UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 1

on

FORM 8-K/A

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported): March 31, 2003

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

BERMUDA
(State or other jurisdiction of incorporation)

0-14710	52-2154066
(Commission File Number)	(IRS Employer Identification No.)

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

Registrant's telephone number, including area code (510) 204-7200

(Former name or former address, if changed since last report)

Item 5. Other Events

As previously announced on April 10, 2003, XOMA Ltd. has entered into amended and restated agreements relating to all aspects of its ongoing collaboration with Genentech, Inc. on Raptiva(TM) (efalizumab) to reflect the current understanding between the companies. A copy of the principal agreement governing the collaboration is attached hereto as Exhibit 2 and incorporated herein by reference. The agreements also address the ongoing financing by Genentech of XOMA's share of development and commercialization costs. Copies of the financing documents are attached hereto as Exhibit 3, Exhibit 4, Exhibit 5 and Exhibit 6 and are incorporated herein by reference.

Item 7. Exhibits

1. Press Release dated April 10, 2003.*

2. Amended and Restated Collaboration Agreement, dated March 31, 2003, by and between XOMA (US) LLC and Genentech, Inc. (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission).

3. Amended and Restated Convertible Secured Note Agreement (Development Loan), dated as of March 31, 2003.

4. Secured Note Agreement (Commercial Launch Loan), dated as of March 31, 2003.

5. Security Agreement, dated as of March 31, 2003, by and between XOMA Ltd.

and Genentech, Inc.

6. Registration Rights Agreement, dated as of March 31, 2003, by and between XOMA Ltd. and Genentech, Inc.

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* Previously filed.

SIGNATURE

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

Dated: April 18, 2003 XOMA LTD.

By: /s/ Christopher J. Margolin

Christopher J. Margolin
Vice President, General
Counsel and Secretary

EXHIBIT INDEX

Number	Description
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6.	Registration Rights Agreement, dated as of March 31, 2003, by and between XOMA Ltd. and Genentech, Inc.

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* Previously filed.

EXHIBIT 2

[*] indicates that a confidential portion of the text of this agreement has been omitted

AMENDED AND RESTATED COLLABORATION AGREEMENT

THIS AMENDED AND RESTATED COLLABORATION AGREEMENT (this "Agreement") is made as of this 31st day of March 2003 (the "Restatement Date") and is effective as of April 22, 1996 (the "Effective Date") by and between XOMA (US) LLC, a Delaware limited liability company having its principal place of business at 2910 Seventh Street, Berkeley, California 94710 ("XOMA"), and Genentech, Inc., a Delaware corporation having its principal place of business at 1 DNA Way, South San Francisco, California 94080 ("Genentech"), each on behalf of itself and its Affiliates. XOMA and Genentech are sometimes referred to herein individually as a "Party" and collectively as the "Parties," and references to "XOMA" and "Genentech" shall include their respective Affiliates.

RECITALS

1. Genentech licensed a monoclonal antibody (then known as MHM-24) to the CD11a cell integrin on the surface of leucocytes under the terms of an Evaluation and License Agreement dated July 1, 1991 among Genentech, The Chancellor Masters and Scholars of the University of Oxford, Andrew J. McMichael and James E.K. Hildreth (the "Oxford Agreement"). Genentech humanized such antibody and began its preclinical development including the development of a pilot process for producing the antibody.

2. Genentech and XOMA's predecessor in interest entered into that certain Collaboration Agreement effective as of April 22, 1996 as amended by the Amendment thereto dated as of April 14, 1999 (the "Original Agreement").

3. In 1998, XOMA earned and Genentech paid the milestone payment set forth in Section 7.3 of the Original Agreement.

4. Genentech and XOMA wish to amend and restate the Original Agreement on the terms set forth below and to continue development of and market Anti-CD11a in a collaborative fashion so that the resources and expertise of each are put to good use.

ARTICLE 1
DEFINITIONS

The following terms shall have the following meanings as used in this Agreement:

1.1 "Administration Costs" shall have the meaning defined in Exhibit A which is attached hereto and incorporated herein.

1.2 "Affiliate" means an entity that, directly or indirectly, through one or more intermediaries, is controlled by XOMA or Genentech. As used herein, the term "control" will

mean the direct or indirect ownership of fifty percent (50%) or more of the stock having the right to vote for directors thereof or the ability to otherwise control the management of the corporation or other business entity.

1.3 "Allocable Overhead" shall have the meaning defined in Exhibit A.

1.4 "Anti-CD11a" means that certain monoclonal antibody, and other constructs with minor modifications thereto resulting from changes to the manufacturing process occurring after the transfer thereof from XOMA to Genentech which is now known as Efalizumab, and which recognizes the CD11a cell adhesion molecule on leucocytes, the full length sequences of the light and heavy chains of which are set forth in Exhibit B attached hereto and incorporated herein.

1.5 "Competing Product" means any of the following molecules whose primary mechanism of action is initiated by interaction with the CD11a molecule on leucocytes, and which is developed or acquired by either Party: (i) any monoclonal antibody (other than Anti-CD11a), (ii) any antibody fragment (e.g. Fab, Fab' F(ab')2), and/or (iii) any immunoadhesin.

1.6 "Commercially Reasonable and Diligent Efforts" means those efforts consistent with the exercise of prudent scientific and business judgment, as applied to other pharmaceutical products of similar potential and market size by the Party in question.

1.7 "Control" means possession of the ability to grant a license or sublicense as provided for herein without violating the terms of any agreement or other arrangement with any Third Party.

1.8 "Co-Promote" means to promote jointly Licensed Products under a single trademark in the Co-Promotion Territory.

1.9 "Co-Promotion Territory" means the United States.

1.10 "Cost of Goods Sold" in the Co-Promotion Territory shall have the meaning defined in Exhibit A.

1.11 "Development Costs" shall have the meaning defined in Exhibit A.

1.12 "Development Plan" means the comprehensive plan approved by the Joint Steering Committee for the development of Anti-CD11a, designed to generate the preclinical, process development/manufacturing scale-up, clinical and regulatory information required for filing Drug Approval Applications in the Co-Promotion Territory. The Development Plan will be modified by the Joint Core Team to address Future Indications as they arise and at least annually for each Initial Indication and Future Indication being developed. Development shall refer to all activities related to preclinical testing, toxicology, formulation, process development, manufacturing scale-up, quality assurance/quality control, clinical studies and regulatory affairs for Licensed Products in connection with obtaining Regulatory Approvals of such Licensed Products.

1.13 "Distribution Costs" shall have the meaning defined in Exhibit A.

1.14 "Drug Approval Application" means an application for Regulatory Approval required for commercial sale or use of a Licensed Product as a drug in the Field in a regulatory jurisdiction.

1.15 "Ex-U.S. Development Costs" shall have the meaning defined in Exhibit A.

1.16 "Ex-U.S. Genentech Partner" means an entity which has contractual rights pursuant to an agreement with Genentech, to develop and commercialize Licensed Product in the Field in the Genentech Territory or any portion thereof.

1.17 "Field" means the use of Licensed Product for the treatment or prevention of any human condition, disorder or disease.

1.18 "Finance Committee" means that committee established pursuant to Section 3.3.

1.19 "Future Indications" means use of Licensed Product for the treatment of any illness, sickness, interruption, cessation or disorder of a particular bodily function, system or organ except psoriasis and the treatment or prevention of organ transplant rejection. A separate Future Indication will not exist solely on the basis of the severity of the ailment, the frequency or route of any treatment or the demographics of the patient class. For purposes of clarity, rheumatoid arthritis and psoriatic arthritis are each separate Future Indications.

1.20 "Genentech Know-How" means Information which (i) Genentech discloses to XOMA under this Agreement and (ii) is within the Control of Genentech.

1.21 "Genentech Patents" means Patents and patent applications issued by or filed with the United States Patent Office owned by or Controlled by Genentech in whole or in part that are necessary to make, use, sell, offer for sale or import a Licensed Product in the Field, including Patents owned jointly by the Parties as provided hereunder. Notwithstanding the foregoing, Genentech Patents shall not include any of the following: (i) the Itakura/Riggs Patents (which term is defined on Exhibit C, which is attached hereto and incorporated herein), which patents Genentech represents are not required in connection with any manufacture or use of Anti-CD11a or Licensed Product made in mammalian cells under this Agreement; (ii) the Cabilly Coexpression Patents (which term is defined on Exhibit C, which is attached hereto and incorporated herein; and (iii) the Cabilly Chimera Patents (which term is defined on Exhibit C, which is attached hereto and incorporated herein). [*]

1.22 "Genentech Territory" means worldwide (except for the United States).

1.23 "Global Development Costs" shall have the meaning defined in Exhibit A.

1.24 "Global Development Project Team" or "GDPT" means that project team established pursuant to Section 3.4.

1.25 "Gross Sales" shall have the meaning defined in Exhibit A.

1.26 "Information" means techniques and data relating to the Licensed Products, including, but not limited to, biological materials, inventions, practices, methods, knowledge, know-how, skill, experience, test data including pharmacological, toxicological and clinical test data, analytical and quality control data, marketing, pricing, distribution, cost, sales, manufacturing, patent data or descriptions.

1.27 "Indication" means any Initial Indication (which includes the Organ Transplant Indication) or any Future Indication as the context provides

1.28 "Initial Indications" means the use of Licensed Product for the treatment of psoriasis and the Organ Transplant Indication. For purposes of this Agreement, psoriasis is a single indication regardless of whether the psoriasis is mild, moderate or severe. Separate Initial Indications will not result based on the severity of the psoriasis or organ transplant rejection, the onset period of organ transplant rejection, or the demographics of the patient class.

1.29 "Joint Core Team" or "JCT" means that body established pursuant to Section 3.2.

1.30 "Joint Development Indications" means those Indications which the Parties are jointly developing under this Agreement.

1.31 "Joint Steering Committee" or "JSC" means that committee established pursuant to Section 3.1.

1.32 "Licensed Product" or "Licensed Products" means a formulation for use in the Field containing Anti-CD11a or any molecule derived from Anti-CD11a that is substituted as the subject of this collaboration, except as otherwise set forth in Section 2.2.

1.33 "Marketing Costs" shall have the meaning defined in Exhibit A.

1.34 "Net Sales" shall have the meaning defined in Exhibit A.

1.35 "Non-Anti-CD18 Anti-LFA1 Protein Product" shall mean an antibody or other protein that binds to LFA1, provided it is not an antibody that binds to CD18.

1.36 "Note Agreements" mean the Amended and Restated Convertible Secured Note Agreement - Development Loan entered into by the Parties on March 31, 2003 and the Secured Note Agreement - Commercial Launch Loan entered into by the Parties on March 31, 2003.

1.37 "Opt-Out" shall have the meaning set forth in Section 5.1.

1.38 "Operating Profit or Loss" shall have the meaning defined in Exhibit A.

1.39 "Organ Transplant Indication" means the treatment or prevention of the rejection of any organ transplant with separate Organ Transplant Indications existing for each particular organ. By way of example, the treatment of renal transplant rejection, cardiac transplant rejection and the rejection of any other transplanted organ are each separate Organ Transplant Indications. However, separate Organ Transplant Indications will not result based on the severity of the rejection, the onset period of such rejection or the demographics of the patient class.

1.40 "Patent" means (i) valid and enforceable letters patent, including any extension, registration, confirmation, reissue, continuation, division, continuation-in-part, re-examination or renewal thereof, and (ii) pending applications for letters patent.

1.41 "Patent Costs" shall have the meaning defined in Exhibit A.

1.42 "Permitted Indications" means an Initial Indication or Future Indication which Genentech has Opted-Out of (as defined in Section 5.1), and has not prohibited development of by exercising its rights under Section 5.2, regardless of whether Genentech has additional opt-in rights hereunder.

1.43 "Phase II Clinical Trial" means such studies in humans of the safety, dose ranging and efficacy of a Licensed Product which have generated sufficient data to decide whether to commence Phase III Clinical Trials. 1.44 "Phase III Clinical Trial" means a controlled study in humans of the efficacy and safety of a Licensed Product which is prospectively designed to demonstrate statistically whether the Licensed Product is effective for use in a particular indication in

a manner sufficient to obtain regulatory approval to market that Licensed Product and which the Joint Core Team designates as a Phase III Clinical Trial.

1.45 "Regulatory Approval" means any approvals (including pricing and reimbursement approvals), licenses, registrations or authorizations of any federal, state or local regulatory agency, department, bureau or other governmental entity necessary for the manufacture and sale of Licensed Products in a regulatory jurisdiction.

1.46 "Right of Prohibition" shall have the meaning set forth in Section 5.2.

1.47 "Royalty-Bearing Sales" shall have the meaning set forth in Exhibit A for Net Sales.

1.48 "Run" means a single fermentation lot taken through Licensed Product quality release.

1.49 "Sales Costs" shall have the meaning defined in Exhibit A.

1.50 "Sales Representative" means an employee of either Party or its Affiliates (i) who is responsible for contacting customers and others who can buy or influence the buying decision on the applicable Licensed Product in the Co-Promotion Territory, and (ii) whose success at such activities is a significant factor in the ongoing employment of the individual, and shall exclude an employee of either Party or an Affiliate engaged in telemarketing, professional education and similar indirect activities in support of direct selling.

1.51 "Third Party" means any entity other than XOMA or Genentech.

1.52 "Third Party Royalties" means royalties payable to a Third Party in connection with Licensed Products.

1.53 "U.S. Commercialization Costs" shall have the meaning defined in Exhibit A.

1.54 "U.S. Specific Development Costs" shall have the meaning defined in Exhibit A.

1.55 "Valid Claim" means a claim of an issued or granted and unexpired Patent which has not lapsed, been revoked or abandoned or held permanently unenforceable or invalid by a decision of a court or other governmental agency of competent jurisdiction, unappealable or unappealed within the time allowed for appeal.

1.56 "XOMA Know-How" means Information which (i) XOMA discloses to Genentech under this Agreement and (ii) is within the Control of XOMA.

1.57 "XOMA Patents" means any and all Patents owned or Controlled in whole or in part by XOMA that are necessary to make, use, sell, import, or offer for sale a Licensed Product in the Field including its interest in any Patents owned jointly by the Parties as provided hereunder.

ARTICLE 2
SCOPE OF COLLABORATION

2.1 Initial Development. The Parties will focus their initial efforts on the development of Licensed Products to treat psoriasis. In addition, the Parties shall develop Licensed Products for Organ Transplant Indications as follows: (i) XOMA and Genentech each have the right to opt-in or opt-out of each Organ Transplant Indication on an Indication by Indication basis in accordance with the provisions set forth in Section 5.1; (ii) Genentech shall have a right to opt-in to an Organ Transplant Indication on an Indication by Indication basis as set forth in Sections 5.4(a) and 5.4(d) provided however that Genentech shall not be obligated to pay an opt-in fee and (iii) with respect to the renal Organ Transplant Indication, the Parties acknowledge that subsequent to the Effective Date and prior to the Restatement Date the Parties mutually agreed to discontinue present development efforts and that in the event that either Party proposes to resume

development of the renal Organ Transplant Indication, the rights and obligations of the Parties shall be governed by Article 5.

2.2 Option to Include Competing Products. Neither Party shall, alone or with any Third Party, conduct any human clinical trial of any Competing Product

without first giving the other Party (the "Electing Party") advance written notice. The Electing Party shall have 120 days from the date the first Party delivers such notice to elect to include such Competing Product as a Licensed Product. The terms and conditions governing the development and commercialization of Competing Products shall be similar to the terms and conditions set forth in this Agreement for the development and commercialization of Anti-CD11a, taking into account the relative commercial value of the Competing Product compared to Anti-CD11a. If the Parties cannot, after good faith negotiations, reach agreement on terms for the development and commercialization of such Competing Product, then either (a) the Electing Party shall have a license to the Competing Product solely in the Co-Promotion Territory and the terms of this Agreement shall govern the Competing Product in all respects except as follows: (i) Genentech shall have no obligation to loan XOMA funds with respect to the Competing Product under Section 8.1 or any other provision, (ii) all payments made to obtain Control of the Competing Product in the Co-Promotion Territory from a Third Party shall be allocated [*] to XOMA and [*] to Genentech; or (b) either Party may invoke the dispute resolution provisions of this Agreement. If the Electing Party does not notify the first Party of its election to so include a Competing Product within such 120-day period, the first Party shall be free to proceed with the development and commercialization of such Competing Product without any obligation hereunder to the Electing Party.

ARTICLE 3
MANAGEMENT OF THE COLLABORATION

3.1 Joint Steering Committee.

(a) A Joint Steering Committee will oversee and manage the collaboration in the Co-Promotion Territory with respect to Joint Development Indications. The JSC will be composed of two representatives appointed and replaced at XOMA's discretion and two representatives appointed and replaced at Genentech's discretion. Such representatives will be senior officers and/or managers of their respective companies. Any member of the JSC may designate a substitute to attend and perform the functions of that member at any meeting of the JSC. A quorum of the JSC will be established when there is at least one member from each Party present at the JSC. The JSC will meet at least once each calendar quarter, or at any frequency agreed by the JSC, and to the extent Genentech does not expressly have sole decision making authority pursuant to this Agreement, the JSC will operate by consensus of the Parties. Consensus shall mean that XOMA's JSC members will collectively have one vote and Genentech's JSC members will collectively have one vote with decisions to be made only by unanimous vote. The areas where Genentech has sole decision making authority include but are not limited to the following:

(i) in areas where it is the "implementing party" as referred to in Section 3.2(b);

(ii) subject to Sections 4.2(b)(i) and 4.3, with respect to regulatory submissions;

(iii) as set forth in Sections 5.1 through 5.3 and in Section 6.1(c);

(iv) with respect to all matters relating to the development, manufacture and sale of Licensed Product in the Genentech Territory; and

(v) as set forth in Sections 4.4, 7.3(b)(i) through (v), 13.7 and 16.2(b)(i) and Article 9.

(b) The JSC shall perform the following functions with respect to the Co-Promotion Territory for the Joint Development Indications:

(i) monitor collaboration activities in the manner contemplated by this Agreement;

(ii) approve development and commercialization strategies which are formulated by the JCT;

(iii) approve Development Plans and commercialization plans;

(iv) approve annual budgets on collaboration projects and any subsequent increases greater than [*] percent ([*]%) of such budgets;

(v) vote on whether to pursue a Future Indication or an Organ Transplant Indication; provided, however, that such vote will only be binding upon the Parties in accordance with Article 5; and

(vi) perform such other functions as appropriate to further the purposes of this Agreement as determined by the Parties.

(c) Except as set forth in Section 3.4 below, and unless otherwise provided by this Agreement, the JSC shall settle disputes or disagreements that are unresolved by the JCT; provided, however, that if the JSC is unable to resolve a dispute regarding any issue properly presented to it, such dispute shall be resolved in accordance with Article 18.

(d) The JSC will cease operations and have no further function and no authority to authorize expenditures after the later of (i) the date on which the Parties are no longer developing Licensed Product in the Co-Promotion Territory or (ii) the date on which the Parties are no longer obligated to share Operating Profit or Loss with respect to any Licensed Product in the Co-Promotion Territory in accordance with this Agreement.

3.2 Joint Core Team.

(a) With respect to the Joint Development Indications, a Joint Core Team will coordinate and formulate strategies for development and commercialization of Anti-CD11a in the Co-Promotion Territory, in the Field, including preclinical research, clinical research, manufacturing, regulatory filings and post-approval development studies. With respect to Joint Development Indications, the JCT's responsibilities with respect to the Co-Promotion Territory will include the following:

(i) formulate strategy and plans for shared development and commercialization including but not limited to the annual marketing plan, broad product positioning, pricing, managed care contract strategies and Phase IV clinical support strategies;

(ii) designate the Party who will implement such strategy and plans in accordance with this Agreement; provided, however, that the implementing Party need not obtain review or approval of the means or methods it uses to implement such strategies and plans;

(iii) formulate annual budgets, including annual marketing and sales budgets, for the Parties' collaboration activities and present to the JSC any subsequent increases greater than [*] percent ([*]%) of such budgets and modify the Development Plan accordingly;

(iv) prepare annual marketing and sales budgets, annual forecasts of sales and production requirements;

(v) select trademarks for Licensed Products;

(vi) provide progress updates to other team members with respect to development and commercialization activities and strategies; and

(vii) review and vote on project proposals for Future Indications and Organ Transplant Indications and if appropriate refine such proposals for JSC review if there is a decision to proceed.

(b) The Party designated by the JCT as an implementing Party of JSC approved strategies and plans shall have broad discretion without prior review and approval to implement such strategies and plans. Strategies requiring JSC approval include but are not limited to: defining study objectives, study end-points and success criteria for clinical and non-clinical studies sponsored by the Parties or studies for which the Parties are obligated to share Development Costs pursuant to this Agreement, branding, communications strategies with analysts and other Third Parties regarding project expectations, revenue forecasts and/or development milestones and regulatory approval strategies for new indications. Implementation methods and approaches which are not subject to approval of the JSC or JCT include but are not limited to: promotional campaigns, design and implementation of clinical and non-clinical studies sponsored by a Party or the Parties, investigator-sponsored trials, IND/BLA annual updates, handling of adverse events and reports regarding the same and the text of package

inserts. Notwithstanding the foregoing, the implementing Party shall keep the other Party informed of its activities at regular intervals.

(c) The JCT will be composed of a total of six representatives with three representatives (or any other number as agreed to by the Parties) appointed and replaced by XOMA and three representatives (or any other number as agreed to by the Parties) appointed and replaced by Genentech. A quorum of the JCT will be established when there is at least one member from each Party present at the JCT. Except where Genentech has sole authority as provided herein, the JCT will operate by consensus of the Parties. Consensus shall mean that XOMA's JCT members will collectively have one vote and Genentech's JCT members will

collectively have one vote with decisions made by unanimous vote. Areas where Genentech has sole decision making authority include but are not limited to those which are set forth in Section 3.1(a). JCT representatives will include individuals with expertise and responsibilities in the areas of preclinical development, clinical development, process sciences, manufacturing, regulatory affairs, product development and/or marketing. Either Party may replace any or all of its representatives at any time upon written notice to the other Party. Any member of the JCT may designate a substitute to attend and perform the functions of that member at any meeting of the JCT. The JCT will meet at least once each calendar quarter, or as agreed to by the JCT.

(d) Unless otherwise provided under this Agreement, the JCT will seek to resolve disputes of matters before it. If the JCT is unable to resolve a dispute within thirty (30) days of notice of the dispute, it will refer such dispute to the JSC.

(e) The JCT will cease operations and have no further function hereunder on the later of (i) the date on which the Parties are no longer developing any Licensed Product in the Co-Promotion Territory, or (ii) the date on which the Parties are no longer obligated to share Operating Profit or Loss with respect to any Licensed Product in the Co-Promotion Territory in accordance with this Agreement.

