however, make non-structural Utility Installations to the interior of the Premises (excluding the roof) without such consent but upon notice to Lessor, as long as they are not visible from the outside, do not involve puncturing, relocating or removing the roof or any existing walls, and the cumulative cost thereof during this Lease as extended does not exceed a sum equal to 3 month's Base Rent in the aggregate or a sum equal to one month's Base Rent in any one year. Notwithstanding the foregoing, Lessee shall not make or permit any roof penetrations and/or install anything on the roof without the prior written approval of Lessor. Lessor may, as a precondition to granting such approval, require Lessee to utilize a licensed contractor. Any Alterations or Utility Installations that Lessee shall desire to make and which require the consent of the Lessor shall be presented to Lessor in written form with detailed plans. If set forth in writing by Lessor in Lessor's consent to any proposed Alterations or Utility Installation, Consent may be deemed conditioned upon Lessee's: (i) acquiring all applicable governmental permits, (ii) furnishing Lessor with copies of both the permits and the plans and specifications prior to commencement of the work, and (iii) compliance with all conditions of said permits and other Applicable Requirements in a prompt and expeditious manner. Any Alterations or Utility Installations shall be performed in a workmanlike manner with good and sufficient materials. Upon the termination of this Lease, Lessee shall promptly furnish Lessor with as-built plans and specifications upon the request of Lessor. For work which cost an amount in excess of five month's Base Rent, Lessor may condition its consent upon Lessee providing a lien and completion bond in an amount equal to 100% of the estimated cost of such Alteration or Utility Installation unless Lessee can reasonably demonstrate the financial ability to complete the proposed work.

(c) Indemnification. Lessee shall pay, when due, all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for use on the Premises, which claims are or may be secured by any mechanic's or materialmen's lien against the Premises or any interest therein. Lessee shall give Lessor not less than 10 days notice prior to

the commencement of any work on, in or about the Premises, and Lessor shall have the right to post notices of non-responsibility. If Lessee shall contest the validity of any such lien or claim, then Lessee shall, at its sole expense defend and protect itself, Lessor and the Premises against the same and shall pay and satisfy any such adverse judgment that may be rendered thereon before the enforcement thereof. If Lessor shall require, Lessee shall furnish a surety bond in an amount as required by law to release the title from such contested lien or claim, indemnifying Lessor against liability for the same.

7.4. Ownership; Removal; Surrender; and Restoration.

(a) Ownership. Subject to Lessor's right to require removal or elect ownership as hereinafter provided, all Alterations and Utility Installations made by Lessee shall be the property of Lessee, but considered a part of the Premises. Lessor may, at the time Lessor provides consent to any proposed Alteration or Utility Installation, further condition such consent on Lessee's agreement that upon completion of the Alteration or Utility Installation, Lessor shall be the owner of all or any specified part of the Lessee Owned Alterations and Utility Installations. Unless otherwise instructed per paragraph 7.4(b) hereof, all Lessee Owned Alterations and Utility Installations shall, at the expiration or termination of this Lease, become the property of Lessor and be surrendered by Lessee with the Premises.

(b) Removal. By delivery to Lessee of written notice from Lessor not earlier than 90 and not later than 60 days prior to the end of the term of this Lease, Lessor may require that any or all Lessee Owned Alterations or Utility Installations be removed by the expiration or termination of this Lease. Lessor may require the removal at any time of all or any part of any Lessee Owned

Alterations or Utility Installations made without the required consent.

(c) Surrender; Restoration. Lessee shall surrender the Premises by the Expiration Date or any earlier termination date, with all of the improvements, parts and surfaces thereof broom clean and free of debris, and in good operating order, condition and state of repair, ordinary wear and tear excepted. "Ordinary wear and tear" shall not include any damage or deterioration that would have been prevented by good maintenance practice. Notwithstanding the foregoing, if this Lease is for 12 months or less, then Lessee shall surrender the Premises in the same condition as delivered to Lessee on the Start Date with no allowance for ordinary wear and tear. Lessee shall repair any damage occasioned by the installation, maintenance or removal of Trade Fixtures, Lessee owned Alterations and/or Utility Installations, furnishings, and equipment as well as the removal of any storage tank installed by or for Lessee. Lessee shall also completely remove from the Premises any and all Hazardous Substance brought onto the Premises by or for Lessee, or any third party (except Hazardous Substances which were deposited via underground migration from areas outside of the Project) even if such removal would require Lessee to perform or pay for work that exceeds statutory require-

ments. Trade Fixtures shall remain the property of Lessee and shall be removed by Lessee. The failure by Lessee to timely vacate the Premises pursuant to this Paragraph 7.4(c) without the express written consent of Lessor shall constitute a holdover under the provisions of Paragraph 26 below.

8. Insurance; Indemnity.

8.1. Payment of Premium Increases.

(a) As used herein, the term "Insurance Cost Increase" is defined as any increase in the actual cost of the insurance applicable to the Building and/or the Project and required to be carried by Lessor, pursuant to Paragraphs 8.2(b), 8.3(a) and 8.3(b), (Required Insurance"), over and above the Base Premium, as hereinafter defined, calculated on an annual basis. Insurance Cost Increase shall include, but not limited to, requirements of the holder of a mortgage or deed of trust covering the Premises, Building and/or Project, increased valuation of the Premises, Building and/or Project, and/or a general premium rate increase. The term Insurance Cost Increase shall not, however, include any premium increases resulting from the nature of the occupancy of any other tenant of the Building. If the parties insert a dollar amount in Paragraph 1.9, such amount shall be considered the "Base Premium." The Base Premium shall be the annual premium applicable to the 12 month period immediately preceding the Start Date. If, however, the Project was not insured for the entirety of such 12 month period, then the Base Premium shall be the lowest annual premium reasonably obtainable for the Required Insurance as of the Start Date, assuming the most nominal use possible of the Building. In no event, however, shall Lessee be responsible for any portion of the premium cost attributable to liability insurance coverage in excess of $2,000,000 procured under Paragraph 8.2(b).

(b) Lessee shall pay any Insurance Cost Increase to Lessor pursuant to Paragraph 4.2. Premiums for policy periods commencing prior to, or extending beyond, the term of this Lease shall be prorated to coincide with the corresponding Start Date or Expiration Date.

8.2. Liability Insurance.

(a) Carried by Lessee. Lessee shall obtain and keep in force a Commercial General Liability policy of insurance protecting Lessee and Lessor as an additional insured against claims for bodily injury, personal injury and property damage based upon or arising out of the ownership, use, occupancy or maintenance of the Premises and all areas appurtenant thereto. Such insurance shall be on a reporting basis that is commercially reasonable and available, based on market conditions at the time of policy placement. Claims Made coverage is acceptable provided such coverage includes Tail Coverage (Extended Reporting Period) purchased for at least twelve (12) months should coverage be cancelled or non-renewed. Such

coverage should provide single limit coverage in an amount not less than $2,000,000 per occurrence with an annual aggregate of not less than $5,000,000, an "Additional Insured-Managers or Lessors of Premises Endorsement" and contain the "Amendment of the Pollution Exclusion Endorsement" for damage caused by heat, smoke or fumes from a hostile fire. The policy shall not contain any intra-insured exclusions as between insured persons or organizations, but shall include coverage for liability assumed under this lease as an "insured contract" for the performance of Lessee's indemnity obligations under this Lease. The limits of said insurance shall not, however, limit the liability of Lessee nor relieve Lessee of any obligation hereunder. All insurance carried by Lessee

shall be primary to and not contributory with any similar insurance carried by Lessor, whose insurance shall be considered excess insurance only.

(b) Carried by Lessor. Lessor shall maintain liability insurance as described in Paragraph 8.2(a), in addition to, and not in lieu of, the insurance required to be maintained by Lessee. Lessee shall not be named as an additional insured therein.

8.3. Property Insurance - Building, Improvements and Rental Value.

(a) Building and Improvements. Lessor shall obtain and keep in force a policy or policies of insurance in the name of Lessor, with loss payable to Lessor, any ground-lessor, and to any Lender insuring loss or damage to the Premises. The amount of such insurance shall be equal to the full replacement cost of the Premises, as the same shall exist from time to time, or the amount required by any Lender, but in no event more than the commercially reasonable and available insurable value thereof. Lessee Owned Alterations and Utility Installations, Trade Fixtures, and Lessee's personal property shall be insured by Lessee under Paragraph 8.4. If the coverage is available and commercially appropriate, such policy or policies shall insure against all risks of direct physical loss or damage (except the perils of flood and/or earthquakes unless required by a Lender), including coverage for debris removal and the enforcement of any Applicable Requirements requiring the upgrading, demolition, reconstruction or replacement of any portion of the Premises as the result of a covered loss. Said policy or policies shall also contain an agreed valuation provision in lieu of any coinsurance clause, waiver of subrogation, and inflation guard protection causing an increase in the annual property insurance coverage amount by a factor of not less than the adjusted U.S. Department of Labor Consumer Price Index for All Urban Consumers for the city nearest to where the Premises are located. If such insurance coverage has a deductible clause, the deductible amount shall not exceed $1,000 per occurrence.

(b) Rental Value. Lessor shall also obtain and keep in force a policy or policies in the name of Lessor with loss payable to Lessor and any Lender, insuring the loss of the full Rent for one year with an extended period of indemnity for an additional 180 days ("Rental Value insurance"). Said insurance shall contain an agreed valuation provision in lieu

of any coinsurance clause, and the amount of coverage shall be adjusted annually to reflect the projected Rent otherwise payable by Lessee, for the next 12 month period.

(c) Adjacent Premises. Lessee shall pay for any increase in the premiums for the property insurance of the Building and for the Common Areas or other buildings in the Project if said increase is caused by Lessee's acts, omissions, use or occupancy of the Premises.

(d) Lessee's Improvements. Since Lessor is the Insuring Party, Lessor shall not be required to insure Lessee Owned Alterations and Utility Installations unless the item in question has become the property of Lessor under the terms of this Lease.

8.4. Lessee's Property; Business Interruption Insurance.

(a) Property Damage. Lessee shall obtain and maintain insurance coverage on all of Lessee's personal property, Trade Fixtures, and Lessee Owned Alterations and Utility Installations. Such insurance shall be full replacement cost coverage with a deductible of not to exceed $25,000 per occurrence. The proceeds from any such insurance shall be used by Lessee for the replacement of personal property, Trade Fixtures and Lessee Owned Alterations and Utility Installations. Lessee shall provide Lessor with written evidence that such insurance is in force. Lessee shall notify Lessor of any claim against Lessee made under such policies maintained by Lessee under this Lease, within thirty (30) days of such claim being made, where such claim exceeds $25,000.

(b) Business Interruption. Lessee shall obtain and maintain loss of income and extra expense insurance in amounts as will reimburse Lessee for direct or indirect loss of earnings attributable to all perils commonly insured against by prudent lessees in the business of Lessee or attributable to prevention of access to the Premises as a result of such perils.

(c) No Representation of Adequate Coverage. Lessor makes no representation that the limits or forms of coverage of insurance specified herein are adequate to cover Lessee's property, business operations and obligations under this Lease.

8.5. Insurance Policies. Insurance required herein shall be by companies duly licensed or admitted to transact business in the state where the Premises are located, and maintaining during the policy term a "General Policyholders Rating" of at least B+, V, as set forth in the most current issue of "Best's Insurance Guide", or such other rating as may be required by a Lender. Lessee

shall not do or permit to be done anything which invalidates the required insurance policies. Lessee shall, prior to the Start Date, deliver to Lessor certified copies of policies of such insurance or certificates evidencing the existence and amounts of the required insurance. No such policy shall be cancelable or subject to modification except after 30 days prior written notice to Lessor. Lessee shall, not later than 10 days prior to the

expiration of such policies, furnish Lessor with evidence of renewals or "insurance binders" evidencing renewal thereof, or Lessor may order such insurance and charge the cost thereof to Lessee, which amount shall be payable by Lessee to Lessor upon demand. Such policies shall be for a term of at least one year, or the length of the remaining term of this Lease, whichever is less. If either Party shall fail to procure and maintain the insurance required to be carried by it, the other Party may, but shall not be required to, procure and maintain the same.

8.6. Waiver of Subrogation. Without affecting any other rights or remedies, Lessee and Lessor each hereby release and relieve the other, and waive their entire right to recover damages against the other, for loss of or damage to its property arising out of or incident to perils required to be insured against herein. The effect of such releases and waivers is not limited by the amount of insurance carried or required, or by any deductibles applicable hereto. The Parties agree to have their respective property damage insurance carries waive any right to subrogation that such companies may have against Lessor or Lessee, as the case may be, so long as the insurance is not invalidated thereby.

8.7. Indemnity. Except for Lessor's gross negligence or willful misconduct, Lessee shall indemnify, protect, defend and hold harmless the Premises, Lessor and its agents, Lessor's master or ground lessor, partners and Lenders, from and against any and all claims, loss rents and/or damages, liens, judgments, penalties, attorneys' and consultants' fees, expenses and/or liabilities arising out of, involving, or in connection with, the use and/or occupancy of the Premises by Lessee. If any action or proceeding is brought against Lessor by reason of any of the foregoing matters, Lessee shall upon notice defend the same at Lessee's expense by counsel reasonably satisfactory to Lessor and Lessor shall cooperate with Lessee in such defense. Lessor need not have first paid any such claim in order to be defended or indemnified.

8.8. Exemption of Lessor from Liability. Lessor shall not be liable for injury or damage to the person or goods, wares, merchandise or other property of Lessee, Lessee's employees, contractors, invitees, customers, or any other person in or about the Premises, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, fire sprinklers, wires, appliances, plumbing, HVAC or lighting fixtures, or from any other cause, whether the said injury or damage results from conditions arising upon the Premises or upon other portions of the Building, or from other sources or places. Lessor shall not be liable for any damages arising from any act or neglect of any other tenant of Lessor nor from the failure of Lessor to enforce the provisions of any other lease in the Project. Notwithstanding Lessor's negligence or breach of this Lease, Lessor shall under no circumstances be liable for injury to Lessee's business or for any loss of income or profit therefrom.

9. Damage or Destruction.

9.1. Definitions.

(a) "Premises Partial Damage" shall mean damage or destruction to the improvements on the Premises, other than Lessee Owned Alterations and Utility Installations, which can reasonably be repaired in 3 months or less from the date of the damage or destruction, and the cost thereof does not exceed a sum equal to 6 month's Base Rent. Lessor shall notify Lessee in writing within 15 days from the date of the damage or destruction as to whether or not the damage is Partial or Total.

(b) "Premises Total Destruction" shall mean damage or destruction to the improvements on the Premises, other than Lessee Owned Alterations and Utility Installations and Trade Fixtures, which cannot reasonably be repaired in 3 months or less from the date of the damage or destruction and/or the cost thereof exceeds a sum equal to 6 month's Base Rent. Lessor shall notify Lessee in writing within 15 days from the date of the damage or destruction as to whether or not the damage is Partial Total. (c) "Insured Loss" shall mean damage or destruction to improvements on the Premises, other than Lessee Owned Alterations and Utility Installations and Trade Fixtures, which was caused by an event required to be covered by the insurance described in Paragraph 8.3(a), irrespective of any deductible amounts or coverage limits involved.

(d) "Replacement Cost" shall mean the cost to repair or rebuild the improvements owned by Lessor at the time of the occurrence to their condition existing immediately prior thereto, including demolition, debris removal and upgrading required by the operation of Applicable Requirements, and without deduction for depreciation.

(e) "Hazardous Substance Condition" shall mean the occurrence or discovery of a condition involving the presence of, or a contamination by, a Hazardous Substance as defined in Paragraph 6.2(a), in, on, or under the Premises.

9.2. Partial Damage - Insured Loss. If a Premise Partial Damage that is an Insured Loss occurs, then Lessor shall, at Lessor's expense, repair such damage (but not Lessee's Trade Fixtures or Lessee Owned Alterations and Utility Installations) as soon as reasonably possible and this Lease shall continue in full force and effect; provided, however, that Lessee shall, at Lessor's election, make the repair of any damage or destruction the total cost to repair of which is $2,000 or less, and, in such event, Lessor shall make any applicable insurance proceeds available to Lessee on a reasonable basis for that purpose. Notwithstanding the foregoing, if the required insurance was not in full force or the insurance proceeds are not sufficient to effect such repair, the Insuring Party shall promptly contribute the shortage in proceeds as and when required to complete said repairs. In the event, however, such shortage was due to the fact that, by reason of the unique nature of the improvements, full replacement insurance coverage was not commercially reasonable and available, Lessor shall have no obli-

gation to pay for the shortage in insurance proceeds or to fully restore the unique aspects of the Premises unless Lessee provides Lessor with the funds to cover same, or adequate assurance thereof, within 10 days following receipt of written notice of such shortage and request therefor. If Lessor receives said funds or adequate assurance thereof within said 10 day period, the party responsible for making the repairs shall complete them as soon as reasonably possible and this Lease shall remain in full force and effect. If such funds or assurance are not received, Lessor may nevertheless elect by written notice to Lessee within 10 days thereafter to: (i) make such restoration and repair as is commercially reasonable with Lessor paying any shortage in proceeds, in which case this Lease shall remain in full force and effect, or (ii) have this Lease terminate 30 days thereafter. Lessee shall not be entitled to reimbursement of any funds contributed by Lessee to repair any such damage or destruction. Premises Partial Damage due to flood or earthquake shall be subject to Paragraph 9.3, notwithstanding that there may be some insurance coverage, but the net proceeds of any such insurance shall be made available for the repairs if made by either Party.

9.3. Partial Damage - Uninsured Loss. If a Premises Partial Damage that is not an Insured Loss occurs, unless caused by a negligent or willful act of Lessee (in which event Lessee shall make the repairs at Lessee's expense), Lessor may either: (i) repair such damage as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) terminate this Lease by giving written notice to Lessee within 30 days after receipt by Lessor of knowledge of the occurrence of such damage. Such termination shall be effective 60 days following the date of such notice. In the event Lessor elects to terminate this Lease, Lessee shall have the right within 15 days after receipt of the termination notice to give written notice to Lessor of Lessee's commitment to pay for the repair of such damage without reimbursement from Lessor. Lessee shall provide with said funds or satisfactory assurance thereof within 30 days after making such commitment. In such event this Lease shall continue in full force and effect, and Lessor shall proceed to make such repairs as soon as reasonably possible after the required funds are available. If Lessee does not make the required commitment, this Lease shall terminate as of the date specified in the termination notice.