3.3 Finance Committee.

(a) The Parties will establish a Finance Committee to be composed of two representatives appointed and replaced by XOMA and two representatives appointed and replaced by Genentech. Such representatives will include individuals with expertise and responsibilities in the areas of accounting, cost allocation, budgeting and financial reporting. Any member of the Finance Committee may designate a substitute to attend and perform the functions of that member at any meeting of the Finance Committee. The Finance Committee will operate by consensus of the Parties with each Party having a single vote regardless of the number of its representatives on the Finance Committee. If the Finance Committee is unable to resolve a dispute regarding any issue presented to it, within thirty (30) days of notice of a dispute, such dispute shall be referred to the JSC.

(b) The Finance Committee shall operate under the direction of the Joint Steering Committee to provide services to and consult with the Joint Core Team in order to address financial, budgetary and accounting issues including those which arise in connection with

the Development Plan and commercialization plans for the Co-Promotion Territory and updates thereto and/or those which relate to the Note Agreements or that certain Common Stock and Convertible Note Purchase Agreement (the "Purchase Agreement") entered into by the Parties on April 22, 1996. Notwithstanding the foregoing the Note Agreements and Purchase Agreement may only be amended with the written agreement of the Parties which amendments either Party may reject in its sole discretion.

(c) The Finance Committee shall have no control over or input into the development and commercialization of Licensed Products in the Genentech Territory, which shall be the sole responsibility of Genentech, subject to the terms and conditions of this Agreement. Notwithstanding the foregoing, the Finance Committee shall address financial issues related to Global Development Costs.

(d) The Finance Committee will cease operating and have no further function hereunder on the final day of the calendar quarter following the calendar year during which the Parties are no longer obligated to share Operating Profit or Loss with respect to any Licensed Product in the Co-Promotion Territory in accordance with this Agreement.

3.4 Global Development Project Team.

(a) Within forty-five (45) days of the later of the Restatement Date and the execution of an agreement with an Ex-U.S. Genentech Partner, the Parties shall form a Global Development Project Team which will operate in addition to the JSC and the JCT. Except as set forth in Section 3.4(b), with respect to those Indications it has opted-in to, each Party and each Ex-U.S. Genentech Partner will each have one vote with decisions made by unanimous vote. Any Party and any Ex-U.S. Genentech Partner may replace members of the GDPT appointed by it upon written notice to the other members. The GDPT shall have no authority with respect to marketing and commercialization matters. The functions which the GDPT shall perform with respect to each Future Indication and Initial Indication are as follows:

(i) formulate and amend as appropriate a Global Development Plan;

(ii) formulate and amend as appropriate budgets, and implement global

development activities within said budgets;

(iii) provide status updates regarding development activities; and

(iv) perform such other development related functions as appropriate.

(b) Issues relating to Indications which XOMA has opted-in to that come before the GDPT and that require action, approval or resolution for which the GDPT is unable to reach a unanimous vote shall be resolved as follows:

(i) XOMA vs. Genentech and an Ex-U.S. Genentech Partner - In the event that XOMA disagrees with a position jointly held by Genentech and an Ex-U.S. Genentech Partner on a matter before the GDPT such dispute will be resolved as follows. The Parties, or either one of them, shall provide prompt written

notice of such dispute to the JSC. The JSC shall promptly commence good faith discussions in order to resolve the dispute between Genentech and XOMA. In the event that such dispute is not resolved within thirty (30) days of the notice, an Executive Vice President or Senior Vice President of Genentech and the Chief Executive Officer or a Senior Vice President of XOMA shall promptly commence good faith discussions in order to resolve the dispute. If the dispute remains unresolved after thirty (30) days following commencement of these discussions, then Genentech's position (which the Ex-U.S. Genentech Partner is in agreement with) shall prevail.

(ii) XOMA vs. Genentech vs. an Ex-U.S. Genentech Partner- In the event that XOMA, Genentech and an Ex-U.S. Genentech Partner all disagree with one another, the dispute between Genentech and XOMA shall be resolved as set forth in Section 3.4(b)(i) above. The dispute between Genentech and the Ex-U.S. Genentech Partner shall be resolved in accordance with the dispute resolution procedures which govern under the Genentech and Ex-U.S. Genentech Partner agreement relating to Anti-CD11a, and although not a party, XOMA agrees to abide by decisions arising from such dispute resolution process.

(iii) XOMA and an Ex-U.S. Genentech Partner vs. Genentech - In the event that XOMA agrees with an Ex-U.S. Genentech Partner but disagrees with Genentech on a matter before the GDPT, the dispute shall be resolved in accordance with the dispute resolution procedures which govern under the Genentech and Ex-U.S. Genentech Partner agreement relating to Anti-CD11a, and although not a party, XOMA agrees to abide by decisions arising from such dispute resolution process.

ARTICLE 4
DEVELOPMENT OBLIGATIONS

4.1 Development Efforts. XOMA and Genentech each agree to use Commercially Reasonable and Diligent Efforts to develop and bring Licensed Products to market for the Joint Development Indications. The Parties further agree to cooperate with each other in carrying out the Development Plans for the Joint Development Indications.

4.2 Initial Indications.

(a) With respect to the psoriasis Indication only, Genentech agrees to be responsible for the following specific activities necessary to complete development of Anti-CD11a up to completion of Phase II Clinical Trials:

(i) Transfer all preclinical data, assays and associated materials, protocols, procedures and any other information in Genentech's possession required to initiate clinical development of Anti-CD11a for the psoriasis Indication at no cost to XOMA.

(ii) Complete development of a pilot process to manufacture Anti-CD11a for the psoriasis Indication. Transfer the cell bank for Anti-CD11a production as well as all associated assays, procedures and other information required for XOMA to supply Licensed Product for any IND-enabling studies and human clinical trials to the end of Phase II Clinical Trials for the psoriasis Indication. The Joint Core Team will determine if any process improvements or refinements are required and which Party will be responsible for such improvements or refinements. XOMA will pay all costs incurred in making such improvements or refinements after Genentech has transferred the pilot process to XOMA and XOMA has accepted it, such acceptance not to be unreasonably withheld.

(b) Subject in each case to XOMA's rights with respect to each Organ Transplant Indication as described in Section 2.1 and with respect to the renal Organ Transplant Indication only during such period as the Parties are jointly developing such indication, XOMA agrees to be responsible for the following specific activities necessary to complete development of Anti-CD11a up to the successful completion of Phase II Clinical Trials for the Initial Indications:

(i) Use Commercially Reasonable and Diligent Efforts to conduct all IND-enabling studies and human clinical studies for the Initial Indications through the successful completion of Phase II Clinical Trials and make all filings with and all supporting communications with the U.S. Food and Drug Administration ("FDA") necessary to conduct such studies, as set forth in the Development Plan.

(ii) Upon transfer of manufacturing technology by Genentech, use Genentech's process at XOMA's manufacturing facilities (upgrading such facilities if necessary) to supply all requirements of Licensed Product for preclinical and human clinical trials up to the successful completion of the above referenced Phase II Clinical Trials for psoriasis in the Co-Promotion Territory.

(c) No Opt-In Fee. Genentech will not be obligated to pay an opt-in fee with respect to the Initial Indications.

(d) Development Costs. XOMA shall be solely responsible for costs it incurs pursuant to Sections 4.2(a)(ii), 4.2(b)(i) and 4.2(b)(ii) and for all Development Costs incurred for the Organ Transplant Indications through completion of Phase II Clinical Trials and such costs will not be chargeable to GenXOMA (as defined in Exhibit A) as provided in the definitions section of Exhibit A. Genentech shall be solely responsible for costs it incurs pursuant to Sections 4.2(a)(i) and 4.2(a)(ii) and such costs shall not be chargeable to GenXOMA as provided in the definitions section of Exhibit A. Genentech shall be responsible for conducting Phase III Clinical Trials for the indications it has opted-in to and the cost of such Phase III Clinical Trials shall be chargeable to GenXOMA as provided in Exhibit A for all Joint Development Indications.

4.3 Drug Approval Applications. With respect to all Indications which Genentech has opted-in to, consistent with the Development Plan, Genentech shall use Commer-

cially Reasonable and Diligent Efforts to file Drug Approval Applications and seek Regulatory Approvals for Licensed Products in the Co-Promotion Territory. Genentech shall file and own all regulatory submissions including but not limited to all Drug Approval Applications for Licensed Products for Joint Development Indications. If the Parties Co-Promote Licensed Products, the Parties will include on all package labels and inserts for Licensed Products sold in the Co-Promotion Territory the names and logos of XOMA and Genentech with equal prominence, to the extent permitted by the applicable regulatory authorities. To the extent that both Genentech's and XOMA's names and logos are not permitted to appear on such package labels and inserts, then only Genentech's name and logo shall be designated.

4.4 Genentech Territory. Notwithstanding anything to the contrary herein, Genentech shall have the sole responsibility for, and right to make all decisions regarding, all development and commercialization activities in the Genentech Territory.

ARTICLE 5
FUTURE INDICATIONS AND ORGAN TRANSPLANT INDICATIONS

5.1 Proposals. Any Party may propose a Future Indication or an Organ Transplant Indication to the JCT. If the JCT agrees to further evaluate the proposal, the JCT will develop a detailed proposal, which will include a clinical plan, a proposed clinical trial budget, time lines and commercial analysis. The JSC shall review and evaluate such proposals and make a recommendation as to whether or not to pursue the Future Indication and/or the Organ Transplant Indication, as the case may be, which is proposed. The recommendations made by the JSC shall not be binding unless and until Genentech's Chief Executive Officer or a Genentech Executive Vice President approves of the proposed Future Indication or the Organ Transplant Indication, as the case may be, in writing. Each Party shall review and evaluate proposals for Future Indications and Organ Transplant Indications in good faith; however, either Party may decline to participate ("Opt-Out") in the development of a proposed Future Indication or Organ Transplant Indication in its sole discretion. Pursuant to Sections 5.4 through 5.6, as applicable, the Parties may also "opt back in" to development and commercialization of an Indication after having Opted Out pursuant to this Section 5.1. The exercise of any such opt-in rights shall be subject to the other provisions of this Agreement, including without limitation the obligation to share Operating Profit or Loss, Development Costs and U.S. Commercialization Costs and such exercise shall not entitle a

Party to any rights greater than those they would have had if they agree to develop an Indication in accordance with this Section 5.1. By way of example, if XOMA opts-in to an Indication pursuant to Section 5.5 or 5.6, the licenses granted hereunder shall be for the Co-Promotion Territory only. For purposes of this Agreement, the Parties are deemed to be opted-in to the psoriasis Indication and any Indication they opt-in to pursuant to Sections 5.4 through 5.6.

5.2 Genentech's Sole Right to Prohibit Development. Subject to payment of a prohibition fee if required by Section 5.7, and notwithstanding anything to the contrary herein, for each Future Indication and Organ Transplant Indication, Genentech shall have the right in its sole discretion to prohibit XOMA from investigating and/or developing or assisting

others in investigating or developing such Future Indication or Organ Transplant Indication as follows ("Right of Prohibition"):

(a) Exercise upon JSC's Recommendation to Develop. Genentech may exercise its Right of Prohibition initially upon Genentech's review of the JSC's recommendation concerning a proposed Future Indication or Organ Transplant Indication. If Genentech exercises its Right of Prohibition at this stage no prohibition fee as described in Section 5.7 shall be owed.

(b) Exercise after Phase II Clinical Trials. In the alternative, Genentech may permit XOMA to conduct Phase II Clinical Trials for a proposed Future Indication or Organ Transplant Indication at XOMA's sole cost and risk but Genentech shall have the right, in its sole discretion, to exercise its Right of Prohibition after completion of each such Phase II Clinical Trial. Following completion of each such Phase II Clinical Trial, XOMA shall provide Genentech with written notice of such completion and enclose a copy of a summary analysis performed in accordance with the pre-specified statistical analysis plan filed with the FDA. Upon receipt of the notice and report, Genentech shall have sixty (60) days to exercise its Right of Prohibition. During this sixty (60) day period, XOMA shall provide Genentech with all updates to the report, and all additional material information, data and reports. In addition, XOMA shall make its personnel, agents and/or contractors available to respond to reasonable inquiries by Genentech.

5.3 Study Objectives and Success Criteria. Genentech will have final approval of all study objectives, primary study end points and success criteria for all studies relating to any Future Indication or Organ Transplant Indication. Said approval shall be made prior to enrollment in a study and shall be made by means of a written document executed by Genentech's Executive Vice President of Development or her designee.

5.4 Opt-Ins After Opt-Outs

(a) Genentech -- End of Phase II. For each Permitted Indication, Genentech shall have the right to opt-in to such Permitted Indication upon completion of a successful Phase II Clinical Trial for such Permitted Indication under the following terms and conditions:

(i) Notice, Delivery of Reports and Time to Exercise. Following completion of each successful Phase II Clinical Trial for a Permitted Indication, XOMA shall provide Genentech with written notice of such completion and enclose a copy of a summary analysis performed in accordance with the pre-specified statistical analysis plan filed with the FDA. Upon receipt of the notice and report, Genentech shall have ninety (90) days to exercise its opt-in right by providing written notice to XOMA of such intent. During this ninety (90) day period, XOMA shall provide Genentech with all updates to the report and all additional material information, data and reports. In addition, upon request XOMA shall make the raw data as well as its personnel, agents and/or contractors available in response to reasonable inquiries by Genentech.

(ii) Fees. For each Future Indication which Genentech opts-in to pursuant to Section 5.4(a)(i), Genentech shall owe XOMA an amount equal to [*]. With respect to Organ Transplant Indications, Genentech shall have no opt-in fee. Opt-in fees owed pursuant to this Section 5.4(a) shall be payable within thirty (30) days of exercise.

(iii) Waiver. Genentech will waive its opt-in rights under this Section 5.4(a) with respect to a specific Indication if it fails to timely provide written notice of such intent and timely tender opt-in fees for such Indication.

(b) XOMA - End of Phase II - Future Indications. For each Future Indication

which XOMA has Opted-Out of pursuant to Section 5.1, XOMA shall have a one time right to opt-in to such Future Indication upon completion of a successful Phase II Clinical Trial for such Future Indication under the following terms and conditions:

(i) Notice, Delivery of Reports and Time to Exercise. Following completion of each successful Phase II Clinical Trial for a Future Indication, Genentech shall provide XOMA with written notice of such completion and enclose a copy of a summary analysis performed in accordance with the pre-specified statistical analysis plan filed with the FDA. Upon receipt of the notice and report, XOMA shall have ninety (90) days to exercise its opt-in right by providing written notice to Genentech of such intent. During this ninety (90) day period, Genentech shall provide XOMA with all updates to the report and all additional material information, data and reports. In addition, upon request Genentech shall make the raw data as well as its personnel, agents and/or contractors available in response to reasonable inquiries by XOMA.

(ii) Fees. For each Future Indication which XOMA opts-in to pursuant to Section 5.4(b)(i), XOMA shall owe Genentech an amount equal to the sum of [*]. Opt-in fees owed pursuant to this Section 5.4(b) shall be payable within thirty (30) days of exercise. Such fees may not be funded under the Note Agreements.

(iii) Waiver. XOMA will waive its opt-in rights under this Section 5.4(b) if it fails to timely provide written notice of such intent and timely tender the opt-in fees.

(c) XOMA - End of Phase II - Organ Transplant Indications. XOMA shall have no right to opt-in to an Organ Transplant Indication at any time after Opting-Out of such Organ Transplant Indication in accordance with Section 5.1.

(d) Genentech - End of Phase III. For each Permitted Indication, Genentech shall have a one time right to opt-in to such Permitted Indication upon completion of a successful Phase III Clinical Trial for such Permitted Indication under the following terms and conditions:

(i) Notice, Delivery of Reports and Time to Exercise. Following completion of each successful Phase III Clinical Trial for a Permitted Indication,

XOMA shall provide Genentech with written notice of such completion and enclose a copy of a summary analysis performed in accordance with the pre-specified statistical analysis plan filed with the FDA. Upon receipt of the notice and report, Genentech shall have ninety (90) days to exercise its opt-in right by providing written notice to XOMA of such intent. During this ninety (90) day period, XOMA shall provide Genentech with all updates to the report and all additional material information, data and reports. In addition, upon request XOMA shall make the raw data as well as its personnel, agents and/or contractors available in response to reasonable inquiries by Genentech.

(ii) Fees. For each Future Indication which Genentech opts-in to pursuant to Section 5.4(d), Genentech shall owe XOMA an amount equal to [*]. For an Organ Transplant Indication which Genentech opts-in to pursuant to Section 5.4(d), Genentech shall have no payment obligations with respect to any development costs incurred through Phase II but shall owe XOMA an amount equal to [*]. Opt-in fees owed pursuant to this Section 5.4(d) shall be payable within thirty (30) days of exercise

(iii) Waiver. Genentech will waive its opt-in rights under this Section 5.4(d) if it fails to timely provide written notice of such intent and timely tender the opt-in fees.

5.5 Opt-Ins With Global Partners - Genentech Opt-in at Beginning of Development. For those Future Indications and Organ Transplant Indications which Genentech decides to develop with an Ex-U.S. Genentech Partner at the pre-clinical/IND-filing stage, XOMA shall have a right to opt-in to the development of such Indications being jointly developed by Genentech and an Ex-U.S. Genentech Partner under the following terms and conditions:

(a) Opt-in at Beginning of Development. Genentech shall provide XOMA with prompt written notice each time it reaches an agreement with an Ex-U.S. Genentech Partner to develop a Future Indication and/or Organ Transplant Indication which is not being developed by the Parties and enclose a copy of the material information, data and reports that Genentech reviewed in making its decision to enter into the agreement with an Ex-U.S. Genentech Partner. XOMA may exercise its right to opt-in to such Indication by providing Genentech with written notice of such intent within ninety (90) days. During this ninety (90) day period, Genentech shall provide XOMA with all updates to the information, data and reports referred to in the

first sentence of this Section 5.5(a) and all additional material information, data and reports. In addition, upon request Genentech shall make raw data as well as its personnel, agents and/or contractors available in response to reasonable inquiries by XOMA. With respect to such Future Indications which XOMA opts-in to pursuant to this Section 5.5(a), XOMA shall share U.S. Specific Development Costs and Global Development Costs for that particular Future Indication in accordance

with Section 6.1 and Commercialization Costs in accordance with Section 6.2. With respect to Initial Indications, XOMA shall be responsible for [*] of Development Costs up through Phase II Clinical Trial completion; thereafter, XOMA shall share U.S. Specific Development Costs and Global Development Costs in accordance with Section 6.1 and Commercialization Costs in accordance with Section 6.2. XOMA will waive its opt in rights under this Section 5.5(a) if it fails to timely provide written notice of its intent to exercise.

(b) Opt In after Future Indication Phase II Trial. For Future Indications only, XOMA shall have an additional opt-in right upon completion of a successful Phase II Clinical Trial for each such Future Indication being jointly developed by Genentech and an Ex-U.S. Genentech Partner under the following terms and conditions:

(i) Notice, Delivery of Reports and Time to Exercise. Following completion of each successful Phase II Clinical Trial for a Future Indication, Genentech shall provide XOMA with written notice of such completion and enclose a copy of a summary analysis performed in accordance with the pre-specified statistical analysis plan filed with the FDA or similar agency outside of the United States. Upon receipt of the notice and report, XOMA shall have ninety (90) days to exercise its opt-in right by providing written notice to Genentech of such intent. During this ninety (90) day period, Genentech shall provide XOMA with all updates to the report and all additional material information, data and reports. In addition, upon request Genentech shall make the raw data as well as its personnel, agents and/or contractors available in response to reasonable inquiries by XOMA.

(ii) Fees. In the event XOMA exercises its opt-in right pursuant to Section 5.5(b)(i), XOMA shall pay Genentech within thirty (30) days of exercise of its opt-in right [*].

(iii) Waiver. XOMA will waive its opt-in rights under this Section 5.5(b) if it fails to timely provide written notice of such intent and timely tender opt-in fees.

5.6 Opt-Ins With Global Partners - Genentech Opt-In After Pre-Clinical/IND Stage. For Future Indications and Organ Transplant Indications which Genentech first commences development of with an Ex-U.S. Genentech Partner after the pre-clinical/IND filing stage, XOMA shall have a right to opt-in to the development of such Future Indications and Organ Transplant Indications being jointly developed by Genentech and an Ex-U.S. under the following terms and conditions:

(a) Notice, Delivery of Reports and Time to Exercise. Following completion of each successful Phase II Clinical Trial for a Future Indication, Genentech shall provide XOMA with written notice of such completion and enclose a copy of a summary analysis performed in accordance with the pre-specified statistical analysis plan filed with the FDA or similar agency outside of the United States. Upon receipt of the notice and report, XOMA shall have ninety (90) days to exercise its opt-in right by providing written notice to Genentech of such intent. During this ninety (90) day period, Genentech shall provide XOMA with all updates to the report and all additional material information, data and reports. In addition, upon request Genentech shall make the raw data available to

XOMA as well as its personnel, agents and/or contractors available to respond to reasonable inquiries by XOMA.

(b) Fees. In the event XOMA exercises its opt-in right pursuant to Section 5.6(a), XOMA shall pay Genentech within thirty (30) days of exercise of its opt-in right [*].

(c) Waiver. XOMA will waive its opt-in rights under this Section 5.6 if it fails to timely provide the written notice of such intent and timely tender opt-in fees.

5.7 Prohibition Fee.

(a) Future Indications and Organ Transplant Indications. In the event that Genentech permits XOMA to develop a proposed Future Indication or an Organ Transplant Indication at XOMA's sole cost and then pursuant to Section 5.2 following completion of a Phase II Clinical Trial elects to prohibit such development after XOMA has incurred Development Costs for such proposed Future Indication or Organ Transplant Indication, then:

(i) If XOMA has met the criteria for success of such Phase II Clinical Trial as pre-defined pursuant to Section 5.3, then Genentech shall owe XOMA [*].

(ii) If the studies sponsored by XOMA have failed to meet the criteria for success defined by Genentech pursuant to Section 5.3 or neither Party wishes to continue further development for the particular Future Indication or Organ Transplant Indication, then Genentech shall have no payment obligations to XOMA.

5.8 No Opt-In. In the event that XOMA does not opt-in to an Indication, XOMA's sole compensation with respect to world-wide Royalty Bearing Sales of Licensed Product for such Indication is set forth in Section 8.3(b). In the event that Genentech does not opt-in to an Indication, Genentech's sole compensation with respect to Royalty Bearing Sales of Licensed Product in the Co-Promotion Territory for Permitted Indications is set forth in Section 8.3(c).