9.4. Total Destruction. Notwithstanding any other provision hereof, if a Premises Total Destruction occurs, this Lease shall terminate 30 days following such Destruction. If the damage or destruction was caused by the gross negligence or willful misconduct of Lessee, Lessor shall have the right to recover Lessor's damages from Lessee, except as provided in Paragraph 8.6.

9.5. Damage Near End of Term. If at any time during the last 6 months of this Lease there is damage for which the cost to repair exceeds one month's Base Rent, whether or not an Insured Loss, Lessor may terminate this Lease effective 60 days following the date of occurrence of such damage by giving a written termination notice to Lessee within

30 days after the date of occurrence of such damage. Notwithstanding the foregoing, if Lessee at that time has an exercisable option to extend this Lease

or to purchase the Premises, then Lessee may preserve this Lease by, (a) exercising such option and (b) providing Lessor with any shortage in insurance proceeds (or adequate assurance thereof) needed to make the repairs on or before the earlier of (i) the date which is 15 days after Lessee's receipt of Lessor's written notice purporting to terminate this Lease, or (ii) the day prior to the date upon which such option expires. If Lessee duly exercises such option during such period and provides Lessor with funds (or adequate assurance thereof) to cover any shortage in insurance proceeds, Lessor shall, at Lessor's commercially reasonable expense, repair such damage as soon as reasonably possible and this Lease shall continue in full force and effect. If Lessee fails to exercise such option and provide such funds or assurance during such period, then this Lease shall terminate on the date specified in the termination notice and Lessee's option shall be extinguished.

9.6. Abatement of Rent; Lessee's Remedies.

(a) Abatement. In the event of Premises Partial Damage or Premises Total Destruction or a Hazardous Substance Condition for which Lessee is not responsible under this Lease, the Rent payable by Lessee for the period required for the repair, remediation or restoration of such damage shall be abated in proportion to the degree to which Lessee's use of the Premises is impaired, but not to exceed the proceeds received from the Rental Value insurance. All other obligations of Lessee hereunder shall be performed by Lessee, and Lessor shall have no liability for any such damage, destruction, remediation, repair or restoration except as provided herein.

(b) Remedies. If Lessor shall be obligated to repair or restore the Premises and does not commence, in a substantial and meaningful way, such repair or restoration within 40 days after such obligation shall accrue, Lessee may, at any time prior to the commencement of such repair or restoration, give written notice to Lessor and to any Lenders of which Lessee has actual notice, of Lessee's elections to terminate this Lease on a date not less than 30 days following the giving of such notice. If Lessee gives such notice and such repair or restoration is not commenced within 30 days thereafter, this Lease shall terminate as of the date specified in said notice. If the repair or restoration is commenced within such 30 days, this Lease shall continue in full force and effect. "Commence" shall mean either the unconditional authorization of the preparation of the required plans, or the beginning of the actual work on the Premises, whichever first occurs.

9.7. Termination; Advance Payments. Upon termination of this Lease pursuant to Paragraph 6.2(g) or Paragraph 9, an equitable adjustment shall be made concerning advance Base Rent and any other advance payments made by Lessee to Lessor. Lessor shall, in addition return to Lessee so much of Lessee's Security Deposit as has not been, or is not then required to be, used by Lessor.

9.8. Waive Statutes. Lessor and Lessee agree that the terms of this Lease shall govern the effect of any damage to or destruction of the Premises with respect to the termination of this Lease and hereby waive the provisions of any present or future statute to the extent inconsistent herewith.

10. Real Property Taxes.

10.1. Definitions.

(a) "Real Property Taxes." As used herein, the term "Real Property Taxes" shall include any form of assessment; real estate, general, special, ordinary or extraordinary, or rental levy or tax (other than inheritance, personal income or estate taxes); improvement bond; and/or license fee imposed upon or levied against any legal or equitable interest of Lessor in the Project, Lessor's right to other income therefrom, and/or Lessor's business of leasing, by any authority having the direct or indirect power to tax and where the funds are generated with reference to the Project address and where the proceeds so generated are to be applied by the city, country or other local taxing authority of a jurisdiction within which the Project is located. The term "Real Property Taxes" shall also include any tax, fee, levy, assessment or charge, or any increase therein, imposed by reason of events occurring during the term of this Lease, including but not limited to, a change in the ownership of the Project or any portion thereof or a change in the improvements thereon.

(b) "Base Real Property Taxes." As used herein, the term "Base Real Property Taxes" shall be the amount of Real Property Taxes, which are assessed against the Premises, Building, Project or Common Areas in the calendar year during which the Lease is executed. In calculating Real Property Taxes for any calendar year, the Real Property Taxes for any real estate tax year shall be included in the calculation of Real Property Taxes for such calendar year based upon the number of days which such calendar year and tax year have in common.

10.2. Payment of Taxes. Lessor shall pay the Real Property Taxes applicable to the Project, and except as otherwise provided in Paragraph 10.3, any increases in such amounts over the Base Real Property Taxes shall be included in

the calculation of Common Area Operating Expenses in accordance with the provisions of Paragraph 4.2.

10.3. Additional Improvements. Common Area Operating Expenses shall not include Real Property Taxes specified in the tax assessor's records and work sheets as being caused by additional improvements placed upon the Project by other lessees or by Lessor for the exclusive enjoyment of such other lessees. Notwithstanding Paragraph 10.2 hereof, Lessee shall, however, pay to Lessor at the time Common Area Operating Expenses are payable under Paragraph 4.2, the entirety of any increase in Real Property Taxes if assessed solely by reason of Alterations, Trade Fixtures or Utility Installations placed upon the Premises by Lessee or at Lessee's request.

10.4. Joint Assessment. If the Building is not separately assessed, Real Property Taxes allocated to the Building shall be equitable proportion of the Real Property Taxes for all of the land and improvements included within the tax parcel assessed, such proportion to be determined by Lessor from the respective valuations assigned in the assessor's work sheets or such other information as may be reasonably available. Lessor's reasonable determination thereof, in good faith, shall be conclusive.

10.5. Personal Property Taxes. Lessee shall pay prior to delinquency all taxes assessed against and levied upon Lessee Owned Alterations and Utility Installations, Trade Fixtures, furnishings, equipment and all personal property of Lessee contained in the Premises. When possible, Lessee shall cause its Lessee Owned Alterations and Utility Installations, Trade Fixtures, furnishings, equipment and all other personal property to be assessed and billed separately from the real property of Lessor. If any of Lessee's said property shall be assessed with Lessor's real property, Lessee shall pay Lessor the taxes attributable to Lessee's property within 10 days after receipt of a written statement setting forth the taxes applicable to Lessee's property.

11. Utilities. Lessee shall pay for all water, gas, heat, light, power, telephone, trash disposal and other utilities and services supplied to the Premises, together with any taxes thereon. Notwithstanding the provisions of Paragraph 4.2, if at any time in Lessor's sole judgment, Lessor determines that Lessee is using a disproportionate amount of water, electricity or other commonly metered utilities, or that Lessee is generating such a large volume of trash as to require an increase in the size of the dumpster and/or an increase in the number of times per month that the dumpster is emptied, then Lessor may increase Lessee's Base Rent by an amount equal to such increased costs.

12. Assignment and Subletting.

12.1. Lessor's Consent Required.

(a) Lessee shall not voluntarily or by operation of law assign, transfer, mortgage or encumber (collectively, "assign or assignment") or sublet all or any part of Lessee's interest in this Lease or in the Premises without Lessor's prior written consent, which consent shall not be unreasonably withheld.

(b) A change in the control of Lessee (which, for purposes of this paragraph shall mean the transfer by Lessee, on a cumulative basis, of 25% or more of the voting control of Lessee), in the absence of any material change in the use of the Premises by XOMA (US) LLC, shall not constitute an assignment requiring consent, although lessee shall give written notice to Lessor in the event of such change in control not later than 30 days following such change of control. A change of control coupled with a material change in the use of the Premises by XOMA (US) LLC shall constitute an assignment requiring consent. The transfer,

on a cumulative basis, of 25% or more of the voting control of Lessee a change in control for this purpose.

(c) Deleted.

(d) An assignment or subletting without consent shall, at Lessor's option, be a default curable after notice per Paragraph 13.1(c), or a noncurable Breach without the necessity of any notice and grace period. If Lessor elects to treat such unapproved assignment or subletting as a noncurable Breach, Lessor may either: (i) terminate this Lease, or (ii) upon 45 days written notice, increase the monthly Base Rent to 110% of the Base Rent then in effect. Further, in the event of such Breach and rental adjustment, (i) the purchase price of any option to purchase the Premises held by Lessee shall be subject to similar adjustment to 110% of the price previously in effect, and (ii) all fixed and non-fixed rental adjustments scheduled during the remainder of the Lease term shall be increased to 110% of the scheduled adjusted rent.

(e) Lessee's remedy for any breach of Paragraph 12.1 by Lessor shall be limited to compensatory damages and/or injunctive relief.

12.2. Terms and Conditions Applicable to Assignment and Subletting.

(a) Regardless of Lessor's consent, any assignment or subletting shall not: (i) be effective without the express written assumption by such assignee or sublessee of the obligations of Lessee under this Lease, (ii) release Lessee of any obligations hereunder, or (iii) alter the primary liability of Lessee for the payment of Rent or for the performance of any other obligations to be performed by Lessee.

(b) Lessor may accept Rent or performance of Lessee's obligations from any person other than Lessee pending approval or disapproval of an assignment. Neither a delay in the approval or disapproval of such assignment nor the acceptance of Rent or performance shall constitute a waiver or estoppel of Lessor's right to exercise its remedies for Lessee's Default or Breach.

(c) Lessor's consent to any assignment or subletting shall not constitute a consent to nay subsequent assignment or subletting.

(d) In the event of any Default or Breach by Lessee, Lessor may proceed directly against Lessee, any Guarantors or anyone else responsible for the performance of Lessee's obligations under this Lease, including any assignee or sublessee, without first exhausting Lessor's remedies against any other person or entity responsible therefore to Lessor, or any security held by Lessor.

(e) Each request for consent to an assignment or subletting shall be in writing, accompanied by information relevant to Lessor's determination as to the financial and operational responsibility and appropriateness of the proposed assignee or sublessee, including but not limited to the intended use and/or required modification of the Premises, if any, as consideration for Lessor's considering and processing said request. Lessee agrees to provide Lessor with such other or additional information and/or documentation as may be reasonably requested.

(f) Any assignee of, or sublessee under, this Lease shall, by reason of accepting such assignment or entering into such sublease, be deemed to have assumed and agreed to conform and comply with each and every term, covenant, condition and obligation herein to be observed or performed by Lessee during the term of said assignment or sublease, other than such obligations as are contrary to or inconsistent with provisions of an assignment or sublease to which Lessor has specifically consented to in writing.

12.3. Additional Terms and Conditions Applicable to Subletting. The following terms and conditions shall apply to any subletting by Lessee of all or any part of the Premises and shall be deemed included in all subleases under this Lease whether or not expressly incorporated therein:

(a) Lessee hereby assigns and transfers to Lessor all of Lessee's interest in all Rent payable on any sublease, and Lessor may collect such Rent and apply same toward Lessee's obligations under this Lease; provided, however, that until a Breach shall occur in the performance of Lessee's obligations, Lessee may collect said Rent. Lessor shall not, by reason of the foregoing or any assignment of such sublease, nor by reason of the collection of Rent, be deemed liable to the sublessee for any failure of Lessee to perform and comply with any of Lessee's obligations to such sublessee. Lessee hereby irrevocably authorizes and directs any such sublessee, upon receipt of a written notice from Lessor stating that a Breach exists in the performance of Lessee's obligations under this Lease, to pay to Lessor all Rent due and to become due under the sublease. Sublessee shall rely upon any such notice from Lessor and shall pay all Rents to Lessor without any obligation or right to inquire as to whether such Breach exists, notwithstanding any claim from Lessee to the contrary.

(b) In the event of a Breach by Lessee, Lessor may, at its option, require sublessee to attorn to Lessor, in which event Lessor shall undertake the obligations of the sublessor under such sublease from the time of the exercise of said option to the expiration of such sublease; provided, however, Lessor shall not be liable for any prepaid rents or security deposit paid by such sublessee to such sublessor or for any prior Defaults or Breaches of such sublessor.

(c) Any matter requiring the consent of the sublessor under a sublease shall also require the consent of Lessor.

(d) No sublessee shall further assign or sublet all or any part of the

Premises without Lessor's prior written consent.

(e) Lessor shall deliver a copy of any notice of Default or Breach by Lessee to the sublessee, who shall have the right to cure the Default of Lessee within the grace period, if any, specified in such notice. The sublessee shall have a right of reimbursement and offset from and against Lessee for any such Defaults cured by the sublessee.

13. Default; Breach; Remedies.

13.1. Default; Breach. A "Default" is defined as a failure by the Lessee to comply or perform any of the terms, covenants, conditions or Rules and Regulations under this Lease. A "Breach" is defined as the occurrence of one or more of the following Defaults, and the failure of Lessee to cure such Default within any applicable grace period:

(a) The abandonment of the Premises; or the vacating of the Premises without providing a commercially reasonable level of security, or where the coverage of the property insurance described in Paragraph 8.3 is jeopardized as a result thereof, or without providing reasonable assurances to minimize potential vandalism.

(b) The failure of Lessee to make any payment of Rent or any Security Deposit required to be made by Lessee hereunder, whether to Lessor or to a third party, when due, to provide reasonable evidence of insurance or surety bond, or to fulfill any obligation under this Lease which endangers or threatens life or property, where such failure continues for a period of 5 business days following written notice to Lessee.

(c) The failure by Lessee to provide (i) reasonable written evidence of compliance with Applicable Requirements, (ii) the service contracts, (iii) the rescission of an unauthorized assignment or subletting, (iv) an Estoppel Certificate, (v) a requested subordination, (vi) evidence concerning any guaranty and/or Guarantor, (vii) any document requested under Paragraph 41 (easements), or (viii) any other documentation or information which Lessor may reasonably require of Lessee under the terms of this Lease, where any such failure continues for a period of 30 days following written notice to Lessee.

(d) A Default by Lessee as to the terms, covenants, conditions or provisions of this Lease, or of the rules adopted under Paragraph 2.9 hereof, other than those described in subparagraphs 13.1(a), (b) or (c), above, where such Default continues for a period of 30 days after written notice; provided, however, that if the nature of Lessee's Default is such that more than 30 days are reasonably required for its cure, then it shall not be deemed to be a Breach if Lessee commences such cure within said 30 day period and thereafter diligently prosecutes such cure to completion.

(e) The occurrence of any of the following events: (i) the making of any general arrangement or assignment for the benefit of creditors; (ii) becoming a "debtor" as defined in 11 U.S.C. ss. 101 or any successor statute thereto (unless, in the case of a petition filed against Lessee, the same is dismissed within 60 days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where possession is not restored to Lessee within 45 days; or (iv) the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where such seizure is not discharged within 30 days; provided, however, in the event that any provision of this subparagraph (e) is contrary to any applicable law, such provisions shall be of no force or effect, and not affect the validity of the remaining provisions.

(f) The discovery that any financial statement of Lessee or of any Guarantor given to Lessor was materially false.

(g) If the performance of Lessee's obligations under this Lease is guaranteed: (i) the death of a Guarantor, (ii) the termination of a Guarantor's liability with respect to this Lease other than in accordance with the terms of such guaranty, (iii) a Guarantor's becoming insolvent or the subject of a bankruptcy filing, (iv) a Guarantor's refusal to honor the guaranty, or (v) a Guarantor's breach of its guaranty obligation on an anticipatory basis, and Lessee's failure, within 60 days following written notice of any such event, to provide written alternative assurance security, which, when coupled with the then existing resources of Lessee, equals or exceeds the combined financial resources of Lessee and the Guarantors that existed at the time of execution of this Lease.

13.2. Remedies. If Lessee fails to perform any of its affirmative duties or obligations, within 15 days after written notice (or in case of an emergency, without notice), Lessor may, at its option, perform such duty or obligation on Lessee's behalf, including but not limited to the obtaining of reasonably required bonds, insurance policies, or governmental licenses, permits or

approvals. The costs and expenses of any such performance by Lessor shall be due and payable by Lessee upon receipt of invoice therefor. If any check given to Lessor by Lessee shall not be honored by the bank upon which it is drawn, Lessor, at its option, may require all future payments to be made by Lessee to be by cashier's check. In the event of a Breach, Lessor may, with or without further notice or demand, and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such Breach:

(a) Terminate Lessee's right to possession of the Premises by any lawful means, in which case this Lease shall terminate and Lessee shall immediately surrender possession to Lessor. In such event Lessor shall be entitled to recover from Lessee: (i) the unpaid Rent which had been earned at the time of termination; (ii) the worth at the time of award

of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that the Lessee proves could have been reasonably avoided; (iii) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that the Lessee proves could be reasonably avoided; and (iv) any other amount necessary to compensate Lessor for all the detriment proximately caused by the Lessee's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, including but not limited to the cost of recovering possession of the Premises, expenses of reletting, including necessary renovation and alteration of the Premises, reasonable attorneys' fees, and that portion of any leasing commission paid by Lessor in connection with this Lease applicable to the unexpired term of this Lease. The worth at the time of award of the amount referred to in provision (iii) of the immediately preceding sentence shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of the District within which the Premises are located at the time of award plus one percent. Efforts by Lessor to mitigate damages caused by Lessee's Breach of this Lease shall not waive Lessor's right to recover damages under Paragraph 12. If termination of this Lease is obtained through the provisional remedy of unlawful detainer, Lessor shall have the right to recover in such proceeding any unpaid Rent and damages as are recoverable therein, or Lessor may reserve the right to recover all or any part thereof in a separate suit. If a notice or grace period required under Paragraph 13.1 was not previously given, a notice to pay rent or quit, or to perform or quit given to Lessee under the unlawful detainer statute shall also constitute the notice required by Paragraph 13.1. In such case, the applicable grace period required by Paragraph 13.1 and the unlawful detainer statute shall run concurrently, and the failure of Lessee to cure the Default with the greater of the two such grace periods shall constitute both an unlawful detainer and a Breach of this Lease entitling Lessor to the remedies provided for in this Lease and/or by said statute.