5.9 Collaboration with Third Parties. Genentech may at any time and in its sole discretion collaborate with or otherwise jointly develop an Indication with an Ex-U.S. Genentech Partner in the Genentech Territory. In addition, for Permitted Indications, XOMA may collaborate with an Ex-U.S. Genentech Partner with respect to only the development of such Permitted Indications. Further, in the event that Genentech does not opt-in to a Future Indication or Organ Transplant Indication by the end of a successful Phase III Clinical Trial as provided in Section 5.4(d), and does not exercise its Right of Prohibition under Section 5.2, XOMA may enter into agreements for the promotion of Licensed Product for such Indications in the Co-Promotion Territory with Third Party providers of sales and/or marketing services as long as such Third Parties provide such services only in the Co-Promotion Territory and the Third Parties are not one of the top twenty-five (25) largest biotechnology or pharmaceutical companies, as meas-

ured by sales revenues from pharmaceutical product sales ("Contract Sales Organizations"). Neither this Section 5.9 nor any other provision in this Agreement is intended to grant XOMA any rights to use, sell, offer for sale, make or import Licensed Product in the Genentech Territory. For purposes of clarity, this section is not intended to create or otherwise address Genentech's manufacturing obligations which are set forth in Article 9.

5.10 Compliance with Privacy Laws. As of the Restatement Date, the Parties shall use Commercially Reasonable and Diligent Efforts to obtain all necessary consents required for disclosure of the data and reports which they are required to provide pursuant to this Article 5. For purposes of this Article 5, Commercially Reasonable and Diligent Efforts shall include seeking contractual obligations from clinical research sites obligating the sites to seek subjects' consent to disclosure of private data to the Parties, their licensees and collaborators. In the event that any such consent can not be obtained, the Party having the opt-in right shall be provided with data and documentation which is redacted to make disclosure lawful.

ARTICLE 6
COST SHARING

6.1 Development Costs.

(a) Initial Indications -- Through Phase II. XOMA shall bear all Development Costs of Anti-CD11a for the Initial Indications through the successful completion of Phase II Clinical Trials, including but not limited to costs of IND-enabling studies, supplying Anti-CD11a and other costs incurred through successful completion of Phase II Clinical Trials which arise from activities set forth in the Development Plan, as amended from time to time by the Joint Core Team, subject in each case to XOMA's rights with respect to each Organ Transplant Indication, as described in Section 2.1.

(b) Initial Indications Post-Phase II and Future Indications. XOMA will pay [*] incurred at any time for any Future Indications as to which both Parties have opted-in as contemplated by this Agreement or incurred for Initial Indications after Phase II Clinical Trials are completed. In addition to the foregoing, with respect to the psoriasis indication only, XOMA shall pay [*] incurred in Europe prior to the first Regulatory Approval permitting the sale of Anti-CD11a outside of the United States, up to a maximum of [*] dollars ($[*]) for clinical trial work necessary for European Regulatory Approval. For Organ

Transplant Indications and Future Indications, XOMA shall have no payment obligations with respect to Ex-U.S. Development Costs. Genentech and/or one or more Ex-U.S. Genentech Partners will pay all Ex-U.S. Development Costs.

(c) Phase II Clinical Studies for Publication. Phase II Clinical Studies which are designed primarily for publication purposes shall be conducted only in the event that the JSC agrees, as evidenced by written minutes executed by a JSC member from each Party. Such minutes shall also reflect each Party's cost sharing obligations agreed to by the JSC; provided, however, XOMA shall be fully responsible for all costs of publication studies for Initial

Indications which it does not Opt-Out of. In the event that the JSC can not reach agreement on whether or not to pursue a publication study, with respect to the Initial Indications only, Genentech's position shall prevail and with respect to Future Indications, such dispute shall be resolved in accordance with Article 18.

(d) Payment. Development Costs for Joint Development Indications will be charged against profits from such Joint Development Indications; provided, however, that in the event there is no Operating Profit, XOMA's payment obligations shall remain in full force and effect and XOMA shall promptly make payment to Genentech unless otherwise provided in the Note Agreements.

(e) Budget. Notwithstanding anything to the contrary herein, the Party managing clinical studies for Licensed Products shall pay all Development Costs greater than [*] of the budget approved of by the JCT for such clinical studies unless the JSC approves of such increase or otherwise agrees or unless the FDA or EMEA requires a material change to the Development Plan which results in such increased costs.

6.2 Commercialization Costs. With respect to Joint Development Indications, XOMA will pay [*] and Genentech will pay [*] incurred for such Indications. U.S. Commercialization Costs for Joint Development Indications will be charged against the profits and losses from such Indications; provided, however, that in the event there is no Operating Profit, XOMA's payment obligations shall remain in full force and effect and XOMA shall promptly make payment to Genentech unless otherwise provided by the Note Agreements.

ARTICLE 7
COMMERCIALIZATION

7.1 Genentech Territory. Genentech shall have the sole right to develop and market Licensed Products in the Genentech Territory including but not limited to the right to make decisions relating to development and marketing activities designed to enhance revenues generated by, and/or government approved uses of, Licensed Product solely in the Genentech Territory. Notwithstanding the foregoing, XOMA may enter into development agreements with Ex-U.S. Genentech Partners for Future Indications and/or Organ Transplant Indications in the event that Genentech declines, pursuant to Section 5.1, to develop a Future Indication or Organ Transplant Indication and Genentech does not exercise its rights under Section 5.2. Genentech shall nonetheless maintain its rights to opt-in to such Future Indication or Initial Indication in accordance with Section 5.4(a) and 5.4(d). Neither this Section 7.1, nor any other provision in this Agreement is intended to grant XOMA any rights to use, sell, offer for sale, make or import Licensed Product in the Genentech Territory. For purposes of clarity, this section is not intended to create or otherwise address Genentech's manufacturing obligations which are set forth in Article 9.

7.2 Cooperation on Development Efforts. To facilitate cooperation between the Parties on the worldwide development and marketing of Licensed Products, Genentech shall

keep XOMA informed of all substantive development activities in the Genentech Territory. Genentech shall consider in good faith any comments made by XOMA. Both Parties agree that they will do nothing during Licensed Product development activities to intentionally imperil Regulatory Approvals in any country in any territory which has the potential to be a major economic market.

7.3 Co-Promotion Territory.

(a) Co-Promote Election. As of the Restatement Date, XOMA has elected not to exercise its right, granted on the Effective Date, to co-promote Licensed Products in the Co-Promotion Territory. Notwithstanding the foregoing, XOMA shall have future rights to co-promote in the Co-Promotion Territory under the following terms and conditions. On each occasion that Genentech intends to expand its sales force for Licensed Product, Genentech shall provide XOMA with

prior written notice of such intent along with job descriptions for such proposed positions. XOMA shall have thirty (30) days in the case of a sales force expansion of a current Indication and sixty (60) days in the case of a sales force expansion due to a new Indication, to notify Genentech in writing of its election to fill such positions with its own staff. XOMA will waive such rights if it fails to timely provide notice of its election to co-promote. Notwithstanding the foregoing, in no event may XOMA fill more than [*] percent ([*]%) of the total sales force for Licensed Product nor less than [*] percent ([*]%) of any open sales positions and in no event shall Genentech fill less than [*] percent ([*]%) of the sales positions for any Indication. In addition to the foregoing, in the event that Regulatory Approval is obtained for an Indication other than psoriasis or there is a significant expansion in the number of marketing positions for any Indication, the JSC will discuss in good faith a proposal from XOMA relating to its role in marketing activities. The JSC may approve a proposal relating to XOMA's marketing activities in the event that such proposal satisfies criteria used by Genentech in determining proper allocation of Genentech's marketing and sales resources. The Parties agree that if XOMA elects to co-promote Licensed Products, Genentech will play the primary role and XOMA the secondary role in all sales, marketing and product launch activities and tactical execution of marketing and sales promotional programs in the Co-Promotion Territory.

(b) Commercialization Efforts. For Joint Development Indications, XOMA and Genentech each agree to use Commercially Reasonable and Diligent Efforts to commercialize Licensed Products for such Indications in such a manner as to maximize profit potential. The Parties agree that if XOMA elects to co-promote Licensed Products, Genentech will play the primary role and XOMA the secondary role in all sales, marketing and product launch activities and tactical execution of marketing and sales promotional programs in the Co-Promotion Territory. The Parties shall be guided by a standard of reasonableness in economic terms and of fairness to each of the Parties, striving to balance as best they can the legitimate interests and concerns of the Parties and to realize the economic potential of the Licensed Products. The Joint Core Team (subject to approval by the Joint Steering Committee) shall develop a plan for commercialization of Licensed Product at such time as the members of the Joint Core Team decide it is useful to do so. Such plan shall, among other things, determine the responsibilities for sales of and distributing Licensed Products, development of marketing and promotional materials and conduct of training programs for Sales Representatives of both Parties. Unless otherwise agreed, Genentech shall have the sole responsibility with respect to the following:

(i) Booking sales for and distributing the Licensed Products;

(ii) Handling all returns of the Licensed Products;

(iii) Handling all recalls of the Licensed Products;

(iv) Handling all aspects of order processing, invoicing, credit and collection, Licensed Product distribution, warehousing, inventory and receivables and collection of data of sales to hospitals and other end users (e.g., DDD data); and

(v) Handling all other customer service related functions.

(c) Sales Efforts in the Co-Promotion Territory.

(i) Although Genentech shall have the primary marketing role, in the event that XOMA timely elects to co-promote Licensed Product pursuant to Section 3(a) XOMA shall be permitted to deploy Sales Representatives in the Co-Promotion Territory, to the extent that such deployment will enhance the Parties' ability to maximize Operating Profits, but in no event may XOMA deploy more than [*] of the total number of Sales Representatives in the Co-Promotion Territory or make more than [*] of the sales calls in the Co-Promotion Territory. For so long as Genentech and XOMA are both deploying Sales Representatives in accordance with the foregoing, the Parties agree to allocate markets and accounts in an unbiased manner based on objective, quantifiable information and market research data with the objectives of allocating to each Party markets and accounts from which each such Party will have the opportunity to maximize Operating Profit.

(ii) The Parties shall recover their Sales Costs in accordance with Exhibit A.

ARTICLE 8
LOANS, PROFIT SHARING AND ROYALTIES

8.1 Note Purchases. Genentech will increase the amount loaned to XOMA under the terms and conditions of the Note Agreements for the purposes of developing Licensed Products for the Joint Development Indications until the earliest of: (i) first Regulatory Approval by the FDA for Licensed Product; (ii) expiration

or termination of this Agreement; or (iii) April 22, 2005 provided that (a) the balance of outstanding loans made in accordance with the Note Agreements do not exceed eighty million dollars ($80 million) for Development Costs and (b) the total amount of the loans made in accordance with the Note Agreements does not exceed fifteen million dollars ($15 million) for U.S. Commercialization Costs. In the event that the provisions in the Agreement conflict with the Note Agreements, this Agreement shall prevail.

8.2 Share of Operating Profit or Loss/Royalties.

(a) Term of Profit and Loss Share. XOMA and Genentech shall share Operating Profit or Loss from sales of Licensed Products for Joint Development Indications in the Co-Promotion Territory as provided in Exhibit A until the earliest of (a) the termination of this Agreement pursuant to Section 16.2, 16.3, 16.4, or 16.8, or (b) [*] after the first commercial sale of the first Licensed Product to be approved by the FDA in the Co-Promotion Territory (the "[*]"). (For the avoidance of doubt, the [*] is not reset by the approval of a Licensed Product in a different Indication.) At the end of the [*], XOMA's rights to Co-Promote and share Operating Profit or Loss shall cease.

(b) Royalty After Term of Profit and Loss Share. Following termination of the Parties' profit and loss sharing obligations, Genentech may continue to commercialize Licensed Products for Joint Development Indications, in which event Genentech will pay XOMA a royalty of [*] percent ([*]%) of Royalty-Bearing Sales for such Joint Development Indications made in the Co-Promotion Territory. Notwithstanding the foregoing, in the event that XOMA develops with or without Genentech a Future Indication or Organ Transplant Indication but as a result of the foregoing would not get a full [*] of profit sharing on such Future Indication or Organ Transplant Indication, then for a period of [*], Genentech shall pay XOMA a royalty of [*] percent ([*]%) of Royalty-Bearing Sales of Licensed Product for such Future Indication or Organ Transplant Indication at issue in the Co-Promotion Territory (the "Higher Royalty Term") in place of, and not in addition to, the [*] percent ([*]%) royalty that would have been owed on said Royalty Bearing Sales. Once the Higher Royalty Term ceases, XOMA shall receive [*] percent ([*]%) per annum of Royalty-Bearing Sales of Licensed Product for such Future Indication or Organ Transplant Indication in the Co-Promotion Territory.

(c) Royalty After Profit and Loss Sharing Where Competitive Products are Approved. Notwithstanding the foregoing, at any time that there is at least one FDA approved indication for Licensed Product and a Third Party has obtained a Regulatory Approval in any such indication to market an anti-CD11a or a Non-Anti-CD18 Anti-LFA1 Protein Product, Genentech's royalty obligations under this Section 8.2 shall be reduced by [*] percent ([*]%); but in no event shall such royalty be less than [*] percent ([*]%).

8.3 Royalties.

(a) Joint Development - Royalty Rate and Offsets (Genentech Territory). Genentech shall pay XOMA a royalty of [*] percent ([*]%) on Royalty-Bearing Sales of Licensed Products for Joint Development Indications which are sold in the Genentech Territory. Genentech shall pay any Third Party royalties owed on account of sales of Licensed Product in the Genentech Territory, including royalties owed due to the manufacture of Licensed Products by Genentech. Genentech shall receive an offset of [*] percent ([*]%) of the royalties it pays on account of the manufacture, use or sale of Licensed Products against such royalties due to XOMA, provided however, that in no event shall such royalty be less than [*] percent ([*]%). Notwithstanding the foregoing, Genentech will be solely responsible and shall not receive credit for [*].

(b) No XOMA Opt-In (Co-Promotion Territory and Genentech Territory). Genentech shall pay XOMA a royalty of [*] percent ([*]%) on Royalty-Bearing Sales in the Co-Promotion Territory and the Genentech Territory of Licensed Products for Future Indications and Organ Transplant Indications as to which XOMA has not opted-in. Genentech shall be responsible for payment of any Third Party royalties owed on account of sales, use or manufacture of Licensed Product for such Future Indications and Organ Transplant Indications in the Co-Promotion Territory and in the Genentech Territory, including royalties owed due to the manufacture of Licensed Products for such Future Indications and Organ Transplant Indications by Genentech. Genentech's royalty obligations to XOMA under this Section 8.3(b) shall be offset by [*] percent ([*]%) of the royalties owed to Third Parties as a result of Royalty-Bearing Sales of Licensed Products for such Future Indications and Organ Transplant Indications, but not the manufacture of such Licensed Products, provided however, that in no event shall the royalty on worldwide Royalty-Bearing Sales of Licensed Products for such Indications be less than [*] percent ([*]%). Notwithstanding the foregoing, Genentech will be solely responsible and shall not receive credit for [*]. For

purposes of this subsection, Royalty-Bearing Sales of Licensed Products for the Future Indications and Organ Transplant Indications will be confirmed by a custom audit commissioned by Genentech not more than semi-annually at the reasonable cost of Genentech. The audit will be similar in design to other product audits conducted by Genentech. XOMA shall have the right to review the audit data and format.

(c) No Genentech Opt-in (Co-Promotion Territory). XOMA shall pay Genentech a royalty of [*] percent ([*]%) on Royalty-Bearing Sales of Licensed Products in the Co-Promotion Territory for Future Indications and Organ Transplant Indications as to which Genentech has not opted-in. XOMA shall be responsible for payment of any Third Party royalties owed on account of sales, use or manufacture of Licensed Product for such Future Indications and Organ Transplant Indications. XOMA's royalty obligations to Genentech under this Section 8.3(c) shall be offset by [*] percent ([*]%) of the royalties owed to Third Parties as a result of Royalty Bearing Sales and use of such Licensed Products, but not the manufacture of such Licensed Products, provided however, that in no event shall the royalty be less than [*] percent ([*]%) on such Royalty-Bearing Sales of Licensed Products for Future Indications or Organ Transplant Indications in the Co-Promotion Territory. For purposes of this subsection, Royalty-Bearing Sales of Licensed Products for the Future Indications and Organ Transplant Indications will be confirmed by a custom audit commissioned by Genentech not more than semi-annually at the reasonable cost of XOMA. The audit will be similar in design to other product audits conducted by Genentech. XOMA shall have the right to review the audit data and format.

(d) Royalties Non-Cumulative. The royalties set forth in this Section 8.3 are intended to be exclusive of one another such that payment under one subsection of Section 8.3 precludes payment under any other subsection of Section 8.3.

8.4 Royalty Payment Reports. Royalty payments due under this Agreement shall be made quarterly within ninety (90) days following the end of each calendar quarter for which such royalties are due. Each royalty payment shall be accompanied by a report estimating, if final data is not available, or otherwise summarizing the Royalty-Bearing Sales during the relevant three-month period. Payments of estimated royalties will be promptly reconciled upon

issuance by Genentech of each final audit report which is prepared in accordance with Section 8.3(b) or 8.3(c).

8.5 Term of Royalty Obligations.

(a) Genentech's Obligations (Co-Promotion Territory and Genentech Territory). The term of Genentech's royalty obligations under Sections 8.3(a) and (b) is as follows:

(i) Genentech's royalty obligations under Section 8.3(a) shall be, on a country by country basis, [*] from the date of the first commercial sale of the first Licensed Product approved in each country in the Genentech Territory.

(ii) Genentech's royalty obligations under Section 8.3(b) shall be [*] from the date of the first commercial sale of the first Licensed Product approved in the Co-Promotion Territory for an Indication to which XOMA has not opted-in.

(b) XOMA's Obligations (Co-Promotion Territory). The term of XOMA's royalty obligations under Section 8.3(c) shall be [*] from the date of the first commercial sale of the first Licensed Product approved for any Permitted Indication in the Co-Promotion Territory.

(c) Paid-up License - Genentech Territory. Upon expiration of the royalty terms set forth above, Genentech shall thereafter have an exclusive, paid-up, irrevocable license under the XOMA Patents and XOMA Know-How to make, use, sell, offer for sale, have sold and import Licensed Product in the applicable country within the Genentech Territory where such royalty term has expired.

8.6 Taxes. Each Party receiving payments under this Agreement shall pay any and all taxes levied on account of, or measured exclusively by, such payments including royalties it receives under this Agreement. If laws or regulations require that taxes be withheld, the Party making such payment shall (i) deduct those taxes from the remittable royalty, (ii) timely pay the taxes to the proper taxing authority, and (iii) send proof of payment to the other Party within sixty (60) days following that payment.

8.7 Blocked Currency. In each country where the local currency is blocked and cannot be removed from the country, royalties shall continue to be accrued in such country and Royalty-Bearing Sales in such country shall continue to be reported, but such royalties will not be paid until they may be removed from the country. At such time as Genentech is able to remove such blocked currency from

such country it shall also remove and pay any royalties accrued during such blocked period on XOMA's behalf.

8.8 Foreign Exchange. For the purpose of computing Royalty-Bearing Sales for Licensed Products sold in a currency other than United States Dollars, such currency shall be converted into United States Dollars in accordance with Genentech's customary and usual translation procedures consistently applied.

8.9 Payments to or Reports by Affiliates. Any payment required under any provision of this Agreement to be made to either Party or any report required to be made by any

Party shall be made to or by an Affiliate of that Party if designated by that Party as the appropriate recipient or reporting entity.

8.10 Fees From Sublicensees. In the event Genentech grants licenses or sublicenses to others (including without limitation an Ex-U.S. Genentech Partner) to make or sell Licensed Products in the Genentech Territory and such licenses or sublicenses are granted to an unrelated Third Party (understanding that Roche (as defined in Section 10.3 of the Amended and Restated Convertible Secured Note Agreement between the Parties) is not an unrelated Third Party), then Genentech shall pay XOMA [*]. Any licenses or sublicenses granted by Genentech shall include an obligation for the licensee or sublicensee to account for and report its Royalty-Bearing Sales using the same accounting standards used to determine royalties owed on sales of Product in the Genentech Territory (as further set forth in Exhibit A) and Genentech shall pay royalties to XOMA as if the Royalty-Bearing Sales of the sublicensee were Royalty-Bearing Sales of Genentech. Genentech shall provide XOMA with copies of any licenses or sublicenses it grants, with any financial or other confidential terms redacted.

8.11 Opt-In Fees. XOMA shall be entitled to [*] which an Ex-U.S. Genentech Partner pays Genentech [*]. Payments due to XOMA under this Section 8.11 shall be due thirty (30) days after receipt by Genentech [*] from an Ex-U.S. Genentech Partner.

ARTICLE 9
MANUFACTURE AND SUPPLY

9.1 General. On the Effective Date Genentech (or its designee) was granted a first option to manufacture Licensed Product for clinical and/or commercial supply, which Genentech could exercise in its sole discretion. Genentech exercised such right subsequent to the Effective Date. So long as the Parties are sharing Operating Profit or Loss in accordance with this Agreement, GenXOMA (as defined in Exhibit A) shall be charged Genentech's (or its designee's) Cost of Goods Sold for Clinical and Commercial Supplies of Licensed Product. If the Parties are not sharing Operating Profit & Loss, XOMA's payment obligations shall be as set forth below.

9.2 No Joint Development. For Future Indications and Organ Transplant Indications for which Genentech has not opted-in, clinical supplies of Licensed Product will be provided at the Cost of Goods Sold, and the Parties will negotiate a commercial supply agreement, on commercially reasonable terms which shall represent not more than [*]. Notwithstanding the foregoing, Genentech may elect in its sole discretion not to manufacturer or otherwise supply such Licensed Product and in such event the terms of Section 9.3 shall apply.

9.3 Termination of Election to Manufacture.

(a) Genentech Right to Terminate. Genentech may in its sole discretion, elect to cease manufacturing or otherwise supplying Licensed Product for all or certain Indications.

(b) XOMA's Rights. In the event Genentech elects not to manufacture or otherwise supply Licensed Product, provided that Genentech has not exercised its rights under Section 5.2 and further provided that XOMA has a license to use, sell, offer for sale and have sold Licensed Product, Genentech and XOMA shall thereafter enter into a license and manufacturing agreement (the "Manufacturing License Agreement"), with respect to only those indications for which Genentech elects not to manufacture or otherwise supply. The Manufacturing License Agreement shall grant to XOMA an exclusive license under the Genentech Know-How and the Genentech Patents and a non-exclusive license, if determined by XOMA to be necessary, under both the Cabilly Chimera Patents and the Cabilly Coexpression Patents (the "Cabilly Patents"), to make or have made or import Licensed Products in the Field in the Co-Promotion Territory for sale in the Co-Promotion Territory. Such license shall be sublicensable by XOMA only upon Genentech's prior written approval, which shall not be unreasonably withheld.

The Manufacturing License Agreement shall also require that any manufacturer other than XOMA be experienced in manufacturing marketed pharmaceuticals using Chinese Hamster Ovary cells and unless otherwise agreed to by the Parties such manufacturer must be a company or a division of a company which derives its revenues solely from manufacturing the products of other companies.

(c) Technology Transfer. Upon entering into the Manufacturing License Agreement, Genentech shall promptly provide to XOMA, at XOMA's sole cost and expense, the Genentech Know-How. In no event, however, shall Genentech be obligated to transfer Genentech Know-How on more than one occasion.

(d) Genentech Obligations. In the event that XOMA cannot find a Third Party to manufacture that is acceptable to Genentech, and to the extent the manufacture of Licensed Product for XOMA will not unreasonably, and adversely impact Genentech or its obligations to Third Parties or Affiliates, then Genentech will continue to supply Licensed Product in bulk form only until the earlier of (i) [*] from XOMA's receipt of notice of Genentech's election not to produce or supply or (ii) [*] from the date on which Genentech and XOMA find a mutually acceptable manufacturer. In the event Genentech does approve of a Third Party to manufacture Licensed Product, and to the extent the manufacture of bulk Licensed Product for XOMA will not materially and unreasonably adversely impact Genentech or its obligations to Third Parties or Affiliates, Genentech shall, at XOMA's request, continue to manufacture Licensed Product in bulk form for up to [*] after Genentech and XOMA approve a Third Party manufacturer. Notwithstanding anything to the contrary, at a minimum, Genentech must supply XOMA with the amount of Licensed Product in bulk form which is yielded from one successful [*] Run each year that Genentech is obligated to supply Licensed Product hereunder.

(e) XOMA's Obligations. XOMA shall pay any Third Party royalties which arise as a result of XOMA's exercise of the license grants to XOMA pursuant to this Section 9.3 and that are owed on account of sales, use and manufacture of Licensed Product and XOMA shall not receive any offsets for such payments except as permitted under Section 8.3(c). In the event that Genentech is required to manufacture and/or supply Licensed Product in bulk form pursuant to this Section 9.3, then XOMA shall pay not more than [*].

ARTICLE 10
LICENSES

10.1 Licenses to XOMA Within the Field.

(a) With respect to only Permitted Indications, Genentech grants to XOMA a co-exclusive license under the Genentech Patents and Genentech Know-How in the Field solely for the purposes of using, selling, having sold and offering for sale (but not to make, have made or import, except as provided in Section 9.3) Licensed Products in the Co-Promotion Territory. Except as set forth in Article 8 and Article 16, as applicable, said license shall be royalty-free. In the event that XOMA gains approval of a Permitted Indication and Genentech has elected pursuant to Section 9.3 not to manufacture or otherwise supply Licensed Product for such Permitted Indication, Genentech will grant to XOMA the licenses set forth in Section 9.3, under the terms set forth in Section 9.3. XOMA shall pay any Third Party royalties owed on account of the sale, use and manufacture of Licensed Product for the Permitted Indications which Genentech has not opted-in on.

(b) XOMA covenants and agrees not to use, make, have made, sell, offer for sale or import Licensed Product in the Genentech Territory.

10.2 License to Genentech Within the Field. XOMA grants to Genentech a worldwide license under the XOMA Patents and XOMA Know-How in the Field to develop, make, have made, use, sell, offer for sale, have sold and import Licensed Products. Such license shall be co-exclusive with XOMA in the Co-Promotion Territory and exclusive even as to XOMA in the Genentech Territory. Except as set forth in Article 8 and Article 16, as applicable, said license shall be royalty-free.

10.3 Sublicensing. Genentech may grant sublicenses with the prior written consent of XOMA, such consent not to be unreasonably withheld. XOMA hereby consents to such a sublicense to F. Hoffmann-La Roche or any of its Affiliates and to Ares Trading S.A. Unless otherwise agreed, each sublicensee shall be subject to all of the obligations of Genentech hereunder applicable to that part of the territory being licensed.

ARTICLE 11
TRADEMARKS

11.1 Product Trademarks. All Licensed Products shall be sold in the Co-Promotion Territory under trademarks selected and owned by Genentech (the "Genentech Marks"). Genentech hereby grants XOMA a fully paid-up co-exclusive

license to use the Genentech Marks in the Co-Promotion Territory for the Co-Promotion activities provided for in this Agreement. In using the Genentech Marks, XOMA shall display said mark in a style or size of print distinguishing the mark from any accompanying wording or text. XOMA hereby acknowledges Genentech's exclusive right, title and interest in and to all the Genentech Marks and agrees that it will not at any time do, or cause to be done, any act or thing contesting or in any way in-

tending to impair the validity of and/or Genentech's exclusive right, title and interest in and to the Genentech Marks. XOMA will not in any manner represent that it owns the Genentech Marks and XOMA hereby acknowledges that use of the Genentech Marks shall not create any rights, title or interest in or to the Genentech Marks in favor of XOMA, but that all use of the Genentech Marks by XOMA shall inure to the benefit of Genentech.

11.2 Infringement of Trademarks. XOMA shall notify the Joint Core Team promptly upon learning of any actual, alleged or threatened infringement of a Genentech Mark in the Co-Promotion Territory or of any unfair trade practices, trade dress imitation, passing off of counterfeit goods or like offenses in the Co-Promotion Territory. The Joint Core Team shall confer with Genentech regarding the defense of such Genentech Mark. The decision whether and how to defend such a Genentech Mark will rest with Genentech; provided, however, that if Genentech fails to bring an action or proceeding in the Co-Promotion Territory within a period of sixty (60) days of notice by XOMA to Genentech requesting action, XOMA will have the right, at its own expense, to bring and control any such action or proceeding in the Co-Promotion Territory by counsel of its own choice.

11.3 Costs of Defense for Solely Owned Trademarks. All of the costs, expenses and legal fees in bringing, maintaining and prosecuting any action to maintain, protect or defend a Genentech Mark shall be borne solely by the Party bringing the action and any recovery shall be solely for that Party's account.

ARTICLE 12
CONFIDENTIALITY

12.1 Confidentiality; Exceptions. Except to the extent expressly authorized by this Agreement or otherwise agreed in writing, the Parties agree that, for the term of this Agreement and for [*] thereafter, the receiving Party shall keep confidential and shall not publish or otherwise disclose or use for any purpose other than as provided for in this Agreement any Information and other information and materials furnished to it by the other Party pursuant to this Agreement, including, but not limited to, financial statements and budgets of GenXOMA (collectively, "Confidential Information"), except to the extent that it can be established by the receiving Party that such Confidential Information:

(a) was already known to the receiving Party, other than under an obligation of confidentiality, at the time of disclosure by the other Party;

(b) was generally available to the public or otherwise part of the public domain at the time of its disclosure to the receiving Party;

(c) became generally available to the public or otherwise part of the public domain after its disclosure and other than through any act or omission of the receiving Party in breach of this Agreement;

(d) was disclosed to the receiving Party, other than under an obligation of confidentiality, by a Third Party who had no obligation to the disclosing Party not to disclose such information to others; or

(e) was subsequently developed by the receiving Party without use of the Confidential Information as demonstrated by competent written records.

12.2 Authorized Disclosure. Each Party may disclose Confidential Information hereunder to the extent such disclosure is reasonably necessary in filing or prosecuting patent applications, prosecuting or defending litigation, complying with applicable governmental regulations or conducting preclinical or clinical trials, provided that if a Party is required by law or regulation to make any such disclosure of the other Party's Confidential Information it will, except where impracticable for necessary disclosures, for example in the event of medical emergency, give reasonable advance notice to the other Party of such disclosure requirement and, except to the extent inappropriate in the case of patent applications, will use its reasonable efforts to secure confidential treatment of such Confidential Information required to be disclosed. In addition, each Party shall be entitled to disclose, under a binder of

confidentiality containing provisions as protective as those of this Article 12, Confidential Information to consultants, potential and actual sublicensees and other Third Parties only for any purpose provided for in this Agreement and/or the development and commercialization of Licensed Product in the Genentech Territory. Nothing in this Article 12 shall restrict any Party from using for any purpose any Information developed by it during the course of the collaboration hereunder.

12.3 Survival. This Article 12 shall survive the termination or expiration of this Agreement for a period of [*].

12.4 Termination of Prior Agreement. This Article 12 supersedes Article 11 of the Original Agreement and the Confidentiality Agreements between the Parties dated October 11, 1995, one of which was last signed on October 20, 1995 and one of which was last signed on January 11, 1996 and both of which were amended on April 11, 1996, except that the Research Scientists, as defined in the Oxford Agreement, shall continue to be third party beneficiaries under this Agreement to the extent such previous Confidentiality Agreement is superseded. All Information exchanged between the Parties under the above referenced agreements shall be deemed Confidential Information and shall be subject to the terms of this Article 12.

12.5 Publications. Prior to the launch of any Licensed Product as to which both Parties have opted-in as contemplated by this Agreement in the Co-Promotion Territory, the Joint Core Team will determine the overall strategy for publication in support of such Licensed Product in the Co-Promotion Territory. Except as required by law, each Party agrees that it shall not publish or present the results of studies carried out as part of the collaboration without the opportunity for prior review by the other Party. Each Party shall provide to the other the opportunity to review any proposed manuscripts or presentations (including information to be presented orally) which relate to the Field at least forty-five (45) days prior to their intended submission for publication and abstracts which relate to the Field at least thirty (30) days prior to their intended submission and such submitting Party agrees, upon written request from the other Party, not to submit such abstract or manuscript for publication or to make such presentation until the

other Party is given a reasonable period of time to seek patent protection for any material in such publication or presentation which it believes is patentable.

ARTICLE 13
OWNERSHIP OF INTELLECTUAL PROPERTY AND PATENT RIGHTS

13.1 Ownership of Intellectual Property. XOMA shall own all inventions made under this Agreement solely by its employees ("XOMA Inventions"). Genentech shall own all inventions made under this Agreement solely by its employees ("Genentech Inventions"). All inventions made under this Agreement jointly by employees of XOMA and Genentech ("Joint Inventions") will be owned jointly by XOMA and Genentech and each Party shall retain full ownership under any Patents resulting therefrom ("Joint Patents"), with full ownership rights in any field and the right to sublicense without the consent of the other Party, without accounting. The laws of the United States with respect to inventorship shall apply in all jurisdictions giving force and effect to this Agreement.

13.2 Disclosure of Patentable Inventions. Each Party shall provide to the other any invention disclosure submitted in the normal course of this collaboration and disclosing an invention relating to a Licensed Product. Such invention disclosures shall be provided to the other Party within thirty (30) days after the Party determines that an invention has been made.

13.3 Patent Filings.

(a) Sole Inventions. Each Party, at its sole discretion and responsibility, shall file, prosecute and maintain Patents in the Co-Promotion Territory to cover its own discoveries and inventions relating to any Licensed Product and shall use reasonable efforts to first file all applications in the Co-Promotion Territory. The determination of the countries in the Genentech Territory in which to file any patent applications on sole inventions relating to any Licensed Product shall be made by Genentech, and Genentech shall be responsible for such filings in such countries. Genentech shall have the right, at its expense, to direct and control all material actions relating to the prosecution or maintenance of Genentech Patents and XOMA Patents in the Genentech Territory, including without limitation, oppositions, appeals and revocation proceedings.

(b) Joint Inventions. Genentech shall file, prosecute and maintain Joint Patents relating to any Licensed Product in the United States. Genentech shall also file, prosecute and maintain Joint Patents relating to any Licensed Product in such countries in the Genentech Territory as it may determine. If Genentech elects not to file a Joint Patent, it shall so inform XOMA. XOMA may then file,

prosecute and maintain any such Joint Patents. The Party which is responsible for filing such a Joint Patent will be termed the "filing Party." The filing Party shall keep the other Party apprised of the status of each Joint Patent and shall seek the advice of the other Party with respect to patent strategy and draft applications and shall give reasonable consideration to any suggestions or recommendations of the other Party concerning the preparation, filing, prosecution, maintenance and defense thereof. The Parties shall cooperate reasona-

bly in the prosecution of all Joint Patents and shall share all material information relating thereto promptly after receipt of such information. If, during the term of this Agreement, the filing Party intends to allow any Joint Patent relating to a Licensed Product to lapse or become abandoned without having first filed a substitute, the filing Party shall make reasonable efforts to notify the other Party of such intention at least sixty (60) days prior to the date upon which such Joint Patent shall lapse or become abandoned, and the other Party shall thereupon have the right, but not the obligation, to assume responsibility for the prosecution, maintenance and defense thereof.

(c) Information Sharing. Each Party agrees to bring to the attention of the other Party any patent or patent application it discovers, or has discovered, and which relates to the subject matter of this Agreement.

13.4 Initial Filings if Made Outside of the United States. The Parties agree to use reasonable efforts to ensure that any Patent filed outside of the United States prior to a U.S. filing will be in a form sufficient to establish the date of original filing as a priority date for the purposes of a subsequent U.S. filing.

13.5 Patent Costs.

(a) Patent Costs arising in the Co-Promotion Territory with respect to Genentech Patents and XOMA Patents shall be chargeable to the collaboration as Other Operating Income/Expense in accordance with Exhibit A.

(b) Patent Costs arising in the Genentech Territory with respect to Genentech Patents and XOMA Patents after the Effective Date shall be borne by Genentech.

13.6 Enforcement Rights.

(a) Notification of Infringement. If either Party learns of any infringement or threatened infringement by a Third Party of the XOMA Patents or Genentech Patents, such Party shall promptly notify the other Party and shall provide such other Party with available evidence of such infringement.

(b) Enforcement. Genentech shall have the right, but not the obligation, to institute, prosecute and control at its own expense any action or proceeding with respect to infringement of any of the Genentech Patents, by counsel of its own choice. XOMA shall have the right, at its own expense, to be represented in any action by counsel of its own choice. XOMA shall have the right, but not the obligation, to institute, prosecute and control at its own expense any action or proceeding with respect to infringement of any of the XOMA Patents, by counsel of its own choice. Genentech shall have the right, at its own expense, to be represented in any action by counsel of its own choice. In the event of an infringement of a Joint Patent, the Joint Steering Committee shall decide the best way for the Parties to proceed. If one Party brings any such action or proceeding, the other Party agrees to be joined as a party plaintiff if necessary to prosecute the action or proceeding and to give the first Party reasonable assistance and authority to file and prosecute the suit. Any damages or other monetary awards recovered pursuant to this Section 13.6(b) shall be allocated first to the costs and expenses of the Party bringing suit, then to

the costs and expenses, if any, of the other Party. Any amounts remaining shall be allocated [*] to the Party bringing suit and [*] to the other Party.

(c) Settlement with a Third Party. The Party that controls the prosecution of a given claim with respect to a Licensed Product shall also have the right to control settlement of such claim; provided, however, that if one Party controls, no settlement shall be entered into without the written consent of the other Party if such settlement would materially and adversely affect the interests of such other Party. If there is no agreement between the Parties, then the dispute will be resolved pursuant to Article 18.

13.7 Infringement Defense. If a Third Party asserts that a patent or other right owned by it is infringed by any Licensed Product, Genentech will be solely responsible for deciding how and whether to defend against any such assertions at its cost and expense. XOMA shall have the right, at its own expense, to be represented in any such action by counsel of its choice. If Genentech is

required to pay royalties to such Third Party as a result of such action, it will be entitled to credit such royalties against royalties owing to XOMA as provided in Article 8 or Article 16 as applicable. No settlement of such an action shall be entered into by Genentech without XOMA's written consent if such settlement would materially and adversely affect XOMA's interests.

ARTICLE 14
REPRESENTATIONS AND WARRANTIES

14.1 Representations and Warranties. Each of the Parties hereby represents and warrants as follows:

(a) This Agreement is a legal and valid obligation binding upon such Party and enforceable in accordance with its terms. The execution, delivery and performance of this Agreement by such Party does not conflict with any agreement, instrument or understanding, oral or written, to which it is a party or by which it is bound, or violate any law or regulation of any court, governmental body or administrative or other agency having jurisdiction over it.

(b) Such Party has not, and during the term of this Agreement will not, grant any right to any Third Party relating to its respective Patents and know-how in the Field in the Co-Promotion Territory which would conflict with the rights granted to the other Party hereunder.

(c) Such Party has the right to grant the licenses it has granted herein.

14.2 Performance by Affiliates. The Parties recognize that each may perform some or all of its obligations under this Agreement through Affiliates; provided, however, that each Party shall remain responsible and be guarantor of the performance by its Affiliates and shall cause its Affiliates to comply with the provisions of this Agreement in connection with such performance.

ARTICLE 15
INFORMATION AND REPORTS

15.1 Information. With respect to the Joint Development Indications: (i) Genentech and XOMA will disclose and make available to each other all preclinical, clinical, regulatory, commercial and other information, including without limitation all information relevant to the joint promotion of Licensed Products, known by Genentech or XOMA concerning Licensed Products at any time during co-development of Licensed Products by the Parties and during Co-Promotion; (ii) XOMA will disclose the same information set forth in Section 15.1(i) to Genentech at any time during the term of this Agreement; (iii) each Party will use Commercially Reasonable and Diligent Efforts to disclose to the other Party all significant information promptly after it is learned or its significance is appreciated; (iv) with respect to the Co-Promotion Territory, each Party shall own and maintain its own database of clinical trial data accumulated from all clinical trials of Licensed Products for which it was responsible and of adverse drug event information for all Licensed Products; and (v) at the option of the requesting Party, the data referred to in Section 15.1(iv) above, shall be provided in a computer readable format by the providing Party, to the extent available, which shall also assist in the transfer and validation of such data to the receiving Party. Notwithstanding the foregoing, the Parties shall have no obligation to make disclosures prohibited by law or contract. Each Party will use Commercially Reasonable and Diligent Efforts to obtain all necessary consents required for disclosure of the information described above. In the event that such consent cannot be obtained, the disclosing Party shall provide the other Party with information that is redacted to make disclosure lawful.

15.2 Complaints. XOMA shall maintain a record of all complaints it receives with respect to any Licensed Product. XOMA shall notify Genentech of any complaint received by XOMA in sufficient detail and within five (5) business days after the event, and in any event in sufficient time to allow Genentech to comply with any and all regulatory requirements imposed upon it in any country. Genentech shall notify XOMA of any complaint received by Genentech in the Co-Promotion Territory within forty-five (45) business days after the event.

15.3 Adverse Drug Events. The Parties recognize that the holder of a Drug Approval Application may be required to submit information and file reports to various governmental agencies on compounds under clinical investigation, compounds proposed for marketing or marketed drugs. Information must be submitted at the time of initial filing for investigational use in humans and at the time of a request for market approval of a new drug. In addition, supplemental information must be provided on compounds at periodic intervals and adverse drug experiences must be reported at more frequent intervals depending on the severity of the experience. Consequently, regardless of whether both

Parties remain opted-in to a particular Indication for a Licensed Product each Party agrees to provide the other Party with the following information and reports they have knowledge of:

(a) for initial and/or periodic submission to government agencies, significant information relating to Licensed Product from preclinical laboratory, animal toxicology

and pharmacology studies, as well as adverse drug experience reports from clinical trials and registries with Licensed Product;

(b) in connection with Licensed Products in clinical trials conducted for approval, report to the other within three (3) days of the initial receipt of a report of any Unexpected Adverse Event (defined below) or Serious Adverse Event (defined below), or sooner if required for either Party to comply with regulatory requirements; and

(c) in connection with Licensed Products having Regulatory Approval report to the other within five (5) business days of the initial receipt of a report of any adverse event with the Licensed Product that is a Serious Adverse Event and or an Unexpected Adverse Event, or sooner if required for either Party to comply with regulatory requirements.

"Serious Adverse Event" means any event that suggests a significant hazard, contraindication, side effect or precaution, or any event that is fatal or life threatening, is permanently disabling, requires or prolongs inpatient hospitalization or is a congenital anomaly, cancer or overdose. An "Unexpected Adverse Event" is one not identified in nature, specificity, severity or frequency in the current investigator brochure or the U.S. labeling for the drug. Each Party also agrees that if it contracts with a Third Party for research to be performed by such Third Party on the drug, that Party agrees to require such Third Party to report to the contracting Party the information set forth in Section 15.3(a), (b), and (c) above.

15.4 Records of Net Sales and Costs. For Joint Development Indications and those Indications a Party is developing without the other Party through completion of Phase II Clinical Trials or Phase III Clinical Trials, each Party will maintain complete and accurate records which are relevant to costs, expenses, sales and payments under this Agreement and such records shall be open during reasonable business hours for a period of three (3) years from creation of individual records for examination at the other Party's expense and not more often than once each year by an independent public accountant selected by the other Party as described in Exhibit A. Any records or accounting information received from the other Party shall be Confidential Information for purposes of Article 12. Results of any such audit shall be provided to both Parties, subject to Article 12.

15.5 Contribution of Information. It is the intention of the Parties that each will bring to the collaboration such information in its possession that is useful to the development and commercialization of Licensed Products.

15.6 Publicity Review. XOMA and Genentech will jointly discuss and agree, based on the principles of this Section 15.6, on any statement to the public regarding this Agreement or any aspect of this Agreement subject in each case to disclosure otherwise required by law or regulation as determined in good faith by each Party. The principles to be observed by XOMA and Genentech in such public disclosures will be: accuracy, the requirements for confidentiality under Article 12, the advantage a competitor of XOMA or Genentech may gain from any public statements under this Section 15.6, and the standards and customs in the biotechnology and pharmaceutical industries for such disclosures by companies comparable to XOMA and

Genentech. Public disclosures of new Information not previously released and all press releases will always require joint review by the Parties and shall be subject to the other provisions of this Agreement. Notwithstanding the foregoing, no such prior review by the non-issuing Party will be required for public disclosures of information which has already been released. The terms of this Agreement may also be disclosed to (i) government agencies where required by law, including filings required to be made by law with the Securities and Exchange Commission, the New York Stock Exchange, or any national exchange or (ii) Third Parties with the prior written consent of the other Party, which consent shall not be unreasonably withheld, so long as such disclosure is made under a binder of confidentiality (in the case of Third Parties), so long as highly sensitive terms and conditions such as financial terms are extracted from this Agreement or not disclosed upon the request of the other Party and the disclosing Party gives reasonable advance notice of the disclosure under the circumstances requiring the disclosure.