(b) Continue the Lease and Lessee's right to possession and recover the Rent as it becomes due, in which event Lessee may sublet or assign, subject only to reasonable limitations. Acts of maintenance, efforts to relet, and/or the appointment of a receiver to protect the Lessor's interests, shall not constitute a termination of the Lessee's right to possession.

(c) Pursue any other remedy now and hereafter available under the laws or judicial decisions of the state wherein the Premises are located. The expiration or termination of this Lease and/or the termination of Lessee's right to possession shall not relieve Lessee from liability under any indemnity provisions of this Lease as to matters occurring or accruing during the term hereof or by reason of Lessee's occupancy of the Premises.

13.3. Deleted

13.4. Late Charges. Lessee hereby acknowledges that late payment by Lessee of Rent will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed upon Lessor by any Lender. Accordingly, if any Rent shall not be received by Lessor within 5 days after such amount shall be due, then, without any requirement for notice to Lessee, Lessee shall pay to Lessor a one-time charge equal to 10% of each such overdue amount or $100, whichever is greater. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of such late payment. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's Default or Breach with respect with such overdue amount, nor prevent the exercise of any of the other rights and remedies granted hereunder. In the event that a late charge is payable hereunder, whether or not collected, for 3 consecutive installments of Base Rent, then notwithstanding any provision of this Lease to the contrary, Base Rent shall, at Lessor's option, become due

and payable quarterly in advance.

13.5. Interest. Any monetary payment due Lessor hereunder, other than late charges, not received by Lessor, when due as to scheduled payments (such as Base Rent) or within 30 days following the date on which it was due for non-scheduled payment, shall bear interest from the date when due, as to scheduled payments, or the 31st day after it was due as to non-scheduled payments. The interest ("Interest") charged shall be six percent.

13.6. Breach by Lessor.

(a) Notice of Breach. Lessor shall not be deemed in breach of this Lease unless Lessor fails within a reasonable time to perform an obligation required to be performed by Lessor. For purposes of this Paragraph, a reasonable time shall in no event be less than 30 days after receipt by Lessor, and any Lender whose name and address shall have been furnished Lessee in writing for such purpose, of written notice specifying wherein such obligation of Lessor has not been performed; provided, however, that if the nature of Lessor's obligation is such that more than 30 days are reasonably required for its performance, then Lessor shall not be in breach if performance is commenced within such 30 day period and thereafter diligently pursued to completion.

(b) Performance by Lessee on Behalf of Lessor. In the event that neither Lessor nor Lender cures said breach within 30 days after receipt of said notice, or if having commenced said cure they do not diligently pursue it to completion, then Lessee may elect to cure said breach at Lessee's expense and offset from Rent an amount equal to the greater of one month's Base Rent or the Security Deposit, and to pay an excess of such expense under protest, reserving Lessee's right to reimbursement from Lessor. Lessee shall document the cost of said cure and supply said documentation to lessor.

14. Condemnation. If the Premises or any portion thereof are taken under the power of eminent domain or sold under the threat of the exercise of said power (collectively "Condemnation"), this Lease shall terminate as to the part taken as of the date the condemning authority takes title or possession, whichever first occurs. If more than 10% of the floor area of the Unit, or more than 25% of Lessee's Reserved Parking Spaces, is taken by Condemnation, Lessee may, at Lessee's option, to be exercised in writing within 10 days after Lessor shall have given Lessee written notice of such taking (or in the absence of such notice, within 10 days after the condemning authority shall have taken possession) terminate this Lease as of the date the condemning authority takes such possession. If Lessee does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the Premises remaining, except that the Base Rent shall be reduced in proportion to the reduction in utility of the Premises caused by such Condemnation. Condemnation awards and/or payments shall be the property of Lessor, whether such award shall be made as compensation for diminution in value of the leasehold, the value of the part taken, or for severance damages; provided, however, that Lessee shall be entitled to any compensation for Lessee's relocation expenses, loss of business goodwill and/or Trade Fixtures, without regard to whether or not this Lease is terminated pursuant to the provisions of this Paragraph. All Alterations and Utility Installations made to the Premises by Lessee, for purposes for Condemnation only, shall be considered the property of the Lessee and Lessee shall be entitled to any and all compensation which is payable therefor. In the event that this Lease is not terminated by reason of Condemnation, Lessor shall repair any damage to the Premises caused by such Condemnation.

15. (Deleted)

16. Estoppel Certificates.

(a) Each Party (as "Responding Party") shall within 10 days after written notice from the other Party (the "Requesting Party") execute, acknowledge and deliver to the Requesting Party a statement in writing in form similar to the then most current "Estoppel Certificate" form published by the American Industrial Real Estate Association, plus such additional information, confirmation and/or statements as may be reasonably requested by the Requesting Party.

(b) If the Responding Party shall fail to execute or deliver the Estoppel Certificate within such 10 day period, the Requesting Party may execute an Estoppel Certificate stating that: (i) the Lease is in full force and effect without modification except as may be represented by the Requesting Party, (ii) there are no uncured defaults in the Requesting Party's performance, and (iii) if Lessor is the Requesting Party, not more than one month's rent has been paid in advance. Prospective purchasers and encumbrancers may rely upon the Re-

questing Party's Estoppel Certificate, and the Responding Party shall be estopped from denying the truth of the facts contained in said Certificate.

(c) If Lessor desires to finance, refinance, or sell the Premises, or any part thereof, Lessee and all Guarantors shall deliver to any potential lender or purchaser designated by Lessor such financial statements as may be reasonably required by such lender or purchaser, including but not limited to Lessee's financial statements for the last 3 years. All such financial statements shall be received by Lessor and such lender or purchaser in confidence and shall be used only for the purposes herein set forth.

17. Definition of Lessor. The term "Lessor" as used herein shall mean the owner or owners at the time in question of the fee title to the Premises, or, if this is a sublease, of the Lessee's interest in the prior lease. In the event of a transfer of Lessor's title or interest in the Premises or this Lease, Lessor shall deliver to the transferee or assignee (in cash or by credit) any unused Security Deposit held by Lessor. Except as provided in Paragraph 15, upon such transfer or assignment and delivery of the Security Deposit, as aforesaid, the prior Lessor shall be relieved of all liability with respect to the obligations and/or covenants under this Lease thereafter to be performed by the Lessor. Subject to the foregoing, the obligations and/or covenants in this Lease to be performed by the Lessor shall be binding only upon the Lessor as hereinabove defined. Notwithstanding the above, and subject to the provisions of Paragraph 20 below, the original Lessor under this Lease, and all subsequent holders of the Lessor's interest in this Lease shall remain liable and responsible with regard to the potential duties and liabilities of Lessor pertaining to Hazardous Substances as outlined in Paragraph 6.2 above.

18. Severability. The invalidity of any provision of this Lease, as determined by a court if competent jurisdiction, shall in no way affect the validity of any other provisions hereof.

19. Days. Unless otherwise specifically indicated to the contrary, the word "days" as used in this Lease shall mean and refer to calendar days.

20. Limitation on Liability. Subject to the provisions of Paragraph 17 above, the obligations of Lessor under this Lease shall not constitute personal obligations of Lessor, the individual partners of Lessor or its or their individual partners, directors, officers or shareholders, and Lessee shall look to the Premises, and to no other assets of Lessor, for the satisfaction of any liability of Lessor with respect to this Lease, and shall not seek recourse against the individual partners of Lessor, or its or their individual partners, directors, officers or shareholders, or any of their personal assets for such satisfaction.

21. Time of Essence. Time is of the essence with respect to the performance of all obligations to be performed or observed by the Parties under this Lease.

22. No Prior or Other Agreements; Broker Disclaimer. This Lease contains all agreements between the Parties with respect to any matter mentioned herein, and no other prior or contemporaneous agreement or understanding shall be effective. Lessor and Lessee each represents and warrants to the Brokers that it has made, and is relying solely upon, its own investigation as to the nature, quality, character and financial responsibility of the other Party to this Lease and as to the use, nature, quality and character of the Premises.

23. Notices.

23.1. Notice Requirements. All notices required or permitted by this Lease or applicable law shall be in writing and may be delivered in person (by hand or by courier) or may be sent by certified or registered mail or U.S. Postal Service Express Mail, with postage prepaid, or by facsimile transmission, and shall be deemed sufficiently given if served in a manner specified in this Paragraph 23. The addresses noted adjacent to a Party's signature on this Lease shall be that Party's address for delivery or mailing of notices. Either Party may by written notice to the other specify a different address for notice, except that upon Lessee's taking possession of the Premises, the Premises shall constitute Lessee's address for notice. A copy of all notices to Lessor shall be concurrently transmitted to such party or parties at such addresses as Lessor may from time to time hereafter designate in writing.