ARTICLE 16
TERM AND TERMINATION

16.1 Term. This Agreement shall commence as of the Effective Date. The Parties have specifically provided elsewhere in this Agreement the term during which certain rights and obligations hereunder shall apply. Unless sooner terminated as provided herein and except as provided below, (a) the provisions of this Agreement relating to activities in the Co-Promotion Territory shall continue in effect until the date on which XOMA is no longer entitled to receive a share of Operating Profit or Loss on any Licensed Product and (b) the provisions of this Agreement relating to activities in the Genentech Territory shall continue in effect until the date on which Genentech is no longer paying a royalty on Royalty-Bearing Sales in the Genentech Territory.

16.2 Termination by XOMA Without Cause. XOMA may terminate this Agreement without cause effective upon ninety (90) days' prior written notice to Genentech under the following conditions:

(a) Upon the effective date of such termination by XOMA, Genentech shall automatically be granted an exclusive (even as to XOMA), perpetual, worldwide, sublicensable license under all XOMA's rights and interests in the XOMA Patents and XOMA Know-How to develop, make, have made, use, sell, offer for sale and import Licensed Product in the Field.

(b) The rights and obligations of the Parties, including, without limitation, the royalty payment obligations of Genentech, shall be as follows:

(i) In the event of such a termination prior to the first Regulatory Approval of the first Licensed Product to be approved by the FDA or foreign equivalent, Genentech may elect, on the date of the termination, either to pay XOMA [*]. In such event, payment by Genentech may be in the form of a forbearance of XOMA's outstanding indebtedness to Genentech, in whole or in part, at Genen-

tech's sole discretion. In the event of such a termination following the first Regulatory Approval of the first Licensed Product to be approved by the FDA or foreign equivalent, Genentech shall pay XOMA a royalty on worldwide Royalty-Bearing Sales of [*] percent ([*]%) payable quarterly. Genentech's royalty obligations under this section shall continue, with respect to Licensed Product for use in a particular country in the world for [*] from the date of first commercial sale of the first Licensed Product to be approved in the first country within the Co-Promotion Territory or the Genentech Territory. Genentech shall pay any Third Party royalties owed on account of manufacture, use or sale of Licensed Product and Genentech shall not receive any offsets for such payments.

(ii) The provisions of the Note Agreements shall remain in full force and effect for the term of said agreements.

(iii) Upon the effective date of termination, at Genentech's option XOMA shall transfer and/or Genentech shall automatically be granted a right to use all of the INDs and Drug Approval Applications made by or on behalf of the Parties for Licensed Products and, as soon as reasonably practicable thereafter, XOMA shall provide Genentech with all data XOMA may have from any ongoing clinical study.

(iv) In the event of termination by XOMA pursuant to this Section 16.2, the Parties shall agree upon a technology transfer plan which will designate the obligations of each Party. The technology transfer plan shall provide that XOMA shall make its personnel and other resources reasonably available to Genentech after the effective date of termination as necessary to effect an orderly transition of development and/or commercialization responsibilities, with the reasonable cost of such personnel and resources to be borne solely by Genentech. XOMA's obligations under this Agreement and the technology transfer plan shall be fulfilled upon completion of the tasks set forth in the technology transfer plan or one year from commencement of the technology transfer, which ever is earlier.

(v) The royalty provisions in this Section 16.2 are exclusive of and shall be in place of those set forth in Section 8.3, but subject to Section 8.4 and Sections 8.6 through and including Section 8.9.

16.3 Termination by Genentech Without Cause. Genentech shall have a right to terminate this Agreement without cause effective upon ninety (90) days' prior written notice to XOMA in the event Genentech has permanently determined to abandon all further development and commercialization efforts with respect to

Anti-CD11a. In the event XOMA seeks to continue the development of Anti-CD11a notwithstanding Genentech's termination, XOMA's rights to the Genentech Patents and Genentech Know-How shall be as set forth in Section 16.5(b) subject to payment by XOMA as follows: (i) if the termination by Genentech is prior to the first Regulatory Approval of the first Licensed Product to be approved by the FDA,

XOMA may elect, on the date of the termination, either to pay Genentech [*]; (ii) if the termination by Genentech is after the first Regulatory Approval of the first Licensed Product to be approved by the FDA, XOMA shall pay Genentech a royalty on Royalty-Bearing Sales in the Co-Promotion Territory [*]. XOMA shall pay any Third Party royalties owed on account of sales of Licensed Product and XOMA shall not receive any offsets for such payments. In the event of termination by Genentech pursuant to this Section 16.3, the Parties shall agree upon a technology transfer plan which will designate the obligations of each Party. The technology transfer plan shall provide that Genentech shall make its personnel and other resources reasonably available to XOMA after the effective date of termination as necessary to effect an orderly transition of development and/or commercialization responsibilities, with the reasonable cost of such personnel and resources to be borne solely by XOMA. Genentech's obligations under this Agreement and the technology transfer plan shall be fulfilled upon completion of the tasks set forth in the technology transfer plan or one year from commencement of the technology transfer, which ever is earlier. The royalty provisions in this Section 16.3 are exclusive of and shall be in place of those set forth in Section 8.3, but subject to Section 8.4 and Section 8.6 through and including Section 8.9.

16.4 Termination for Breach. If either Party materially breaches this Agreement at any time and such breach is not cured within sixty (60) days of written notice thereof from the non-breaching Party (or if such breach is not susceptible of cure within such period, and the breaching Party is making diligent good faith efforts to cure such breach, then the cure period will be extended for an additional sixty (60) days), the non-breaching Party shall have the right to terminate this Agreement. Subject to payment by XOMA of a royalty on Royalty-Bearing Sales in the Co-Promotion Territory of [*] percent ([*]%) payable quarterly in the event of termination by XOMA pursuant to this Section 16.4, and payment by Genentech of a royalty of [*] percent ([*]%) payable quarterly on worldwide Royalty-Bearing Sales in the event of termination by Genentech under this Section 16.4, the Parties shall have the licenses set forth in Section 16.5. Pursuant to this Section 16.4, in the event of breach by Genentech, XOMA shall pay any Third Party royalties owed on account of manufacture, use or sale of Licensed Product; and in the event of breach by XOMA, Genentech shall pay any Third Party royalties owed on account of manufacture, use or sale of Licensed Product. No royalty offset shall be available to the non-breaching Party pursuant to this section. The Parties acknowledge and agree that failure to exercise any right or option with respect to any Licensed Product or to take any action expressly within the discretion of a Party shall not be deemed to be material breach hereunder. Further, upon the effective date of termination, the non-breaching Party shall at its option, have transferred or automatically be granted a right to use all INDs and Drug Approval Applications made by or on behalf of the Parties and, as soon as reasonably practicable, the breaching Party shall provide the non-breaching Party with all data it may have from any ongoing clinical study.

16.5 Additional Obligations and Rights Upon Expiration and Termination.

(a) General. In the event of termination by a Party under Sections 16.2, 16.3 or 16.4: (i) both Parties shall remain responsible for their share of Development Costs incurred up to the effective date of termination under the then current Development Plan, and (ii) with respect to termination under Section 16.4, the breaching Party shall be additionally responsible for their share of all budgeted costs under the then current Development Plan for one year following termination and the breaching Party shall make its personnel and other resources reasonably available to the other Party as necessary to effect an orderly transition of development and/or commercialization responsibilities, with the reasonable cost of such personnel and resources to

be borne solely by the other Party. The breaching Party's technology transfer obligations shall be fulfilled upon completion of the tasks set forth in the technology transfer plan (should the Parties enter into one) or one year from commencement of the technology transfer in the event the Parties do not enter a technology transfer plan. For so long as XOMA has a license under Section 16.5(b)(i) or Section 16.5(b)(ii) to use, sell, offer for sale, and have sold Licensed Product, the provisions of Section 9.3 shall govern the manufacture and supply of Licensed Product.

(b) Licenses Under Genentech Patents and Genentech Know-How. The licenses

granted to XOMA herein shall terminate upon expiration or termination of this Agreement except as follows:

(i) Termination. Upon termination of this Agreement by Genentech pursuant to Section 16.3 or termination by XOMA pursuant to Section 16.4, and subject to the payment of royalties owed under Sections 16.3 and Section 16.4 as applicable, XOMA shall have (a) a sublicensable license under the Genentech Patents to use, develop, manufacture, have manufactured, sell, have sold, and offer for sale Licensed Product in the Field in the Co-Promotion Territory; such license shall be exclusive only with respect to Permitted Indications and (b) pursuant to the terms of Section 9.3, a sublicensable license under the Cabilly Patents, if Genentech elects not to manufacture or otherwise supply Licensed Product. The term of such licenses under the Cabilly Patents, and the Genentech Patents and XOMA's royalty obligations in Section 16.4, shall be until the last to expire Genentech Patent or Cabilly Patent , containing a Valid Claim that, but for the license granted in this Section 16.5(b)(i)(A), would be infringed by the use, sale, or offer for sale of any Licensed Product.

(ii) Expiration. Upon expiration of this Agreement pursuant to Section 16.1, provided that XOMA has at the time of expiration completed a Phase III Clinical Trial for any Permitted Indication which Genentech has not opted-in to prior to such expiration, XOMA shall have (a) an exclusive license under the Genentech Patents to use, sell, have sold, and offer for sale Licensed Product only for such Permitted Indication in the Field in the Co-Promotion Territory which license shall be sublicensable only to a Contract Sales Organization (as defined in Section 5.9) and (b) pursuant to the terms of Section 9.3, a sublicensable license under the Cabilly Patents, if Genentech elects not to manufacture or otherwise supply Licensed Product. Such licenses shall be subject to a royalty payment of [*] percent ([*]%) on Royalty Bearing Sales in the Co-Promotion Territory. The royalty provisions in this Section 16.5(b) are exclusive of and shall be in place of those set forth in Section 8.3, but subject to Section 8.4 and Section 8.6 through and including Section 8.9. In addition, XOMA shall pay any Third Party royalties owed on account of manufacture, use or sale of Licensed Product for such indications in the Co-Promotion Territory. XOMA's royalty obligations to Genentech under this Section 16.5(ii) shall be offset by [*] percent ([*]%) of the royalties owed to Third Parties as a result of Royalty Bearing Sales of such Licensed Products; provided, however, that in no event shall the royalty be less than [*] percent ([*]%) on such Royalty Bearing Sales in the Co-Promotion Territory. For pur-

poses of this Section 16.5(b), in the event that quarterly Royalty-Bearing Sales can not be determined strictly from sales data, a custom audit will be commissioned by Genentech not more than semi-annually. The audit will be similar in design to other product audits conducted by Genentech. XOMA shall have the right to review the audit data and format. The term of such licenses and royalty obligations under this Section 16.5(b)(ii) shall be until the last to expire Genentech Patent or Cabilly Patent containing a Valid Claim, that, but for such license granted in this Section 16.5(b)(ii), would be infringed by the use, sale, or offer for sale of any Licensed Product.

(c) Licenses Under XOMA Patents and XOMA Know-How. Upon termination by Genentech pursuant to Section 16.4, subject to payment of royalties as set forth in Section 16.4, Genentech shall have an exclusive (even as to XOMA) worldwide, sublicensable license under all of XOMA's rights and interests in the XOMA Patents and XOMA Know-How to develop, make, have made, use, sell, offer for sale and import Licensed Product in the Field. The term of Genentech's royalty obligations under Section 16.4 shall be until the last to expire XOMA Patent containing a Valid Claim that, but for the license granted in this Section 16.5(c), would be infringed by the use, sale, or offer for sale of any Licensed Product. Upon termination by XOMA pursuant to Section 16.2, Genentech's license rights under the XOMA Patents and XOMA Know-How are as set forth in Section 16.2. At the end of the royalty terms provided in this Agreement, all licenses granted to Genentech hereunder with respect to the Co-Promotion Territory and the Genentech Territory, as the case may be, shall become fully paid-up, perpetual and irrevocable.

16.6 Royalty Reports and Payments. For those royalties owed pursuant to Section 16, such payments will be accompanied by a report estimating, if final data is not available, or otherwise summarizing the Royalty-Bearing Sales during the relevant three-month period. Payments of estimated royalties will be promptly reconciled upon issuance of each final audit report which is prepared by Genentech in accordance with Section 16.5(b) above.

16.7 Surviving Rights. The obligations and rights of the Parties under Sections 8.2(a)-(c), 8.5(c), 8.6, 8.7, 9.3, 11.1, 13.1, 13.3(a), 13.3(b), 13.5(b), 13.6(b), 13.6(c), 13.7, and 15.4 and Articles 1, 12, 14, 16, 17, 18 and 19 of this Agreement will survive termination or expiration.

16.8 Accrued Rights, Surviving Obligations. Termination, relinquishment or expiration of this Agreement for any reason shall be without prejudice to any payments which shall have accrued to the benefit of either Party prior to such termination, relinquishment or expiration, including damages arising from any breach hereunder. Such termination, relinquishment or expiration shall not relieve either Party from obligations which are expressly indicated to survive termination or expiration of this Agreement.

16.9 Bankruptcy. Either Party may, in addition to any other remedies available to it by law or in equity, terminate this Agreement, in whole or in part as the terminating Party may determine, by written notice to the other Party in the event the other Party shall have become bankrupt, or shall have made an assignment for the benefit of its creditors or there shall

have been appointed a trustee or receiver of the other Party or for all or a substantial part of its property or any case or proceeding shall have been commenced or other action taken by or against the other Party in bankruptcy or seeking reorganization, liquidation, dissolution, winding-up, arrangement, composition or readjustment of its debts or any other relief under any bankruptcy, insolvency, reorganization or other similar act or law of any jurisdiction now or hereafter in effect and any such event shall have continued for sixty (60) days undismissed, unbonded and undischarged. All rights and licenses granted under this Agreement by one Party to the other Party are, and shall otherwise be deemed to be, for purposes of Section 365(n) of the Bankruptcy Code, licenses of rights to "intellectual property" as defined under Section 101(56) of the Bankruptcy Code. The Parties agree that the licensing Party under this Agreement shall retain and may fully exercise all of its rights and elections under the Bankruptcy Code in the event of a bankruptcy by the other Party. The Parties further agree that in the event of the commencement of a bankruptcy proceeding by or against one Party under the Bankruptcy Code, the other Party shall be entitled to complete access to any such intellectual property pertaining to the rights granted in the licenses hereunder of the Party by or against whom a bankruptcy proceeding has been commenced and all embodiments of such intellectual property.

ARTICLE 17
INDEMNIFICATION

17.1 Indemnification in the Genentech Territory.

(a) Genentech hereby agrees to save, defend and hold XOMA and its agents and employees harmless from and against any and all losses, damages, liabilities, settlements, suits, claims, actions, demands, penalties, fines, costs and expenses (including reasonable attorney's fees and expenses) (collectively the "Losses") resulting directly from the manufacture, use, handling, storage, sale or other disposition of Licensed Products sold or used in the Genentech Territory by Genentech, its Affiliates, agents or sublicensees, except to the extent such Losses result from the negligence or willful misconduct of XOMA, and also except for any Losses resulting directly from XOMA's use of Genentech's processes or technology which XOMA or its agents have modified without Genentech's prior written consent.

(b) In the event that XOMA is seeking indemnification under Section 17.1(a), it shall inform Genentech of a claim as soon as reasonably practicable after it receives notice of the claim, shall permit Genentech to assume direction and control of the defense of the claim (including the right to settle the claim solely for monetary consideration), and shall cooperate as reasonably requested (at the expense of Genentech) in the defense of the claim.

(c) XOMA hereby agrees to save, defend and hold Genentech and its agents and employees harmless from and against any and all Losses resulting directly from the manufacture by XOMA of Licensed Products sold or used in the Genentech Territory by Genentech, its Affiliates, agents or sublicensees and/or XOMA's activities in the Genentech Territory except to the extent such Losses result from the negligence or willful misconduct of Genentech and also

except for any Losses resulting directly from Genentech's use of any of XOMA's processes or technology which Genentech or its agents have modified without XOMA's prior written consent.

(d) In the event Genentech is seeking indemnification under Section 17.1(c), it shall inform XOMA of a claim as soon as reasonably practicable after it receives notice of the claim, shall permit XOMA to assume direction and control of the defense of the claim (including the right to settle the claim solely for monetary consideration), and shall cooperate as reasonably requested

(at the expense of XOMA) in the defense of the claim.

17.2 Indemnification in the Co-Promotion Territory.

(a) Regardless of whether the Parties are jointly or individually opted-in to an Indication each Party agrees to save, defend and hold the other Party and its agents and employees harmless from and against any and all Losses resulting directly or indirectly from Third Party claims related to or arising from: (i) violations of securities laws by the indemnifying Party and its Affiliates or employees, (ii) the use, handling, storage, sale, marketing or other disposition of Licensed Products sold or used in the Co-Promotion Territory by the indemnifying Party, its Affiliates, agents or sublicensees (if permitted herein), but only to the extent such Losses result from the negligence or willful misconduct of the indemnifying Party; or (iii) or the negligence or willful misconduct of the indemnifying Party's employees, representatives, contractors (excluding the indemnitee); but with respect to Sections 17.2(a)(i)-(iii) only to the extent that such Losses do not also result from the negligence or willful misconduct of the Party seeking indemnification. With respect to only Joint Development Indications, any other Losses arising directly or indirectly from Third Party claims, including but not limited to those which result directly or indirectly from the use, handling, storage, sale, marketing or other disposition, but not manufacture, of Licensed Products for Joint Development Indications in the Co-Promotion Territory, but excluding Losses arising from or related to securities laws violations, shall be charged to the collaboration as Other Operating Income/Expense if this Agreement is still effective and if not, such Losses shall be shared in accordance with each Party's respective shares of profit and losses set forth in Section 6.2.

(b) In the event that either Party receives notice of a claim with respect to a Licensed Product in the Co-Promotion Territory, such Party shall inform the other Party as soon as reasonably practicable. The Parties shall confer how to respond to the claim and how to handle the claim in an efficient manner.

(c) Neither Party shall be liable to the other for indirect, incidental, special or consequential damages (including lost profits) arising out of or resulting from any term or condition of this Agreement or with respect to their performance or lack thereof.

ARTICLE 18
DISPUTE RESOLUTION

18.1 Disputes. The Parties recognize that disputes as to certain matters may from time to time arise during the term of this Agreement which relate to either Party's rights

and/or obligations hereunder. It is the objective of the Parties to establish procedures to facilitate the resolution of disputes arising under this Agreement in an expedient manner by mutual cooperation and without resort to litigation. To accomplish this objective, the Parties agree to follow the procedures set forth in this Article 18 if and when a dispute arises under this Agreement. Except as set forth in Section 3.4 and unless otherwise specifically recited in this Agreement, disputes among the Parties will be resolved as follows: (a) Any disputes relating to matters within the purview of the JCT shall first be referred to the JCT by written notice by one of the Parties, and if not resolved within thirty (30) days to the JSC as set forth in Section 18.1(b); and (b) For matters not within the purview of the JCT or in the event the JCT or Finance Committee has authority to resolve such matters but fails to within thirty (30) days, the JSC, upon written notice by any Party, shall seek to resolve the dispute. If the JSC is unable to resolve such dispute within sixty (60) days of being requested or the JSC agrees in advance of sixty (60) days that it is unable to resolve a dispute among its members, the dispute will be referred to an Executive Vice President or Senior Vice President of Genentech and the Chief Executive Officer or a Senior Vice President of XOMA. If after sixty (60) days the dispute remains unresolved, the Parties agree to refer the matter to mediation pursuant to Section 18.2(a). If after forty-five (45) days the matter cannot be resolved by mediation, the Parties agree to submit to arbitration pursuant to Section 18.2(b).

18.2 Mediation and Arbitration.

(a) Mediation. The Parties agree that any dispute, controversy or claim (except as to any issue relating to intellectual property owned in whole or in part by XOMA or Genentech or any equitable claim) arising out of or relating to this Agreement, or the breach, termination or invalidity thereof, shall be resolved through negotiation and mediation. If a dispute arises between the Parties, and if said dispute cannot be resolved pursuant to Section 18.1, the Parties agree to try in good faith to resolve such dispute by mediation administered by the American Arbitration Association in accordance with its Commercial Mediation Rules. The mediation proceeding shall be conducted at the location of the Party not originally requesting the resolution of the dispute.

The Parties agree that they shall share equally the cost of the mediation filing and hearing fees, and the cost of the mediator. Each Party must bear its own attorney's fees and associated costs and expenses.

(b) Arbitration. (i) If a dispute (other than any dispute which arises out of or relates to infringement, validity and/or enforceability of patent rights and/or which involves an equitable claim) cannot be resolved pursuant to Section 18.2(a) within the time period provided in Section 18.1, then, upon ten (10) days written notice, either Party may initiate arbitration by giving notice to that effect to the other Party and by filing the notice with the American Arbitration Association or its successor organization (the "AAA") in accordance with its Commercial Arbitration Rules. Such dispute shall then be settled by arbitration in California in accordance with the Commercial Arbitration Rules of the AAA or other rules agreed to by the Parties, by a panel of three neutral arbitrators, who shall be selected by the Parties using the procedures for arbitrator selection of the AAA.

(ii) The Parties acknowledge that this Agreement evidences a transaction involving interstate commerce. Insofar as it applies, the United States Arbitration Act shall govern

the interpretation of, enforcement of, and proceedings pursuant to the arbitration clause in this Agreement. Except insofar as the United States Arbitration Act applies to such matters, the agreement to arbitrate set forth in this Section 18.2(b) shall be construed, and the legal relations among the Parties shall be determined in accordance with, the substantive laws of California.

(iii) The panel shall render its decision and award, including a statement of reasons upon which such award is based, within thirty (30) days after the arbitration hearing. The decision of the panel shall be determined by majority vote among the arbitrators, shall be in writing and shall be binding upon the Parties, final and non-appealable. Judgment upon the award rendered by the panel may be entered in any court having jurisdiction thereof in accordance with Section 18.3.

(iv) Except as provided under the United States Arbitration Act and with respect to the infringement, validity and/or enforceability of patent rights, no action at law or in equity based upon any dispute that is subject to arbitration under this Section 18.2(b) shall be instituted.

(v) All expenses of any arbitration pursuant to this Section 18.2(b), including fees and expenses of the Parties' attorneys, fees and expenses of the arbitrators, and fees and expenses of any witness or the cost of any proof produced at the request of the arbitrators, shall be paid by the non-prevailing Party.

18.3 Jurisdiction. For the purposes of this Article 18, the Parties agree to accept the jurisdiction of the federal courts located in the Northern District of California for the purposes of enforcing the agreements reflected in this Article.

18.4 Determination of Patents and Other Intellectual Property. Any dispute relating to the determination of validity of a Party's Patents or other issues relating solely to a Party's intellectual property shall be submitted exclusively to the federal courts located in the Northern District of California, San Francisco Division, and the Parties hereby consent to the jurisdiction and venue of such court.

ARTICLE 19
MISCELLANEOUS

19.1 Assignment.

(a) Either Party may assign any of its rights under this Agreement in any country to any Affiliates and, with the prior written consent of the other Party, may delegate its obligations under this Agreement in any country to any Affiliates; provided, however, that any such assignment shall not relieve the assigning Party of its responsibilities for performance of its obligations under this Agreement.

(b) Either Party may assign all of its rights and obligations under this Agreement in connection with a merger or similar reorganization or the sale of all or substantially all of its assets or otherwise with the prior written consent of the other Party; provided, however, that

XOMA may not so assign its rights and obligations if it is not the surviving company and the acquiror of XOMA is a direct competitor of Genentech. This Agreement shall survive any such merger or reorganization of either Party with or into, or such sale of assets to, another party and no consent (except as otherwise set forth above) for such merger, reorganization or sale shall be required hereunder.

(c) This Agreement shall be binding upon and inure to the benefit of the successors and permitted assigns of the Parties. Any assignment not in accordance with this Agreement shall be void.

19.2 Non-Solicitation. The Parties recognize that each Party has a substantial interest in preserving and maintaining confidential its Confidential Information hereunder. Each Party recognizes that certain of the other Party's employees, including those engaged in development, marketing and sale of any Licensed Product, may have access to such Confidential Information of the other Party. The Parties therefore agree not to solicit or otherwise induce or attempt to induce for purposes of employment any employees from the other Party involved in the development, marketing or sales of any Licensed Product during the period in which any Party is developing or commercializing a Licensed Product in the Co-Promotion Territory hereunder and for a period of two years thereafter.

19.3 Consents Not Unreasonably Withheld. Except as otherwise provided herein, whenever provision is made in this Agreement for either Party to secure the consent or approval of the other, that consent or approval shall not unreasonably be withheld, and except as otherwise provided herein, whenever in this Agreement provision is made for one Party to object to or disapprove a matter, such objection or disapproval shall not unreasonably be exercised.

19.4 Retained Rights. Nothing in this Agreement shall limit in any respect the right of either Party to conduct research and development with respect to and market products outside the Field using such Party's technology.

19.5 Force Majeure. Neither Party shall lose any rights hereunder or be liable to the other Party for damages or losses on account of failure of performance by the defaulting Party if the failure is occasioned by government action, war, terrorism, fire, explosion, flood, earthquake, strike, lockout, embargo, act of God, or any other cause beyond the control of the defaulting Party; provided that the Party claiming force majeure has exerted all Commercially Reasonable and Diligent Efforts to avoid or remedy such force majeure; provided, however, that in no event shall a Party be required to settle any labor dispute or disturbance.

19.6 Further Actions. Each Party agrees to execute, acknowledge and deliver such further instruments, and to do all such other acts, as may be necessary or appropriate in order to carry out the purposes and intent of this Agreement.

19.7 No Right to Use Names. Except as otherwise provided herein, no right, express or implied, is granted by this Agreement to use in any manner the name "XOMA," "Genentech" or any other trade name or trademark of the other Party or its Affiliates in connection with the performance of this Agreement.

19.8 Notices. All notices hereunder shall be in writing and shall be deemed given if delivered personally or by facsimile transmission (receipt verified), telexed, mailed by registered or certified mail (return receipt requested), postage prepaid, or sent by express courier service, to the Parties at the following addresses (or at such other address for a Party as shall be specified by like notice; provided that notices of a change of address shall be effective only upon receipt thereof).

If to XOMA,
addressed to:

XOMA (US) LLC
2910 7th Street
Berkeley, California 94710
Attention: Company Secretary
Telephone: (510) 204-7200
Telecopy: (510) 649-7571

with a copy to: C.L. Dellio

If to Genentech,
addressed to:

GENENTECH, INC.
1 DNA Way
South San Francisco, CA 94080
Attention: Corporate Secretary
Telephone: (650) 225-1000
Telecopy: (650) 952-9881

with a copy to the Vice President of
Business Development

Telecopy: (650) 225-3009

19.9 Waiver. Except as specifically provided for herein, the waiver from time to time by either of the Parties of any of its rights or its failure to exercise any remedy shall not operate or be construed as a continuing waiver of same or of any other of such Party's rights or remedies provided in this Agreement.

19.10 Severability. If any term, covenant or condition of this Agreement or the application thereof to any Party or circumstance shall, to any extent, be held to be invalid or unenforceable, then (i) the remainder of this Agreement, or the application of such term, covenant or condition to Parties or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby and each term, covenant or condition of this Agreement shall be valid and be enforced to the fullest extent permitted by law; and (ii) the Parties hereto covenant and agree to renegotiate any such term, covenant or application thereof in good faith in order to provide a reasonably acceptable alternative to the term, covenant or condition of this Agreement or the application thereof that is invalid or unenforceable, it being the intent of the Parties that the basic purposes of this Agreement are to be effectuated.

19.11 Ambiguities. Ambiguities, if any, in this Agreement shall not be construed against either Party, irrespective of which Party may be deemed to have authorized the ambiguous provision.

19.12 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

19.13 Entire Agreement. This Agreement, including all Exhibits attached hereto, which are hereby incorporated herein by reference, together with the Note Agreement, the Common Stock and Convertible Note Purchase Agreement dated as of April 22, 1996, as amended, and that certain letter agreement between the Parties dated April 7, 2000, set forth all the covenants, promises, agreements, warranties, representations, conditions and understandings between the Parties hereto and supersedes and terminates all prior agreements and understandings between the Parties. There are no covenants, promises, agreements, warranties, representations, conditions or understandings, either oral or written, between the Parties regarding the subject matter herein other than as set forth herein and therein. No subsequent alteration, amendment, change or addition to this Agreement shall be binding upon the Parties hereto unless reduced to writing and signed by the respective authorized officers of the Parties.

In Witness Whereof, the Parties have executed this Agreement in duplicate originals by their proper officers as of the Effective Date.

XOMA (US) LLC	GENENTECH, INC.
By:_____	By:_____
Clarence L. Dellio	Susan D. Desmond-Hellman
Title: Senior Vice President and Chief Operating Officer	Title: Executive Vice President Development and Product Operations and Chief Medical Officer

EXHIBIT A

FINANCIAL PLANNING, ACCOUNTING AND REPORTING
FOR THE XOMA/GENENTECH COLLABORATION AGREEMENT

This Exhibit A to the Amended and Restated Collaboration Agreement (the

"Agreement") effective as of April 22, 1996, between XOMA (US) LLC ("XOMA") and Genentech, Inc. ("Genentech") addresses the financial planning, accounting policies and procedures to be followed in determining Operating Profit or Loss and related sharing of revenue and expenses in the Co-Promotion Territory. Terms not defined in this Exhibit shall have the meanings set forth in the Agreement.

This Exhibit sets forth the principles for reporting actual results and budgeted plans of the combined operations in the Co-Promotion Territory, the frequency of reporting, and the methods of determining payments to the Parties and auditing of accounts.

For purposes of this Exhibit only, the consolidated accounting of operations for the collaboration in the Co-Promotion Territory shall be referred to as "GenXOMA." GenXOMA is not a legal entity and has been defined for identification purposes only.

PRINCIPLES OF REPORTING

The results of operations of GenXOMA will be presented in the following format, with the categories as defined below:

	XOMA	Genentech	Total
Gross Sales			
less Sales Returns and Allowances			
= Net Sales			
less Cost of Sales			
= Gross Profits			
less Marketing Costs			
less Sales Costs			
less Development Costs chargeable to GenXOMA			
less Other Operating Income/Expense			
= Contribution			
less Distribution Costs			
less Administration Costs			
= Operating Profit (Loss)			

It is the intention of the Parties that the interpretation of these definitions will be consistent with generally accepted accounting principles in the United States.

FREQUENCY OF REPORTING

The fiscal year of GenXOMA will be a calendar year.

Reporting by each Party for GenXOMA revenues and expenses will be performed as follows:

Reporting Event	Frequency	Timing of Submission
Actuals	Quarterly	Q1-Q3: +30 days Q4: +45 days
Forecasts (rest of year - by quarter)	Quarterly	Mid-Quarter
Budgets (one year - by month)	Annually	October 15th
Long Range Plan (current year plus 5 years)	Annually	May 1st

Genentech will be responsible for the preparation of consolidated reporting, calculation of the profit/loss sharing and determination of the cash settlement. Genentech will provide the Finance Committee within five working days of the submission date shown above, a statement showing the consolidated results and calculations of the profit/loss sharing and cash settlement required in a format agreed to by the Parties.

Reports of actual results compared to budget will be made to the Joint Core Team on a quarterly basis. After approval by the Finance Committee as to amounts, the Finance Committee will forward the report to the Joint Steering Committee for its approval. Line item variances from budgets judged to be significant by the Finance Committee will only be included in calculation of Operating Profit and Loss when approved by the Joint Core Team and the Joint Steering Committee.

On a monthly basis Genentech will supply XOMA with Gross Sales in the Co-Promotion Territory in units of each month's sales according to Genentech's

sales reporting system, which shall be consistent with the definitions herein.

The Finance Committee will meet as appropriate but at least quarterly to review and approve the following:

- Actual Results
- Sales and Manufacturing Forecasts

- Budget
- Inventory Levels
- Sales Returns and Allowances
- Other financial matters, including each Party's methodologies for charging costs and allocating Sales Representatives to GenXOMA for actuals, forecasts, budgets and long range plans and the results of applying such methodologies.

BUDGET AND LONG RANGE PLAN

Responsibility for the Budget and Long Range Plan will rest with the Joint Core Team, who will develop budgets for development and commercialization in coordination with the Finance Committee, subject to final approval by the Joint Steering Committee.

Budgets will be prepared annually. In addition, headcount chargeable to GenXOMA will be agreed to annually.

Budgets will be supplemented with detailed business plans for clinical trials, registration applications, and detailed plans for product introduction, sales efforts and promotion as determined by the Joint Core Team. Budgets, once approved by the Joint Steering Committee, can only be changed with the approval of the Joint Steering Committee.

A five-year Long Range Plan for GenXOMA will be established on a yearly basis under the direction of the Joint Steering Committee and submitted to Genentech and XOMA by May 1st.

DEFINITIONS

"Administration Costs" means costs chargeable to GenXOMA equal to [*]% of the sum of each Party's own Marketing Costs and Sales Costs (both only to the extent chargeable to GenXOMA).

"Allocable Overhead" means costs incurred by a Party or for its account which are attributable to a Party's supervisory, services, occupancy costs, corporate bonus (to the extent not charged directly to department), and its payroll, information systems, human relations or purchasing functions and which are allocated to company departments based on space occupied or headcount or other activity-based method. Allocable Overhead shall not include any costs attributable to general corporate activities including, by way of example, executive management, investor relations, business development, legal affairs and finance.

"Combination Product Adjustment" means the following: in the event a Licensed Product is sold in the form of a combination product containing one or more active ingredients in addition to a Licensed Product, Net Sales for such combination product will be adjusted by multiplying actual Net Sales of such combination product by the fraction A/(A + B) where A

is the invoice price of the Licensed Product, if sold separately, and B is the invoice price of any other active component or components in the combination, if sold separately. If, on a country-by-country basis, the other active component or components in the combination are not sold separately in said country, Net Sales shall be calculated by multiplying actual Net Sales of such combination product by the fraction A/C where A is the invoice price of the Product if sold separately, and C is the invoice price of the combination product. If, on a country-by-country basis, neither the Licensed Product nor the other active component or components of the combination product are sold separately in said country, Royalty-Bearing Sales or Net Sales shall be determined by the Parties in good faith.

"Cost of Goods Sold" means the fully burdened cost of the Licensed Product

in final therapeutic form. The fully burdened cost of the Licensed Product will be determined in accordance with generally accepted accounting principles in the United States as applied by the Party performing or contracting for each stage of the manufacturing process and will include direct labor, material, the cost associated with a [*] percent ([*]%) failure rate of lots (regardless of the actual percentage), product testing costs and Allocable Overhead.

"Cost of Sales" means Cost of Goods Sold, Third Party Royalties (i.e., any allocable intellectual property acquisition and licensing costs), outbound freight on sales if borne by the seller and a one-time working capital charge on inventory calculated at an annual rate equal to [*] multiplied by Cost of Goods Sold of the launch inventory, which charge shall apply for the period beginning on the first commercial sale and ending when the launch inventory is completely sold or after one year, whichever is earlier.

"Development Costs" means those costs, including Allocable Overhead, arising from clinical trials or other Scientific Studies: (i) to obtain and/or expand Regulatory Approvals, the authorization and/or ability to manufacture, formulate, fill, ship and/or sell a Licensed Product in the Field in commercial quantities and (ii) to enhance revenues from Licensed Product. Development Costs shall include but are not limited to the cost of studies on the toxicological, pharmacokinetic, metabolic or clinical aspects of a Licensed Product conducted internally or by individual investigators or consultants necessary for the purpose of obtaining and/or maintaining approval of a Licensed Product in the Field by a government organization and costs for preparing, submitting, reviewing or developing data or information for the purpose of submission to a governmental authority to obtain and/or maintain approval of a Licensed Product in the Field as well as costs of Studies to add data to or expand package inserts and costs of scientific advisory boards and process development scale-up and recovery (including allocable depreciation and plant operating costs) regardless of where such work is performed. In addition, for those indications as to which both Parties have opted-in as contemplated by the Agreement, Development Costs shall include the cost of post-launch clinical studies in support of a Licensed Product in the Field. Development Costs shall include expenses for compensation, benefits and travel and other employee-related expenses, as well as data management, statistical designs and studies, document preparation, and other expenses associated with the clinical testing program. Development Costs exclude costs incurred by Genentech pursuant to Section 4.2(a)(i) and 4.2(a)(ii) of the Agreement and costs incurred by XOMA pursuant to Section 4.2(a)(ii), 4.2(b)(i) and 4.2(b)(ii) of the Agreement.

"Distribution Costs" means the costs, including Allocable Overhead, specifically identifiable to the distribution of a Licensed Product including customer services, collection of data of sales to hospitals and other end users (e.g., DDD sales data), order entry, billing, credit and collection and other activities described in Section 5.3 of the Agreement. For the purpose of the Agreement, only Genentech will charge GenXOMA for Distribution Costs an amount of [*]% of Net Sales in a lump sum.

"Ex-U.S. Development Costs" means Development Costs incurred solely for expanding or obtaining Regulatory Approvals outside of the United States. Development Costs will be deemed Ex-U.S. Development Costs if Genentech is not obligated to share such costs contractually with an Ex-U.S. Genentech Partner. In addition but subject to the $[*] payment XOMA is required to make pursuant to Section 6.1(b), those costs which Genentech is required to fund [*] shall be Ex-U.S. Development Costs.

"Fully Burdened Manufacturing Cost" means the fully burdened cost of the Licensed Product in bulk or final form, as applicable. The fully burdened cost of the Licensed Product will be determined in accordance with generally accepted accounting principles in the United States as applied by the Party performing or contracting for each stage of the manufacturing process and will include direct labor, material, the cost associated with a [*] percent ([*]%) failure rate of lots (regardless of the actual percentage), product testing costs and Allocable Overhead.

"Global Development Costs" means those Development Costs incurred pursuant to a coordinated global development plan designed to obtain approvals both in the U.S. and ex-U.S. Development Costs shall be deemed Global Development Costs if an Ex-U.S. Genentech Partner is contractually obligated to or otherwise agrees to fund a share of such costs. In addition, Development Costs shall be deemed Global Development Costs if, as in the case of psoriasis and psoriatic arthritis, an Ex-U.S. Genentech Partner is entitled to use data generated from clinical studies for development purposes without financial contribution or when Genentech provides such data to an Ex-U.S. Genentech Partner without charge for use in development outside the U.S. [*]

"Gross Sales" means the gross amount invoiced by either Party or its Affiliates or permitted sublicensees for sales of a Licensed Product to Third Parties in the Co-Promotion Territory.

"Marketing Costs" means the costs, including Allocable Overhead, of marketing, promotion, advertising, professional education, product related public relations, relationships with opinion leaders and professional societies, market research, healthcare economics studies and other similar activities directly related to the Licensed Products. Such costs will include both internal costs (e.g., salaries, benefits, supplies and materials, etc.) as well as outside services and expenses (e.g., consultants, agency fees, meeting costs, etc.). Marketing Costs shall also include activities related to obtaining reimbursement from payers and costs of sales and marketing data. Marketing Costs will specifically exclude the costs of activities which promote either Party's business as a whole without being product specific (such as corporate image advertising).

"Net Sales" means with respect to sales in the Co-Promotion Territory, Gross Sales less the sum of (a), (b) and (c) where (a) is a provision, determined under generally accepted accounting principles in the United States, for (i) trade, cash and quantity discounts or rebates (other than price discounts granted at the time of invoicing and which are included in the determination of Gross Sales), (ii) credits or allowances given or made for rejection or return of previously sold products or for retroactive price reductions (including Medicare and similar types of rebates), (iii) taxes, duties or other governmental charges levied on or measured by the billing amount, as adjusted for rebates and refunds, (iv) charges for freight and insurance directly related to the distribution of Licensed Products (to the extent not paid by the Third Party customer), and (v) credits or allowances given or made for wastage replacement, indigent patient and any other sales programs agreed to by the Parties, (b) is a periodic adjustment of the provision determined in (a) to reflect amounts actually incurred for (i), (ii), (iii), (iv) and (v), and (c) is the Combination Product Adjustment as defined in the Agreement, if any. Provisions allowed in (a) and adjustments made in (b) and (c) will be reviewed by the Finance Committee.

With respect to sales in the Genentech Territory, Net Sales and Royalty Bearing Sales as used in the Agreement shall mean:

as to each calendar quarter, the gross invoiced sales prices charged for all Licensed Products sold by an Ex-U.S. Genentech Partner, its Affiliates and sublicensees in arm's length transactions to Third Parties in the Genentech Territory during such quarter, less (i) rebates and price reductions, retroactive or otherwise (including rebates similar to Medicare or other government rebates), (ii) credits or allowances given or made for rejection or return of, and for uncollectible amounts on, previously sold Licensed Products, (iii) taxes, duties or other governmental charges levied on or measured by the billing amount, as adjusted for rebates and refunds, (iv) charges for freight, postage and insurance directly related to the distribution of Licensed Products (to the extent not paid by the Third Party customer), (v) credits or allowances given or made for wastage replacement, indigent patient and similar programs, to the extent actually deducted from the gross amount invoiced, and (vi) amounts debited on account of bad debts with respect to sales previously invoiced, all of items (i) - (vi) above as adjusted periodically to represent actual results in accordance with International Accounting Standards (IAS). If applicable, such amounts shall then be adjusted by the Combination Product Adjustment which shall be defined in the agreement(s) between Genentech and Ex-U.S. Genentech Partners relating to the development of Anti-CD11a.

"Operating Profit or Loss" means GenXOMA's Net Sales less the following items: Cost of Sales, Marketing Costs, Sales Costs, Development Costs (to the extent chargeable to GenXOMA), Other Operating Income/Expense, Distribution Costs and Administrative Costs, for a given period.

"Other Operating Income/Expense" means other operating income or expense from or to third parties which is not part of the primary business activity of GenXOMA, but is considered and approved by the Finance Committee as income or expense generated from GenXOMA operations, and limited to the following:

- Inventory Write-Offs
- Patent Costs (as limited by Article 13 of the Agreement)
- Product liability insurance to the extent the Parties obtain a joint policy
- Indemnification costs (as provided in Article 17 of the Agreement)
- Other (to be approved by Joint Steering Committee)

"Patent Costs" means the fees and expenses paid to outside legal counsel and experts, and filing and maintenance expenses, incurred after the Effective Date in connection with the establishment and maintenance of rights under Patents covering any Licensed Product, including costs of patent interference, reexamination, reissue, opposition and revocation proceedings.

"Sales Costs" means costs, including Allocable Overhead, approved by the Joint Core Team and the annual budget and specifically identifiable to the sales of Licensed Products to all markets in the Co-Promotion Territory including the managed care market. Sales Costs shall include costs associated with Sales Representatives, including compensation, benefits and travel, supervision and training of the Sales Representatives, sales meetings, and other sales expenses. Sales Costs will not include the start-up costs associated with either Party's sales force, including recruiting, relocation and other similar costs.

"Sales Returns and Allowances" means Gross Sales less Net Sales.

"U.S. Commercialization Costs" means Marketing Costs and Sales Costs which are incurred to generate revenues from Licensed Product sales solely in the United States.

"U.S. Specific Development Costs" means those Development Costs designed to obtain or expand Regulatory Approvals only in the United States. Except with respect to [*], if an Ex-U.S. Genentech Partner is not financially contributing to payment of such Development Costs, they will be deemed U.S. Specific Development Costs. For purposes of clarity, Development Costs incurred for [*] shall be deemed U.S. Specific Development Costs until such time as an Ex-U.S. Genentech Partner opts-in to or otherwise funds costs for this Indication.

Audits and Interim Reviews

Either Party shall have the right to request that the other Party's independent accounting firm perform an audit or interim review of the other Party's books in order to express an opinion regarding said Party's compliance with generally accepted accounting principles. Such audits or review will be conducted at the expense of the requesting Party.

Either Party shall have the right to request that its independent accounting firm perform an audit of the other Party's books of accounts for the sole purpose of verifying compliance with the Agreement. Such audits will be conducted at the expense of the requesting Party; provided, however, that if the audit results in an adjustment of greater than [*]% of Operating Profit or Loss in any period, the cost of the audit will be borne by the Party audited. Audit results will be shared with both Parties.

PAYMENTS BETWEEN THE PARTIES AND CARRY FORWARD

Balancing payments between the Parties will be approved by the Joint Steering Committee based on Operating Profit or Loss. Payments will be made quarterly based on actual results within 90 days after the end of each quarter, adjusted for reimbursement of the net expenses or income incurred or received by each Party.

With respect to the psoriasis Indication only, if there is a net negative operating cash flow, XOMA may defer its payment for any loss arising from commercialization costs in the U.S. which accrue during the calendar year of the launch, until the earlier of April 30th of the following calendar year or the first calendar quarter with positive operating cash flow (the "Deferred Payment"). Notwithstanding the foregoing, there will be no such deferral for income statement purposes. The Deferred Payment shall accrue interest at the rate of [*].

ACCOUNTING FOR DEVELOPMENT COSTS, MARKETING COSTS AND SALES COSTS

All Development Costs, Marketing Costs and Sales Costs will be based on the appropriate costs definition stated in Section A.4 of this Exhibit.