23.2. Date of Notice. Any notice sent by registered or certified mail, return receipt requested, shall be deemed given on the date of delivery shown on the receipt card, or if no delivery date in shown, the postmark thereon. Notices delivered by United States Express Mail or overnight courier that guarantee next day delivery shall be deemed given 24 hours after delivery of the same to the Postal Service or courier. Notices transmitted by facsimile transmission or similar means shall be deemed delivered upon telephone confirmation of receipt (confirmation report from fax machine is sufficient), provided a copy is also

delivered via delivery or mail. If notice is received on a Saturday, Sunday or legal holiday, it shall be deemed received on the next business day.

24. Waivers. No waiver by Lessor of the Default or Breach of any term, covenant or condition hereof by Lessee, shall be deemed a waiver of any other term, covenant or condition hereof, or of any subsequent Default or Breach by Lessee of the same or of any other term, covenant or condition hereof. Lessor's consent to, or approval of, any act shall not be deemed to render unnecessary the obtaining of Lessor's consent to, or approval of, any subsequent or similar act by Lessee, or be construed as the basis of an estoppel to enforce the provision or provisions of this Lease requiring such consent. The acceptance of Rent by Lessor shall not be a waiver of any Default or Breach by Lessee. Any payment by Lessee may be accepted by Lessor on account of monies or damages due Lessor, notwithstanding any qualifying statements or conditions made by Lessee in connection therewith, which such statements and/or

conditions shall be of no force or effect whatsoever unless specifically agreed to in writing by Lessor at or before the time of deposit of such payment.

25. (Deleted)

26. No Right To Holdover. Lessee has no right to retain possession of the Premises or any part thereof beyond the expiration or termination of this Lease. In the event that Lessee holds over, then the Base Rent shall be increased to 110% of the Base Rent applicable immediately preceding the expiration or termination. Nothing contained herein shall be construed as consent by Lessor to any holding over by Lessee.

27. Cumulative Remedies. No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies at law or in equity.

28. Covenants and Conditions; Construction of Agreement. All provisions of this Lease to be observed or performed by Lessee are both covenants and conditions. In construing this Lease, all headings and titles are for the convenience of the Parties only and shall not be considered a part of this Lease. Whenever required by the context, the singular shall include the plural and vice versa. This Lease shall not be construed as if prepared by one of the Parties, but rather according to its fair meaning as a whole, as if both Parties had prepared it.

29. Binding Effect; Choice of Law. This Lease shall be binding upon the parties, their personal representatives, successors and assigns and be governed by the laws of the State in which the Premises are located. Any litigation between the Parties hereto concerning this Lease shall be initiated in the county in which the Premises are located.

30. Subordination; Attornment; Non-Disturbance.

30.1. Subordination. This Lease and any Option granted hereby shall be subject and subordinate to any ground lease, mortgage, deed of trust, or other hypothecation or security device (collectively, "Security Device"), now or hereafter placed upon the Premises, to any and all advances made on the security thereof, and to all renewals, modifications, and extensions thereof. Lessee agrees that the holders of any such Security Devices (in this Lease together referred to as "Lender") shall have no liability or obligation to perform any of the obligations of Lessor under this Lease. Any Lender may elect to have this Lease and/or any Option granted hereby superior to the lien of its Security Device by giving written notice thereof to Lessee, whereupon this Lease and such Options shall be deemed prior to such Security Device, notwithstanding the relative dates of the documentation or recordation thereof.

30.2. Attornment. Subject to the non-disturbance provisions of Paragraph 30.3, Lessee agrees to attorn to a Lender or any other party who acquires ownership of the Premises by reason of a foreclosure of a Security Device, and that in the event of such foreclo-

sure, such new owner shall not: (a) be liable for any act or omission of any prior lessor or with respect to events occurring prior to acquisition of ownership; (b) be subject to any offsets or defenses which Lessee might have against any prior lessor, (c) be bound by prepayment of more than one month's rent, or (d) be liable for the return of any security deposit paid to any prior lessor.

30.3. Non-Disturbance. With respect to Security Devices entered into by Lessor after the execution of this Lease, Lessee's subordination of this Lease shall be subject to receiving a commercially reasonable non-disturbance agreement (a "Non-Disturbance Agreement") from the Lender which Non-Disturbance

Agreement provides that Lessee's possession of the Premises, and this Lease, including any options to extend the term hereof, will not be disturbed so long as Lessee is not in Breach hereof and attorns to the record owner of the Premises. Further, within 60 days after the execution of this Lease, Lessor shall use its commercially reasonable efforts to obtain a Non-Disturbance Agreement from the holder of any pre-existing Security Device which is secured by the Premises. In the event that Lessor is unable to provide the Non-Disturbance Agreement within said 60 days, then Lessee may, at Lessee's option, directly contact Lender and attempt to negotiate for the execution and delivery of a Non-Disturbance Agreement.

30.4. Self Executing. The agreements contained in this Paragraph 30 shall be effective without the execution of any further documents; provided, however, that upon written request from Lessor or a Lender in connection with a sale, financing or refinancing of the Premises, Lessee and Lessor shall execute such further writings as may be reasonably required to separately document any subordination, attornment and/or Non-Disturbance Agreement provided for herein.

31. Attorneys' Fees. If any Party or Broker brings an action or proceeding involving the Premises whether founded in tort, contract or equity, or to declare rights hereunder, the Prevailing Party (as hereafter defined) in any such proceeding, action, or appeal thereon, shall be entitled to reasonable attorneys' fees. Such fees may be awarded in the same suit or recovered in a separate suit, whether or not such action or proceeding is pursued to decision or judgment. The term, "Prevailing Party" shall include, without limitation, a Party or Broker who substantially obtains or defeats the relief sought, as the case may be, whether by compromise, settlement, judgment, or the abandonment by the other Party or Broker of its claim or defense. The attorney's fees award shall not be computed in accordance with any court fee schedule, but shall be such as to fully reimburse all attorneys' fees reasonably incurred. In addition, Lessor shall be entitled to attorneys' fees, costs and expenses incurred in the preparation and service of notices of Default and consultations in connection therewith, whether or not a legal action is subsequently commenced in connection with such Default or resulting Breach ($200 is a reasonable minimum per occurrence for such services and consultation).

32. Lessor's Access; Showing Premises; Repairs. Lessor and Lessor's agents shall have the right to enter the Premises at any reasonable time, in the case of an emergency, and otherwise at reasonable times for the purpose of showing the same to prospective purchasers, lenders or tenants, and making such alterations, repairs, improvements or additions to the Premises as Lessor may deem necessary. All such activities shall be without abatement of rent or liability to Lessee. Lessor may at any time place on the Premises any ordinary "For Sale" signs and Lessor may during the last 6 months of the term hereof place on the Premises any ordinary "For Lease" signs. Lessee may at any time place on the Premises any ordinary "For Sublease" sign.

33. Auctions. Lessee shall not conduct, nor permit to be conducted, any auction upon the Premises with Lessor's prior written consent.

34. Signs. Except for ordinary "For Sublease" signs which may be placed only on the Premises, Lessee shall not place any sign upon the Project without Lessor's prior written consent. All signs must comply with all Applicable Requirements.

35. Termination; Merger. Unless specifically stated otherwise in writing by Lessor, the voluntary or other surrender of this Lease by Lessee, the mutual termination or cancellation hereof, or a termination hereof by Lessor for Breach by Lessee, shall automatically terminate any sublease or lesser estate in the Premises; provided, however, that Lessor may elect to continue any one or all existing subtenancies. Lessor's failure within 10 days following any such event or elect to the contrary by written notice to the holder of any such lesser interest, shall constitute Lessor's election to have such event constitute the termination of such interest.

36. Consents. Except as otherwise provided herein, wherever in this Lease the consent of a Party is required to an act by or for the other Party, such consent shall not be unreasonably withheld or delayed. Lessor's actual reasonable costs and expenses (including but not limited to architects', attorneys', engineers' and other consultants' fees) incurred in the consideration of, or response to, a request by Lessee for any Lessor consent, including but not limited to consents to an assignment, a subletting or the presence or use of a Hazardous Substance, shall be paid by Lessee upon receipt of an invoice and supporting documentation therefor. Lessor's consent to any act, assignment or subletting shall not constitute an acknowledgment that no Default or Breach by Lessee of this Lease exists, nor shall such consent be deemed a waiver of any then existing Default or Breach, except as may be otherwise specifically stated in writing by Lessor at the time of such consent. The failure to specify herein any particular condition to Lessor's consent shall not preclude the imposition by Lessor at the time of consent of such further or other conditions as are then reasonable with reference to the particular matter for which consent is being given. In the event that either Party disagrees with any determination made by the other

hereunder and reasonably requests the reasons for such determination, the

determining party shall furnish its reasons in writing and in reasonable detail within 10 business days following such request.

37. Guarantor.

37.1. Execution. The Guarantors, if any, shall each execute a guaranty in the form most recently published by the American Industrial Real Estate Association, and each such Guarantor shall have the same obligations as Lessee under this Lease.