Each party shall report Development Costs in a manner consistent with its Project Cost System. In general, these project cost systems report actual time spent on specific projects, apply the actual labor costs, capture actual costs of specific projects and allocate other expenses to projects. For Marketing Costs, the Parties will report costs based on spending in marketing departments. The Parties acknowledge that the methodologies used will be based on systems in place.

For the purpose of determining actual and budgeted Sales Costs, the Parties, through the Joint Core Team and the Finance Committee, shall determine the number of Sales Representatives selling Licensed Products during the period and develop a method consistent with Section A.4 of this Exhibit to allocate Sales Costs to those Sales Representatives.

SHARING OF OPERATING PROFITS AND LOSSES

For Joint Development Indications, the Parties agree to share the Operating Profit or Loss resulting from the collaborative arrangement in the Co-Promotion Territory according to the following manner:

For each calendar year, XOMA shall receive 25% of the Operating Profit and Genentech shall receive 75% of Operating Profit from such Joint Development Indications. To the extent there is an Operating Loss on sales of Licensed Product for Joint Development Indications in the Co-Promotion Territory in any calendar year, XOMA shall absorb 25% of such loss and Genentech shall absorb 75% of such Loss.

Start of Operations

Operation of GenXOMA will be deemed to have commenced on the date the Parties began to share Development Costs for the psoriasis Phase III Clinical Trial which occurred on or about May 4, 1999. Costs incurred prior to that date are not chargeable to GenXOMA.

Exhibit B

[*]

Exhibit C

The "Itakura/Riggs Patents" shall mean the following U.S. patents and any and all divisionals, continuations, continuations-in-part of any application from which these U.S patents claim priority, including reissues, reexaminations or extensions of these patents and foreign counterparts and supplementary protection certificates of the foregoing:

U.S. 4,356,270
U.S. 4,366,246
U.S. 4,425,437
U.S. 4,431,739
U.S. 4,563,424
U.S. 4,571,421
U.S. 4,704,362
U.S. 4,812,554
U.S. 5,221,619
U.S. 5,420,020
U.S. 5,583,013

The "Cabilly Coexpression Patents" shall mean U.S. Patent No. 6,331,415 issued December 18, 2001, and any and all patents issuing from divisionals, continuations, or continuations-in-part of any application from which U.S. Patent No. 6,331,415 claims priority, including reissues, reexaminations or extensions of these patents and foreign counterparts and supplementary protection certificates of the foregoing. Cabilly Coexpression Patents shall not include Cabilly Chimera Patents identified below.

"Cabilly Chimera Patents" shall mean (i) U.S. Patent No. 4,816,567, issued March 28, 1989, and (ii) any claims directed to chimeric antibodies which claims are found in any patent(s) issuing from divisionals, continuations, or continuations-in-part of any application from which U.S. Patent No. 4,816,567 claims priority, or (iii) which claims are found in any patents that are reissues, reexaminations, extensions, or foreign counterparts of any of the foregoing (i) or (ii).

EXHIBIT 3

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 AND MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED, HYPOTHECATED, ASSIGNED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER SAID ACT COVERING THE TRANSFER OR AN OPINION OF COUNSEL IN FORM AND SUBSTANCE SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED.

THE SECURITIES REPRESENTED HEREBY (AND, IF APPLICABLE, ANY SECURITIES ISSUED UPON CONVERSION THEREOF) ARE SUBJECT TO RESTRICTIONS ON SALE, ASSIGNMENT OR TRANSFER PURSUANT TO THAT CERTAIN COMMON STOCK AND CONVERTIBLE NOTE PURCHASE AGREEMENT, DATED AS OF APRIL 22, 1996, BETWEEN THE COMPANY AND GENENTECH, INC., AND MAY NOT (NOR MAY ANY INTEREST THEREIN) BE SOLD, ASSIGNED, CONVEYED, PLEDGED, HYPOTHECATED OR OTHERWISE DISPOSED OF OTHER THAN IN ACCORDANCE WITH THE PROVISIONS THEREOF.

Berkeley, California
As of March 31, 2003

Up to $80,000,000

XOMA LTD.

AMENDED AND RESTATED CONVERTIBLE SECURED NOTE AGREEMENT

DEVELOPMENT LOAN

WHEREAS, XOMA LTD., a Bermuda company having its registered office at Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda (the "Company"), and GENENTECH, INC., a Delaware corporation having its principal executive office at 1 DNA Way, South San Francisco, California 94080-4990 (the "Lender"), desire to further the collaboration arrangements embodied in (a) that certain Common Stock and Convertible Note Purchase Agreement, dated as of April 22, 1996, between the Company (then a Delaware corporation known as XOMA Corporation) and the Lender, as amended as of April 14, 1999 (the "Purchase Agreement"), and (b) that certain Collaboration Agreement, effective as of April 22, 1996, between the Company and the Lender, as amended as of April 14, 1999 and as amended and restated as of March 31, 2003 (the "Collaboration Agreement").

WHEREAS, the Lender has made loans to the Company pursuant to the Collaboration Agreement and has agreed from time to time to make additional loans to the Company for Development Costs (as defined in the Collaboration Agreement) pursuant to Section 8.1 of the Collaboration Agreement, all such loans (to the extent not repaid) to be evidenced by this Amended and Restated Convertible Secured Note Agreement which shall, together with that certain Secured Note Agreement - Commercial Launch Loan (the "Other Note"), that certain Security Agreement (the "Security Agreement"), and that certain Registration Rights Agreement (the

"Registration Rights Agreement"), each concurrently being entered into as of the date hereof, between the Company and Lender, supersede any prior agreement with respect to the subject matter hereof (this "Note Agreement" or "Note").

WHEREAS, the Company has agreed to repay any such loans in accordance with the terms of this Note Agreement.

WHEREAS, in connection with the Collaboration Agreement, the Company and the Lender desire to set forth in this Note the terms and conditions on which the Company agrees to repay to the Lender loans (the "Loans") in an aggregate principal amount not to exceed EIGHTY MILLION DOLLARS ($80,000,000) (the "Commitment Amount") lent or to be lent to the Company by the Lender pursuant to Section 8.1 of the Collaboration Agreement for the purpose of developing Licensed Products (as such term and all other capitalized terms used, but not otherwise defined herein, are defined in Section 17 below).

WHEREAS, as more fully set forth in this Note, the aggregate principal amount of, and accrued interest on, such loans may be converted upon the occurrence of certain events into Series B Preference Shares of the Company (the "Series B Preference Shares"), having the preferences and rights (including conversion into the Company's Common Shares, par value US$.0005 per share (the "Common Shares")) substantially as set forth in the resolutions attached hereto as Exhibit B (the "Resolutions").

NOW, THEREFORE, FOR VALUE RECEIVED, the Company promises to repay to the order of the Lender the principal amount of loans evidenced by this Note together with interest thereon, all as set forth below.

1. Principal.

(a) Commitment to Make Convertible Loans.

(i) In accordance with, and subject to the terms and conditions of, this Note and the other Note Documents, from time to time from the date of this Note until the earliest of the date of Regulatory Approval, April 22, 2005 or termination upon the occurrence of an Event of Default in accordance with Section 6 below, the Lender has agreed to make Loans to the Company, and the Company has agreed to repay such Loans, in an aggregate principal amount not to exceed the Commitment Amount. Subject to the terms and conditions set forth in this Note, Loans that are borrowed and optionally prepaid by the Company pursuant to Section 3 below (including through conversion) may be reborrowed in only an amount equal to the principal amount repaid.

(ii) Upon prepayment in accordance with Section 3(a)(i) below and at the election of the Company within ninety (90) days of the date of receipt of Regulatory Approval in the United States in accordance with Section 3(a)(ii), the outstanding principal and interest under this Note may be converted into Series B Preference Shares that are convertible into Common Shares as hereinafter provided.

(b) Tranches of Loans and Entries on Exhibit C. The principal amount of each Loan shall be recorded by the Lender and endorsed by the Lender and the Company on Ex-

hibit C attached hereto, which is hereby made a part of this Note. Each such Loan shall be treated as a separate Loan hereunder, and, as such, shall be treated as, and designated, a separate "Tranche" hereunder. The first Loan, made as contemplated by Section 1(c) below, is hereby designated "Tranche A" and recorded as such on Exhibit C attached hereto. Each repayment, conversion, and subsequent Loan made hereunder as contemplated by Section 1(d), shall be similarly designated with consecutive letter designations, such as "Tranche B", "Tranche C", etc., and the applicable designation shall be recorded by the Lender and endorsed by the Lender and the Company on Exhibit C attached hereto at the time any such Loan is made. Notwithstanding the foregoing, any failure of the Lender to make any notation on Exhibit C shall not affect the obligation of the Company to repay Loans actually made with interest in accordance with this Note.

(c) Initial Loan. As of the date of this Note, Loans in an aggregate principal amount of FIFTY NINE MILLION NINE HUNDRED NINETY SIX THOUSAND AND EIGHTY SEVEN DOLLARS ($59,996,087) are outstanding, and the aggregate amount of the Commitment Amount remaining available for borrowing is TWENTY MILLION THREE THOUSAND NINE HUNDRED AND THIRTEEN DOLLARS ($20,003,913). The aggregate principal amount of Loans outstanding as of the date of this Note shall be recorded and endorsed on Exhibit C attached hereto and designated as Tranche A thereon.

(d) Additional Loans. The Lender's obligation to make any Loan to the Company after the date of this Note is subject to the condition that no Default or Event of Default shall have occurred and be continuing and to the fulfillment on or prior to the date such Loan is to be made of the following conditions (and by requesting or accepting a Loan, the Company shall be deemed to have represented to the Lender that such conditions have been satisfied):

(i) Such Loan shall be legally permitted by all laws and regulations to which the Company is subject;

(ii) Each of the representations and warranties of the Company set forth in Exhibit A to this Note and the Other Note, Section 4 of the Security Agreement and Section 14.1 of the Collaboration Agreement shall be true and correct as of the date such Loan is to be made as if made on and as of such date;

(iii) The Company shall have performed and complied in all material respects with all agreements, obligations and conditions contained in this Note, and the other Note Documents that are required to be performed or complied with by it on or prior to the date of making such Loan; and

(iv) The Company shall have obtained all consents (including all governmental and regulatory consents, approvals, or authorizations required in connection with such Loan), permits and waivers necessary or required in connection with such Loan.

(e) Borrowing and Funding Procedures. Not later than the last business day of each calendar quarter, in accordance with the annual budget (the "Approved Budget") formulated by the Joint Core Team and approved by the Joint Steering Committee in accordance with Article 3 of the Collaboration Agreement and subject to satisfaction or waiver of the conditions

referred to in this Note, the Lender shall make a Loan to the Company equal to the Company's budget as represented in the Approved Budget for development of Licensed Products for the next calendar quarter. The Lender and the Company shall meet not later than each January 31st, April 30th, July 31st and October 31st to review the actual spending by the parties in the just-completed calendar quarter in comparison to the just completed quarter's advance, to determine any adjustments to be applied to the outstanding Loan balance and the next quarter's loan funding, so long as the reconciliation is consistent with those limits imposed by the Joint Steering Committee under Section 3.1(b) of the Collaboration Agreement.

Each such Loan shall be made by wire transfer of immediately available funds to an account in the United States designated by the Company denominated in the currency of the United States of America.

(f) Maturity Date. Unless earlier converted into securities in accordance with the terms hereof or accelerated by reason of the occurrence of an Event of Default (as provided in Section 6 below), any unpaid principal amount of any Tranche owed by the Company to the Lender, together with accrued and unpaid interest thereon, shall be due and payable in full on the earlier of (a) the later of (i) April 22, 2005 or (ii) the second anniversary of the date the Loan comprising such Tranche (or portion thereof) was made to the Company or (b) subject to being converted into Series B Preference Shares upon satisfaction of the conditions contained in Section 4 below and/or being paid by application of the Company Profit Share to the Amortizing Portion, the 90th day following the date of receipt of Regulatory Approval in the United States.

(g) Use of Proceeds. The proceeds of the Loans shall be used and, to the extent disbursed prior to the date of this Note, have been used by the Company only in connection with the development of Licensed Products prior to the receipt of Regulatory Approval in the United States.

2. Interest. Interest on the unpaid balance of the principal amount of each Tranche hereunder and on any unpaid interest thereon from time to time outstanding shall accrue from the date disbursed to but not including the date repaid or converted and compound on the last day of each Interest Period at a rate per annum equal to the applicable LIBOR Rate (as such rate may change on the first day of each Interest Period) plus one percent (1%) (calculated on the basis of a year of 360 days). Interest on each Loan shall be due and payable on the earlier of the date that such Loan is repaid or matures.

3. Payment.

(a) Form of Repayment.

(i) Prior to maturity as set forth in Section 1(f), the principal amount of this Note or any Tranche (or portion thereof) hereunder and any interest accrued thereon may be prepaid by the Company, at any time without penalty, in whole or in part. Any such prepayment hereunder shall be payable, at the option of the Company as set forth in written notice to the Lender, by any of the following means or any combination thereof: (i) in cash denominated in the currency of the United States of America or (ii) by conversion into Series B Preference Shares in accordance with Section 4 below. In the event of any

prepayment of less than all of the amounts outstanding under this Note, the Company may designate the Tranche or Tranches (or portion thereof) to which such payment shall apply.

(ii) Within 90 days after the receipt of Regulatory Approval in the United States, the outstanding principal amount of this Note and any interest accrued thereon shall be repaid by either of the following means, at the election of the Company:

(A) by conversion into Series B Preference Shares in accordance with Section 4 below or

(B) by a combination of (1) conversion into Series B Preference Shares in accordance with Section 4 below, (2) cash denominated in the currency of the United States of America and/or (3) application of each of the payments payable by the Lender to the Company under Section 8.2 of the Collaboration Agreement ("Company Profit Share"), except that not more than $40,000,000 in principal amount of this Note may be repaid by applying the Company Profit Share to that portion of the Loans designated by the Company for repayment by the application of the Company Profit Share (the "Amortizing Portion"). The Amortizing Portion shall be repaid in installments on the dates (and in the amounts) that each such payment is due to the Company under Section

8.2 of the Collaboration Agreement and shall accrue interest in the manner set forth in Section 2 above. Each such installment payment shall be applied first to accrued and unpaid interest payable on the Amortizing Portion and then to the remaining outstanding principal thereof. In the event the Company so elects, the Company hereby irrevocably directs and authorizes the Lender to apply all amounts payable to the Company under Section 8.2 of the Collaboration Agreement to repayment of the Amortizing Portion of the Loans in accordance with this subsection (B). The Company may prepay the Amortizing Portion in cash at any time without penalty. Nothing in this subsection (B) shall be construed as a waiver of any right of the Lender to setoff mutual obligations of the Lender and the Company.

(iii) On April 22, 2005 (or if later, the second anniversary of the date the Loan comprising a certain Tranche was made to the Company with the date of such second anniversary only applicable to the Loan comprising such Tranche), the outstanding principal amount of this Note and any interest accrued thereon shall be repaid in cash denominated in the currency of the United States of America or by conversion into Series B Preference Shares in accordance with Section 4 below.

(b) Method, Application. Payments of principal and accrued interest shall be made at the address of the Lender set forth in the Collaboration Agreement, or at such other place as the Lender shall have notified the Company in writing at least five (5) business days before such payment is due. Unless an Event of Default shall have occurred, all payments in respect of any Tranche under this Note shall be applied first to accrued and unpaid interest thereon, and thereafter to the unpaid principal amount thereof. After the occurrence of an Event of Default, payments shall be applied as determined by the Lender in its discretion.

(c) Recordation; Return of Note. All payments of interest and principal in respect of each Tranche (or portion thereof) hereunder, as well as all adjustments thereto based on the parties' payment of Development Costs (as such term is defined in the Collaboration Agreement), shall be recorded by the Lender and endorsed by the Lender and the Company on Exhibit C attached hereto, which is hereby made a part of this Note. Upon final payment in full of all principal of and interest on this Note and each Tranche hereunder, including, without limitation, final payment upon conversion pursuant to Section 4(d) below and termination of any commitment of the Lender to make Loans hereunder, the Lender shall return this Note to the Company for cancellation.

4. Conversion of Principal and Interest to Series B Preference Shares.

(a) Conditions to Conversion. The principal and interest under this Note shall be convertible into Series B Preference Shares only pursuant to and in accordance with Section 3(a) of this Note. It shall be a condition to any such conversion that, as of the date of such conversion (the "Conversion Date"), unless otherwise waived or agreed to by the Lender:

(i) No Event of Default shall have occurred and be continuing;

(ii) After giving effect to the proposed conversion into Series B Preference Shares, the Lender would not then hold Common Shares or have the right to acquire Common Shares upon conversion of Series B Preference Shares possessing in total more than eighteen percent (18%) of the outstanding voting interests of the Company, provided, however, that if the conversion under Section 3(a) above would cause the Lender's holdings to exceed such percentage, the Lender hereby agrees to waive the foregoing condition but thereafter agrees to not convert into Common Shares the number of Series B Preference Shares (and only such number of Series B Preference Shares) that would cause the Lender's holdings to exceed 18% of the outstanding voting interests of the Company (except under exceptional circumstances such as automatic conversion into Common Shares or liquidation of the Company as required in the Resolutions);

(iii) Not later than the Conversion Date, interest on any principal being converted shall have been prepaid, repaid or converted;

(iv) In the case of conversion upon prepayments made pursuant to Section 3(a)(i) above, (A) at least ten (10) business days prior to prepayment, the Company shall have notified the Lender of its intent to make a prepayment and shall state in such notice that the prepayment shall be made by way of conversion pursuant to this Section 4; (B) the Company shall have complied with all of its obligations under the Registration Rights Agreement with respect to the Common Shares issuable upon conversion of the Series B Preference Shares to be received upon such prepayment, including, without limitation, the Company's obligation to file and use commercially reasonable efforts to have declared effective a Registration Statement for an offering on a continuous basis pursuant to Rule 415 of the Securities Act (a "Shelf Registration") covering such Common Shares and

permitting resale thereof by the Lender at the time of prepayment; and (C) such conversion shall not result in the issuance of Series B Preference Shares to the Lender in an amount that would impose immediate liability under Section 16(b) of the U.S. Securities

Exchange Act of 1934, as amended, on the Lender arising from the matching of (I) previous sales by the Lender of Common Shares, which were issued upon conversion of Series B Preference Shares previously issued to the Lender in prepayment of principal and/or interest under this Note pursuant to Section 3(a)(i), with (II) the issuance of the Series B Preference Shares to be issued in connection with such prepayment; provided, that in any such prepayment, the Company may issue any number of Series B Preference Shares less than the number of shares so giving rise to such liability; and provided, further, that any failure by the Lender to provide written notice to the Company that the condition contained in this clause (C) has not been satisfied as determined by the Lender on a reasonable basis, within ten (10) days after the date on which the Company notified the Lender of its intention to make such prepayment by providing notice to the Lender's General Counsel, Section Counsel for securities matters or Corporate Counsel for securities matters (with a copy to the Lender's Treasurer) and receiving written acknowledgement of such notice, shall be deemed a waiver of this condition as it relates to such prepayment. In the event the Lender notifies the Company that the Company's proposed conversion would impose immediate liability on the Lender under Section 16(b), the Lender shall specify to the Company the maximum number of Series B Preference Shares, if any, that the Company may issue without the Lender being subject to such liability.

(v) In the case of conversion upon maturity in accordance with Section 3(a)(ii) or 3(a)(iii) above, the Company shall have notified the Lender in writing at least ten (10) business days prior to conversion of its intent to convert, the amount of principal and interest outstanding under this Note to be converted, and the date (not later than the 90th day following the date of receipt of Regulatory Approval in the United States in the event of a conversion under Section 3(a)(ii) above) of such conversion.

(b) Conversion and Number of Shares. Subject to the other terms and conditions of this Note, upon satisfaction of the applicable conditions set forth in Section 4(a) above, Loans made under this Note and interest thereon shall be converted on the Conversion Date into Series B Preference Shares. The number of Series B Preference Shares into which any amount shall be converted shall be determined by dividing the sum of the aggregate unpaid principal amount to be converted and the unpaid accrued interest on such principal amount by the Conversion Price and rounding the result downward to the nearest whole integer. Any remaining principal amount which did not, in the aggregate, equal the value of one share shall be repaid in cash to Lender.

(c) Conversion Procedure. At its own expense, the Company shall, as soon as practicable after the Conversion Date (or in the case of a conversion upon prepayment, concurrently with such conversion, the Company shall), issue and deliver to the Lender at its principal office a certificate or certificates for the number of Series B Preference Shares to which the Lender shall be entitled upon such conversion (which shall bear such legends as are provided for in the Purchase Agreement upon the acquisition of Series B Preference Shares). Any conversion of this Note or any Tranche hereunder (or any portion thereof) pursuant to Section 4(b) shall be deemed to have been made at the close of business, California time, on the applicable Conversion Date, and at and after such time the persons entitled to receive the Series B Preference

Shares issuable upon such conversion shall be treated for all purposes as the record holder of such Series B Preference Shares.

(d) Effect of Conversion. Upon conversion of any principal or interest under this Note to Series B Preference Shares in accordance with Section 3(a) of this Note, all of the Company's obligations and liabilities under this Note will be forever released, discharged and satisfied in all cases, except upon a conversion of principal or interest in accordance with Section 3(a)(ii) and Section 3(a)(iii), in which case such obligations will be released, discharged and satisfied if, and only if, the Company shall have complied with all of its obligations under the Registration Rights Agreement with respect to the Common Shares issuable upon conversion of such Series B Preference Shares, including, without limitation, the Company's obligation to file within ninety (90) days after receipt of such Regulatory Approval in the United States in the event of a conversion in accordance with Section 3(a)(ii) and within forty-five (45) days of April 22, 2005 in the event of a conversion in accordance with Section 3(a)(iii), and use commercially reasonable efforts to have declared effective a Shelf Registration covering such Common Shares and permitting resale thereof by

the Lender.

(e) Reservation of Shares Issuable Upon Conversion. From and after the effectiveness of this Note, the Company shall at all times reserve and keep available out of its authorized but not outstanding Series B Preference Shares, solely for the purpose of effecting the conversion of this Note, such number of its Series B Preference Shares (and its Common Shares issuable upon conversion of such Series B Preference Shares) as shall from time to time be sufficient to effect the conversion of the Note (and the conversion of such Series B Preference Shares); and if at any time the number of authorized but not outstanding Series B Preference Shares (and its Common Shares issuable on conversion of such Series B Preference Shares) shall not be sufficient to effect the conversion of the entire outstanding principal amount of and accrued interest on this Note (and the conversion of the Series B Preference Shares issuable upon such conversion), without limitation of such other remedies as shall be available to the Lender, the Company will use its commercially reasonable efforts to take such corporate action as may, in the opinion of counsel, be necessary to increase its authorized but not outstanding Series B Preference Shares (and its Common Shares issuable on conversion of such Series B Preference Shares) to such number of shares as shall be sufficient for such purposes.