37.2. Default. It shall constitute a Default of the Lessee if any Guarantor fails or refuses, upon request to provide: (a) evidence of the execution of the guaranty, including the authority of the party signing on Guarantor's behalf to obligate Guarantor, and in the case of a corporate Guarantor, a certified copy of a resolution of its board of directors authorizing the making of such guaranty, (b) current financial statements, (c) an Estoppel Certificate, or (d) written confirmation that the guaranty is still in effect.

38. Quiet Possession. Subject to payment by Lessee of the Rent and performance of all of the covenants, conditions and provisions on Lessee's part to be observed and performed under this Lease, Lessee shall have quiet possession and quiet enjoyment of the Premises during the term hereof.

39. Options. If Lessee is granted an option, as defined below, then the following provisions shall apply.

39.1. Definition. "Option" shall mean: (a) the right to extend the term of or renew this Lease or to extend or renew any lease that Lessee has on other property of Lessor; (b) the right of first refusal or first offer to lease either the Premises or other property of Lessor; (c) the right to purchase or the right of first refusal to purchase the Premises or other property of Lessor.

39.2. Options Personal To Original Lessee. Any Option granted to Lessee in this Lease is personal to the original Lessee, and cannot be assigned or exercised by anyone other than said original Lessee and only while the original Lessee is in full possession of the Premises and, if requested by Lessor, with Lessee certifying that Lessee has no intention of thereafter assigning or subletting.

39.3. Multiple Options. In the event that Lessee has any multiple Options to extend or renew this lease, a later Option cannot be exercised unless the prior Options have been validly exercised.

39.4. Effect of Default on Options.

(a) Lessee shall have no right to exercise an Option: (i) during the period commencing with the giving of any notice of Default and continuing until said Default is cured, (ii) during the period of time any Rent is unpaid (without regard to whether notice thereof is given Lessee), (iii) during the time Lessee is in Breach of this Lease, or (iv) in the event that Lessee has been given 3 or more notices of separate Default, whether or not the Defaults are cured, during the 12 month period immediately preceding the exercise of the Option.

(b) The period of time within which an Option may be exercised shall not be extended or enlarged by reason of Lessee's inability to exercise an Option because of the provisions of Paragraph 39.4(a).

(c) An Option shall terminate and be of no further force or effect, notwithstanding Lessee's due and timely exercise of the Option, if, after such exercise and prior to the commencement of the extended term, (i) Lessee fails to pay Rent for a period of 30 days after such Rent becomes due (without any necessity of Lessor to give notice thereof), (ii) Lessor gives to Lessee 3 or more notices of separate Default during any 12 month period, whether or not the Defaults are cured, or (iii) if Lessee commits a Breach of this Lease.

40. Security Measures. Lessee hereby acknowledges that the Rent payable to Lessor hereunder does not include the cost of guard service or other security measures, and that Lessor shall have no obligation whatsoever to provide same. Lessee assumes all responsibility for the protection of the Premises, Lessee, its agents and invitees and their property from the acts of third parties.

41. Reservations. Lessor reserves the right: (i) to grant, without the consent or joinder of Lessee, such easements, rights and dedications that Lessor deems necessary, (ii) to cause the recordation of parcel maps and restrictions, and (iii) to create and/or install new utility raceways, so long as such easements, rights, dedications, maps, restrictions, and utility raceways do not

unreasonably interfere with the use of the Premises by Lessee. Lessee agrees to sign any documents reasonably requested by Lessor to effectuate such rights.

42. Performance Under Protest. If at any time a dispute shall arise as to any amount or sum of money to be paid by one Party to the other under the provisions hereof, the Party against whom the obligation to pay the money is asserted shall have the right to make payment "under protest" and such payment shall not be regarded as a voluntary payment and there shall survive the right on the part of said Party to institute suit for recovery of such sum. If it shall be adjudged that there was no legal obligation on the part of said Party to pay such sum or any part thereof, said Party shall be entitled to recover such sum or so much thereof as it was not legally required to pay.

43. Authority. If either Party hereto is a corporation, trust, limited liability company, partnership, or similar entity, each individual executing this Lease on behalf of such entity repre-

sents and warrants that he or she is duly authorized to execute and deliver this Lease on its behalf. Each party shall, within 30 days after request, deliver to the other party satisfactory evidence of such authority.

44. Conflict. Any conflict between the printed provisions of this Lease and the typewritten or hand written provisions shall be controlled by the typewritten or handwritten provisions.

45. Offer. Preparation of this Lease by either party or their agent and submission of same to the other Party shall not be deemed an offer to lease to the other Party. This Lease is not intended to be binding until executed and delivered by all Parties hereto.

46. Amendments. This Lease may be modified only in writing, signed by the Parties in interest at the time of the modification. As long as they do not materially change Lessee's obligations hereunder, Lessee agrees to make such reasonable non-monetary modifications to this Lease as may be reasonably required by a Lender in connection with the obtaining of normal refinancing of the Premises.

47. Multiple Parties. If more than one person or entity is named herein as either Lessor or Lessee, such multiple Parties shall have joint and several responsibility to comply with the terms of this Lease.

48. Waiver of Jury Trial. The Parties hereby waive their respective rights to trial by jury in any action or proceeding involving the Property or arising out of this Agreement.

49. Mediation and Arbitration of Disputes. An Addendum requiring the Mediation and/or Arbitration of all disputes between the Parties and/or Brokers arising out of this lease is not attached to this Lease.

Lessor and Lessee have carefully read and reviewed this Lease and each term and provision contained herein, and by the execution of this Lease show their informed and voluntary consent thereto. The Parties hereby agree that, at the time this Lease is executed, the terms of this Lease are commercially reasonable and effectuate the intent and purpose of Lessor and Lessee with respect to the Premises.

Attention: No representation or recommendation is made by the American Industrial Real Estate Association or by any Broker as to the legal sufficiency, legal effect, or tax consequences of this Lease or the transaction to which it relates. The Parties are urged to:

1. Seek advice of counsel as to the legal and tax consequences of this Lease.

2. Retain appropriate consultants to review and investigate the condition of the Premises. Said investigation should include but not be limited to: the possible presence of Hazardous Substances, the zoning of the Premises, the structural integrity, the condition of the roof and operating systems, compliance with the Americans with Disabilities Act and the suitability of the Premises for Lessee's intended use.

Warning: If the Premises are located in a State other than California, certain provisions of the Lease may need to be revised to comply with the laws of the State in which the Premises are located.

The parties hereto have executed this Lease at the place and on the dates specified above their respective signatures.

Executed at: Emeryville, CA
On: 12/28/01
By Lessor: Temescal, L.P. a California limited partnership and Contra Costa Industrial Pa

By: /J.R. Ortoni III/

Name Printed: J.R. Ortoni III
Title: Mgr LLC
Address: c/o Libitzky Management Corp.
1475 Powell Street, Suite 201
Emeryville, CA 94608
Telephone: (510) 652-4950
Facsimile: (510) 652-0588

Executed at: Berkeley, CA
On: Dec. 28, 2001
By Lessor: XOMA (US) LLC a Delaware limited liability company
By: /Clarence L. Dellio/

Name Printed: Clarence L. Dellio
Title: Senior Vice President, Operations

By: /Christopher J. Margolin/

Address: Legal Department
Attn: Chris Margolin
2910 Seventh Street
Berkeley, CA 94710
Telephone: (510) 644-1170
Facsimile: (510) 649-7571

Addendum to Standard Industrial/Commercial
Multi-Tenant Lease - Gross

Reference is hereby expressly made to that certain Standard Industrial/Commercial Multi-Tenant Lease - Gross (the "Lease"), dated as of even date herewith. This Addendum to the Lease is being made simultaneously with the Lease and is intended by the parties hereto to set forth additional terms of said Lease and to supersede any inconsistent terms of said Lease.

50. Base Rent Increases.

The Base Rent shall be adjusted for the then remaining portion of the Original Term as of the first and each anniversary date(s) of the Commencement Date. Each such anniversary date is hereunder referred to as an "Adjustment Date". The Base Rent shall be adjusted as of each Adjustment Date to an amount equal to one hundred and three percent (103%) of the Base Rent payable for the month immdiately preceding such Adjustment Date.

51. Option to Extend.

Subject to Paragraph 39, Lessee shall have the Option to extend the Term for one (1) consecutive period of three (3) years (the "Extension Term"), at Lessee's election immediately following the expiration of the Original Term. Lessee shall exercise the Option by delivery of written notice of such election to Lessor at least one hundred eighty (180) days and no more than two hundred seventy (270) days prior to the Expiration Date of the Original Term. The Base Rent payable monthly during the Extension Term with respect to the Premises as

of the commencement of such term (the "Extension Term Commencement Date") shall be at that amount equal to ninety-five per cent (95%) of the then prevailing fair market rental rate for similar space in comparable buildings in the area which have been similarly built out for occupancy, comparable in area and location to the space for which such rental rate is being determined, but in no event less than the Base Rent payable for the last month of the Original Term.

The Base Rent shall be adjusted for the then remaining portion of the Extension Term as of the first and each anniversary date(s) of the Extension Term Commencement Date. Each such anniversary date is hereunder referred to as an "Adjustment Date". The Base Rent shall be adjusted as of each Adjustment Date to an amount equal to one hundred and three percent (103%) of the Base Rent payable for the month immediately preceding such Adjustment Date.

52. Lessee's Share.

Notwithstanding anything to the contrary in the Lease, Lessee shall be responsible for 65% of the expenses incurred in connection with the maintenance and repair of the elevator located at the Building. For purposes of this Lease, Building shall mean the properties located at 285 and 2840 Seventh Street.

53. Lessor Duty to Clean Carpet and Paint Premises; Fix Front Entrance Noise.

Notwithstanding anything to the contrary in this Lease, Lessor shall, prior to the Commencement Date, (1) have the carpets professionally cleaned, (2) touch up the interior paint as necessary and (3) fix the mechanical vibration/noise that is apparent near the front entrance.

54. Certain Personal Property of Lessor To be Used By Lessee.

Attached hereto as Exhibit B, entitled "Personal Property List" is a description of certain personal property belonging to Lessor, generally consisting of dividers, partitions and other items commonly referred to as modular furniture (the "Furniture") at no additional cost. For so long as Lessee occupies the Premises pursuant to this Lease, Lessor permits Lessee to use the Furniture. Lessee shall take reasonable steps to assure that the Furniture is properly cared for and maintained, and shall return possession of the Furniture to Lessor upon the termination of this Lease. Prior to the return of such possession, Lessee shall have the Furniture cleaned and effect any such repairs and/or maintenance as may be necessary to put such Furniture in a condition reasonably similar to the condition in which such Furniture was received by Lessee on the Commencement Date, with reasonable wear and tear excepted.

55. Lessee's and Lessor's HVAC Maintenance and Repair Responsibility.

Notwithstanding anything to the contrary in the Lease, the Lessor shall administer a service contract on the HVAC units (with any service and repair costs passed through to Lessee). The HVAC serving the Premises serves solely the Premises. In the event an

HVAC unit requires replacement, then, unless the requirement for such replacement arises out of the negligence or intentional wrongful act of Lessee, Lessor shall be responsible for arranging for such replacement, which shall be at the sole cost of Lessor.

56. Consent by Lessor to Sublease or Assignment.

Notwithstanding anything to the contrary in the Lease, Lessee shall continue to be liable to Lessor under the Lease, whether this Lease is assigned, sublet or otherwise transferred, and in any event Lessee waives any suretyship defenses that it may otherwise have to an action brought by Lessor, including without limitation, those contained in Sections 2809, 2810, 2819, 2839, 2849, 2855, 2899 and 3433 of the California Civil Code, as now hereafter amended and any similar laws. Lessee additionally hereby waives the remedies provided in Section 1995.310 of the California Civil Code, consisting of the right to terminate this Lease or collect contract damages, if Lessor unreasonably withholds its consent to any assignment.

57. Lessor Right to Excess Rents.

Fifty percent of all rent received by Lessee from its subtenants in excess

of the Base Rent payable by Lessee to Lessor under this Lease shall be paid to Lessor, and any sums to be paid by an assignee to Lessee in consideration of the assignment of this Lease shall be paid to Lessor. The preceding provision shall not apply where the subtenant or assignee is the parent, wholly owned subsidiary or commonly controlled affiliate of Lessee. The term "controlled" or "control" means direct or indirect ownership of fifty percent (50%) or more of the outstanding voting stock of a corporation, or other majority equity and control interest if the entity is not a corporation.

Executed as of this 28th day of December, 2001.
Lessee's Initial Lessor' Initials

EXHIBIT A

Property Description

(a plan of the property is inserted here)

EXHIBIT B

Personal Property List

Approximately 110 Herman Miller partitions/dividers

Approximately 60 table tops (Herman Miller)

Homaco Telecommunications Rack Assembly (which, if Lessee determines prior to occupancy it does not desire, will be removed by Lessor)

EXHIBIT A

Property Description

EXHIBIT B

Personal Property List

1. Approximately 110 Herman Miller partitions/dividers
2. Approximately 60 table tops (Herman Miller)
3. Homaco Telecommunications Rack Assembly (which, if Lessee determines prior to occupancy it does not desire, will be removed by Lessor)

AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION
GUARANTY OF LEASE

WHEREAS, Temescal, L.P. and Contra Costa Industrial Park Ltd., hereinafter "Lessor", and XOMA (US) LLC, hereinafter "Lessee", are about to execute a document entitled "Lease" dated December 28, 2001 concerning the premises

commonly known as 2850 7th Street, Second Floor, Berkeley, CA wherein Lessor will lease the premises to Lessee, and

WHEREAS, XOMA Ltd., a Bermuda company with limited liability hereinafter "Guarantors" have a financial interest in Lessee, and

WHEREAS, Lessor would not execute the Lease if Guarantors did not execute and deliver to Lessor this Guarantee of Lease.

NOW THEREFORE, in consideration of the execution of the foregoing Lease by Lessor and as a material inducement to Lessor to execute said Lease, Guarantors hereby jointly, severally, unconditionally and irrevocably guarantee the prompt payment by Lessee of all rents and all other sums payable by Lessee under said Lease and the faithful and prompt performance by Lessee of each and every one of the terms, conditions and convenants of said Lease to be kept and performed by Lessee.

It is specifically agreed that the terms of the foregoing Lease may be modified by agreement between Lessor and Lessee, or by a course of conduct, and said Lease may be assigned by Lessor or any assignee of Lessor without consent or notice to Guarantors and that this Guaranty shall guarantee the performance of said Lease as so modified.

This Guaranty shall not be released, modified or affected by the failure or delay on the part of Lessor to enforce any of the rights or remedies of the Lessor under said Lease, whether pursuant to the terms thereof or at law or in equity.

No notice of default need to be given to Guarantors, it being specifically agreed that the guarantee of the undersigned is a continuing guarantee under which Lessor may proceed immediately against Lessee and/or against Guarantors following any breach or default by Lessee or for the enforcement of any rights which Lessor may have as against Lessee under the terms of the lease or at law or in equity.

Lessor shall have the right to proceed against Guarantors hereunder following any breach or default by Lessee without first proceeding against Lessee and without previous notice to or demand upon either Lessee or Guarantors.

Guarantors hereby waive (a) notice of acceptance of this Guaranty, (b) demand of payment, presentation and protest, (c) all right to assert or plead any statue of limitations relating to this Guaranty or the Lease, (d) any right to require the Lessor to proceed against the Lessee or any other Guarantor or any other person or entity liable to Lessor, (e) any right to require Lessor to apply to any default any security deposit or other security it may hold under the Lease, (f) any right to require Lessor to proceed under any other remedy Lessor may have before proceeding against Guarantors, (g) any right of subrogation.

Guarantors do hereby subrogate all existing or future indebtedness of Lessee to Guarantors to the obligations owed to Lessor under the Lease and this Guaranty.

If a Guarantor is married, such Guarantor expressly agrees that recourse may be had against his or her separate property for all of the obligations hereunder.

The obligations of Lessee under the Lease to execute and deliver estoppel statements and financial statements, as therein provided, shall be deemed to also require the Guarantors hereunder to do and provide the same.

The term "Lessor" refers to and means the Lessor named in the Lease and also Lessor's successors and assigns. So long as Lessor's interest in the Lease, the leased premises or the rents, issues and profits therefrom, are subject to any mortgage or deed of trust or assignment for security, no acquisition by Guarantors of the Lessor's interest shall affect the continuing obligation of Guarantors under this Guaranty which shall nevertheless continue in full force and effect for the benefit of the mortgagee, beneficiary, trustee or assignee under such mortgage, deed of trust or assignment and their successors and assigns.

The term "Lessee" refers to and means the Lessee named in the Lease and also Lessee's successors and assigns.

In the event any action be brought by said Lessor against Guarantors hereunder to enforce the obligation of Guarantors hereunder, the unsuccessful party in such action shall pay to the prevailing party therein a reasonable attorney's fee which shall be fixed by the court.

If this Form has been filed in, it has been prepared for submission to your attorney for his approval. No representation or recommendation is made by the American Industrial Real Estate Association, the real estate broker or its agents or employees as to the legal sufficiency, legal effect, or tax consequences of this Form or the transaction relating thereto.

Executed at Berkeley, CA
on December 28, 2001
XOMA Ltd. a Bermuda company w/ ltd liability
"GUARANTORS"
By: //Christopher J. Margolin//
Address: Attn: Chris Margolin
2910 Seventh St.
Berkeley, CA 94710

Exhibit 23.1

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-07263, 333-50134, 33-59241, 33-60503, 333-74205, 333-84585, 333-85607, 333-87227, 333-93029, 333-30370 and 333-82334) and the related Prospectuses and in the Registration Statements on Form S-8 (Nos. 333-66171 and 333-39155) pertaining to the Share Option Plan, Restricted Shares Plan, Directors Share Option Plan and Employee Share Purchase Plan of XOMA Ltd. of our report dated February 8, 2002, with respect to the consolidated financial statements of XOMA Ltd. included in this Annual Report (Form 10-K) for the year ended December 31, 2001.

/s/ ERNST & YOUNG LLP

Palo Alto, California
March 28, 2002