5. Subordination. Any Excess Indebtedness evidenced by this Note is hereby expressly subordinated, to the extent and in the manner hereinafter set forth, in right of payment to the prior payment in full in cash of all Senior Indebtedness (as defined in Section 17 below) of the Company. Except for the Excess Indebtedness, the obligations of the Company to the Lender under this Note shall at all times be senior to or pari passu with all other obligations of the Company to the extent they are unsecured.

(a) Insolvency Proceedings. If there shall occur any receivership, insolvency, assignment for the benefit of creditors, bankruptcy (voluntary or involuntary), reorganization, or arrangements with creditors (whether or not pursuant to bankruptcy or other insolvency laws), sale of all or substantially all of the assets (other than in the form of a merger not resulting in insolvency), dissolution, liquidation, or any other marshaling of the assets and liabilities of the Company, (i) the holder(s) of Senior Indebtedness shall be entitled to receive payment in full in cash of all Senior Indebtedness then outstanding before the Lender shall be entitled to receive

any payment or distribution, whether in cash, securities, or other property, in respect of the Excess Indebtedness, and (ii) any payment or distribution, whether in cash, securities or other property (other than securities of the Company or any other company provided for by a plan of reorganization or readjustment, the payment of which is subordinated, at least to the extent provided in this Section 5, to the payment of all Senior Indebtedness at the time outstanding and to any securities issued in respect thereof under any such plan of reorganization or readjustment) which would otherwise (but for this Section 5) be payable or deliverable in respect of Excess Indebtedness shall be paid or delivered directly to the holder(s) of the Senior Indebtedness (ratably according to the aggregate amounts remaining unpaid on account of the Senior Indebtedness held by each) or to a trustee or other representative for holder(s) of Senior Indebtedness.

(b) Permitted Payments; Default on Senior Indebtedness. Subject to Section 5(a), so long as there shall not have occurred and be continuing an event of default which has been declared in writing, or is automatically effective in the case of bankruptcy or insolvency events, with respect to any Senior Indebtedness (as such event of default is defined therein or in the instrument under which it is outstanding), which event of default permits the holder or its representative to accelerate the maturity thereof (a "Senior Default"), the Company shall be permitted to make, and the Lender to accept and receive, payments of principal and accrued interest under this Note, including the Excess Indebtedness. Notwithstanding anything to the contrary contained in this Section 5, the Company shall not make and the Lender shall not receive any payment of any Excess Indebtedness after delivery by a holder of Senior Indebtedness to the Company and the Lender of written notice that a Senior Default has occurred; provided, however, that such payments may thereafter be made if such holder of Senior Indebtedness consents to such payments in writing or agrees in writing that such Senior Default has been cured or waived.

(c) Turnover of Payment. Except for payments permitted under Section 5(a) or 5(b), should any payment or distribution, whether in cash, securities or other property, be received by the Lender on account of the Excess Indebtedness by any means, including, without limitation, set off, prior to the payment in full in cash of the Senior Indebtedness, the Lender shall receive and hold the same in trust, as trustee, for the benefit of the holder(s) of the Senior Indebtedness, and shall forthwith deliver the same to the holder(s) of the Senior Indebtedness (ratably according to the aggregate amounts remaining unpaid on account of the Senior Indebtedness held by each) or to a trustee or other representative for holder(s) of Senior Indebtedness in precisely the form

received for application to the Senior Indebtedness (whether or not it is then due).

(d) Subrogation. Subject to the payment in full in cash of all Senior Indebtedness and the termination of any commitments to lend under the agreements or instruments governing such Senior Indebtedness, the Lender shall be subrogated to the rights of the holder(s) of such Senior Indebtedness (to the extent of the payments or distributions made to the holder(s) of such Senior Indebtedness pursuant to the provisions of this Section 5) to receive payments and distributions of assets of the Company applicable to the Senior Indebtedness. No such payments or distributions applicable to the Senior Indebtedness shall, as between the Company and its creditors, other than the holder(s) of Senior Indebtedness and the Lender, be deemed to be a payment by the Company to or on account of this Note; and for purposes of such subrogation, no payments or distributions to the holder(s) of Senior Indebtedness to which the Lender would be

entitled except for the provisions of this Section 5 shall, as between the Company and its creditors, other than the holder(s) of Senior Indebtedness and the Lender, be deemed to be a payment by the Company to or on account of the Senior Indebtedness.

(e) Continuing Subordination. The subordination effected by these provisions is a continuing subordination and may not be modified or terminated by the Lender until payment in full in cash of the Senior Indebtedness. At any time and from time to time, without consent of or notice to the Lender and without impairing or affecting the obligations of the Lender hereunder but subject to the terms of the definition of "Senior Indebtedness": (i) the time for the Company's performance of, or compliance with any agreement relating to Senior Indebtedness may be modified or extended or such performance may be waived; (ii) a holder of Senior Indebtedness may exercise or refrain from exercising any rights under any agreement relating to the Senior Indebtedness; (iii) any agreement relating to the Senior Indebtedness may be revised, amended or otherwise modified for the purpose of adding or changing any provision thereof or changing in any manner the rights of the Company, any holder of Senior Indebtedness or any guarantor thereunder; (iv) payment of Senior Indebtedness or any portion thereof may be accelerated or extended or refunded or any instruments evidencing the Senior Indebtedness may be renewed in whole or in part; (v) any person liable in any manner for payment of the Senior Indebtedness may be released by a holder of Senior Indebtedness; (vi) a holder of Senior Indebtedness may make loans or otherwise extend credit to the Company whether or not any default or event of default exists with respect to such Senior Indebtedness; and (vii) a holder of Senior Indebtedness may take and/or release any lien at any time on any collateral now or hereafter securing the Senior Indebtedness and take or fail to take any action to perfect any lien at any time granted therefor, and take or fail to take any action to enforce such liens. Notwithstanding the occurrence of any of the foregoing, these subordination provisions shall remain in full force and effect with respect to the Senior Indebtedness.

(f) Lender's Waivers. The Lender hereby expressly waives for the benefit of the holder(s) of Senior Indebtedness but subject to the terms of the definition of "Senior Indebtedness" (i) all notices not specifically required pursuant to the terms of this Note (other than notices of the incurrence of Senior Indebtedness, which shall be provided to the Lender substantially concurrently with the incurrence of such Senior Indebtedness); (ii) any claim which the Lender may now or hereafter have against a holder of Senior Indebtedness arising out of any and all actions which a holder of Senior Indebtedness in good faith, takes or omits to take with respect to the Senior Indebtedness (including, without limitation, (A) actions with respect to the creation, perfection or continuation of liens in or on any collateral security for the Senior Indebtedness, (B) actions with respect to the occurrence of any event of default under any Senior Indebtedness, (C) actions with respect to the foreclosure upon, sale, release, or depreciation of, or failure to realize upon, any of the collateral security for the Senior Indebtedness and (D) actions with respect to the collection of any claim for all or any part of the Senior Indebtedness or the valuation, use, protection or release of any collateral security for the Senior Indebtedness); and (iii) any right to require holders of Senior Indebtedness to exhaust any collateral or marshal any assets.

(g) Reliance of Holder(s) of Senior Indebtedness. The Lender, by its acceptance hereof, shall be deemed to acknowledge and agree that the foregoing subordination provisions are, and are intended to be, an inducement to and a consideration of each holder of Senior

Indebtedness whether such Senior Indebtedness was created or acquired before or after the creation of the indebtedness evidenced by this Note, and each such

holder of Senior Indebtedness shall be deemed conclusively to have relied on such subordination provisions in acquiring and holding, or in continuing to hold, such Senior Indebtedness.

6. Events of Default.

(a) It shall constitute a "Default" under this Note if

(i) An Insolvency Event shall occur,

(ii) A "Default" shall occur under and as defined in the Other Note,

(iii) The Company shall have failed to comply with any of its obligations under the Registration Rights Agreement following maturity of this Note, including, without limitation, the Company's obligation to file and use commercially reasonable efforts to have declared effective a Shelf Registration covering Common Shares into which Series B Preference Shares may be converted and permitting resale thereof by the Lender,

(iv) The Collaboration Agreement shall be terminated (i) by the Lender due to a breach thereof or default thereunder by the Company or (ii) by the Company for reasons other than a breach thereof or default thereunder by the Lender,

(v) The Company shall default in any material respect in payment or performance of its obligations under this Note or any other Note Document, or

(vi) Any representation or warranty of the Company made in this Note or any other Note Document shall be materially inaccurate or untrue when made.

(b) It shall constitute an "Event of Default" under this Note if (i) a Default shall have occurred and (ii) either (A) such Default is an Insolvency Event or (B) such Default shall have occurred and be continuing for a period of at least ten (10) business days after the Lender has provided written notice of such Default to the General Counsel or the Chief Patent Counsel of the Company.

(c) Automatically upon the occurrence of an Insolvency Event and, at the option of the Lender, upon the occurrence of any other Event of Default (so long as such Event of Default shall be continuing on the date the Lender exercises such option), all principal, interest and other amounts payable by the Company to the Lender hereunder shall be immediately due and payable, the commitment of the Lender to make Loans in accordance with Section 1 above shall terminate, and the Lender may exercise such rights and remedies in respect thereof and the Collateral as may be provided in this Note, in the Security Agreement governing the Collateral, and as are permitted by law or equity.

7. Lost Documents. Upon receipt by the Company of evidence satisfactory to it of the loss, theft, destruction or mutilation of this Note, and indemnity satisfactory to the Company (in the case of loss, theft or destruction) or surrender and cancellation of the Note (in the case of mutilation), the Company will make and deliver to the Lender a new Note of like

tenor and unpaid principal amount and dated as of the date to which interest has been paid on the unpaid principal balance hereunder.

8. Notices. All notices and other communications required or appropriate to be given hereunder shall be in writing and shall be delivered by hand or mailed by certified mail, return receipt requested, or sent by facsimile (in which case a confirming copy shall also be sent by certified mail or courier), to the following respective addresses or to such other addresses as may be specified in any notice delivered or mailed as above provided:

(a) If to the Lender, to:

Genentech, Inc.
1 DNA Way
South San Francisco, CA 94080-4990
Telephone: (650) 225-1000
Facsimile: (650) 952-9881

Attention: Corporate Secretary, with a copy to the Treasurer

(b) If to the Company, to:

XOMA Ltd.
2910 7th Street
Berkeley, CA 94710
Telephone: (510) 204-7200
Facsimile: (510) 649-7571

Attention: Company Secretary

Any notice of other communication delivered by hand or mail shall be deemed to have been delivered on the date on which such notice or communication is delivered by hand, or in the case of certified mail deposited with the appropriate postal authorities on the date when such notice of communication is actually received, and in any other case shall be deemed to have been delivered on the date on which such notice or communication is actually received.

9. Amendments. No provision of this Note may be waived, changed or modified, or the discharge thereof acknowledged orally, but only by an agreement in writing signed by the party against which the enforcement of any waiver, change, modification or discharge is sought.

10. Assignment.

(a) Except as set forth in this Section 10, none of the rights or obligations of either party hereto may be assigned or transferred without the prior written consent of the other party hereto.

(b) Neither party may assign any of its rights and obligations under this Note in connection with a merger or similar reorganization or the sale of all or substantially all of its

assets; provided, however, that the Lender may assign such rights and obligations under the Note to F. Hoffmann-La Roche Ltd or any of its affiliates (the "Roche Affiliates") which are directly or indirectly controlled by it (collectively, with the Roche Affiliates, "Roche") so long as Roche continues to own at least a majority of the voting capital stock entitled to participate generally in the election of directors of the Lender.

(c) The Lender may sell, assign or transfer all or a portion of its interest herein in accordance with, and with the effect provided for in Section 6(b) of the Purchase Agreement and Section 13(a) of the Registration Rights Agreement.

(d) This Note shall be binding upon and inure to the benefit of the successors and permitted assigns of the parties. Any assignment not in accordance with this Note shall be void.

11. Presentment, Demand, Etc. Except as otherwise provided herein, the Company hereby waives presentment for payment, demand, protest and notice of protest for nonpayment of this Note, and consents to any extension or postponement of the time of payment or any other indulgence.

12. Governing Law. The parties have agreed that this Note will be governed by and construed in accordance with the laws of the State of Delaware.

13. Counterparts. This Note may be executed in two or more counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

14. Titles. The titles of the Sections of this Note are inserted for reference only, and are not to be considered as part of this Note in construing this Note Agreement.

15. Disputes. Any disputes under this Agreement will be governed by the provisions of Article 18 of the Collaboration Agreement.

16. Conditions to Effectiveness; Construction.

(a) This Note shall be effective upon (i) receipt by the Lender of a fully executed copy of this Note and (ii) receipt by the Lender of a fully executed copy of the Security Agreement and each of the other Note Documents.

(b) Upon effectiveness of this Note, all references to loans and notes in the Collaboration Agreement and the other Note Documents shall be deemed to include references to this Note.

(c) Upon effectiveness of this Note, this Note and the Note Documents shall supersede and replace in its entirety that certain Convertible Subordinated Note Agreement, dated as of April 22, 1996, between the Company and the Lender.

17. Definitions. In addition to definitions contained in the Recitals to this Note, as used in this Note, the following terms shall have the meanings set forth below:

"Capital Lease Obligations" means the obligations of the Company under leases of property which are capitalized on the balance sheet of the Company in accordance with GAAP that are shown as a liability on a balance sheet of the Company prepared in accordance with GAAP.

"Collateral" has the meaning given such term in the Security Agreement.

"Conversion Price" equals US$10,000.00.

"Excess Indebtedness" means the amount, if any, of any obligations of the Company to the Lender remaining due and payable after the occurrence of an Event of Default and disposition (or receipt by the Lender of the value as determined by a court of competent jurisdiction) of all Collateral. Unless and until an Event of Default shall have occurred and the Lender received the proceeds of disposition thereof (or the value thereof as determined by a court of competent jurisdiction), there will be no Excess Indebtedness.

"GAAP" means generally accepted accounting principles in the United States as in effect from time to time.

"Insolvency Event" means any of the following events: (1) the Company or the Subsidiary shall have had an order for relief entered with respect to it or shall commence a voluntary case under any applicable bankruptcy, insolvency or similar law, or shall consent to the entry of an order for relief in an involuntary case or to the conversion of an involuntary case to a voluntary case, or shall consent to the appointment of or taking possession by a receiver, trustee or other custodian for all or a substantial part of its property; or the Company or the Subsidiary shall make any assignment for the benefit of creditors; (2) the Company or the Subsidiary shall be unable to pay its debts as such debts become due; (3) a court of competent jurisdiction shall enter a decree or order for relief in respect of the Company in an involuntary case under applicable bankruptcy, insolvency or similar law, which decree or order is not stayed; or (4) an involuntary case shall be commenced against the Company or the Subsidiary under applicable bankruptcy, insolvency or similar law; or a decree or order of a court having jurisdiction in the premises for the appointment of a receiver, liquidator, sequestrator, trustee, custodian or other officer having similar powers over the Company, the Subsidiary or any of their respective property, shall have been entered; or there shall have occurred the involuntary appointment of an interim receiver, trustee or other custodian of the Company or the Subsidiary for all or a substantial part of its property; or a warrant of attachment, execution or similar process shall have been issued against any substantial part of the property of the Company or the Subsidiary, and such event shall continue for 60 days without having been dismissed, bonded or discharged.

"Interest Period" means, with respect to any Loan and subject to the custom and practice of the London eurodollar deposit market, a period beginning on the date such Loan is made and on each January 1 and July 1 thereafter and ending on the earlier of the next January 1, July 1, or the scheduled maturity date of such Loan.

"Joint Core Team" means the Joint Core Team established in accordance with the Collaboration Agreement.

"Joint Steering Committee" means the Joint Steering Committee established in accordance with the Collaboration Agreement.

"LIBOR Rate" means, for each Interest Period, a rate of interest per annum equal to the London Interbank Offered Rate (LIBOR) for eurodollar deposits made on the applicable LIBOR Rate Determination Date for a period most closely corresponding to such Interest Period as determined by the Lender based on published rates from Bloomberg or The Wall Street Journal (Western Edition). The Lender shall determine the applicable interest rate for each Interest Period as of each LIBOR Rate Determination Date in accordance with Section 2(a) and shall notify the Company promptly thereafter. If LIBOR Rates cease to be available as contemplated hereby or shall fail to fairly reflect a basis for determining the cost for the Lender to fund Loans under this Note or it shall be illegal for the Lender to make loans on such basis, the parties agree to discuss in good faith a comparable interest rate on each Tranche.

"LIBOR Rate Determination Date" means the first day of each Interest Period, it being understood that, in accordance with the custom and practice of the London eurodollar deposit market, the LIBOR Rate effective as of the LIBOR Rate Determination Date may be based on calculations made as a result of market conditions and quotations made two London business days prior to the LIBOR Rate Determination Date.

"Licensed Product" has the meaning given such term in the Collaboration Agreement.

"Note Documents" means this Note, the Other Note, the Purchase Agreement, the Collaboration Agreement, the Security Agreement, the Registration Rights Agreement and each other document, agreement or instrument executed or delivered by the Company in connection herewith or therewith.

"Regulatory Approval" has the meaning given such term in the Collaboration Agreement.

"Senior Indebtedness" means, unless otherwise agreed by the Lender in writing, (i) Capital Lease Obligations of the Company in effect as of the date of this Note in an aggregate amount not to exceed $2,400,000 secured by such equipment and (ii) other obligations of the Company incurred with the consent of Lender, which consent shall not be unreasonably withheld.

"Subsidiary" means XOMA (US) LLC.

"Tranche" means one of the loans made from time to time under Section 1 hereof, and "Tranches" means two or more of such loans collectively.

(Signature page follows)

IN WITNESS WHEREOF, this Amended and Restated Note Agreement has been executed and delivered on the date first above written by duly authorized representatives of the Company and the Lender.

XOMA LTD.

By: _____
Name: Clarence L. Dellio
Title: Senior Vice President and Chief Operating Officer

GENENTECH, INC.

By: _____
Name: Louis J. Lavigne, Jr.
Title: Executive Vice President and Chief Financial Officer

EXHIBIT A

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The capitalized terms used in this Exhibit A shall have the meanings set forth for each such term in body of the Note Agreement to which it is attached.

1. Subsidiaries. The Company has no active subsidiaries and does not otherwise directly or indirectly control any other business entity, other than XOMA Limited, a United Kingdom company, XOMA (US) LLC, a Delaware limited liability company, XOMA (Bermuda) Ltd., a Bermuda company, XOMA Technology Ltd., a Bermuda company and XOMA Ireland Limited, an Irish company, all of which are wholly-owned by the Company. The Company has furnished the Lender with true, correct and complete copies of its Memorandum of Continuance and Bye-Laws, together with any amendments thereto as of the date hereof.

2. Organization. The Company is a company duly organized, validly existing and in good standing under the laws of the Commonwealth of Bermuda and is qualified to do business as a foreign company in each jurisdiction where failure to qualify would have a material adverse effect on the business or

properties of the Company. The Company has full company power and authority to own its property, to carry on its business as presently conducted and to carry out the transactions contemplated hereby.

3. Authorization. The Company has requisite company power to execute, deliver and perform this Note and each of the other Note Documents, and each such agreement has been duly executed and delivered by the Company and is the legal, valid and, assuming due execution by the Lender as necessary, binding obligation of the Company, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium, reorganization or similar laws affecting creditors generally, and to general equitable principles. The execution, delivery and performance by the Company of this Note and each of the other Note Documents, including the borrowing of Loans and the issuance, sale and delivery of this Note, Series B Preference Shares and the Common Shares as contemplated hereby and thereby have been duly and validly authorized by all necessary company action of the Company.

4. Valid Issuance of Common Shares, Note; Series B Preference Shares. The Series B Preference Shares and Common Shares, when issued, sold and delivered in accordance with the terms hereof for the consideration expressed herein, will be duly authorized, validly issued, fully paid and non-assessable, and, based in part upon the representations of the Lender on Schedule 1 hereof, will be issued in compliance with the Bermuda Companies Act and all applicable Bermuda, federal and state securities laws. This Note is duly authorized and validly issued and, based in part upon the representations of the Lender, has been issued in compliance with the Bermuda Companies Act and all applicable Bermuda, federal and state securities laws

5. Governmental Approvals. Based in part on the representations made by the Lender on Schedule 1 hereof no authorization, consent, approval, license, exemption of or filing or registration with any court or governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, under any applicable laws, rules or regulations presently in effect, is or will be necessary to be made or obtained by the Company for, or in connection with the execution and delivery of this Note or any Note Document or consummation of the transactions contemplated hereby or thereby or performance by the Company of its obligations hereunder or thereunder, except for (i) such other filings under applicable securities laws which will be made by the Company within the prescribed periods, including the filing by the Company of a notice under Section 25102(f) of the California Codes, as amended, and the payment of any fee relating thereto and (ii) any of the foregoing required in connection with the conversion of the Series B Preference Shares.

6. Litigation. Except as disclosed in the Company's most recent report filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1943, as amended (the "Exchange Act") that calls for such disclosure, there is no litigation or governmental proceeding or investigation pending or, to the knowledge of the Company, threatened against the Company which would materially and adversely affect (i) the execution and delivery of this Note and the other Note Documents, or (ii) the performance by the Company of its obligations hereunder or thereunder.

7. Absence of Certain Developments. Since the date of its most recent report filed with the Securities and Exchange Commission pursuant to the Exchange Act that calls for such disclosure, except as disclosed therein or in Company press releases (including joint press releases) released publicly prior to the date hereof, there has been no (i) material adverse change in the business, properties, results of operations or financial condition of the Company, excluding, however, any such effect caused by economic, tax, or other matters of general applicability or by matters generally affecting the industry in which the Company conducts business (in each case, however, only to the extent the Company is not affected disproportionately).

8. Other Indebtedness. Except as disclosed or reflected in the financial statements contained in its most recent report filed with the Securities and Exchange Commission pursuant to the Exchange Act that calls for such disclosure, the Company has no outstanding material indebtedness. For this purpose, indebtedness means all obligations of the Company for borrowed money evidenced by notes, bonds, debentures or similar instruments, for which interest charges are customarily paid, other than accounts payable and accrued obligations incurred in the ordinary course of business consistent with past practice.

9. Non-Contravention. The execution, delivery and performance by the Company of this Note and the other Note Documents (i) do not and will not contravene or conflict with the Memorandum of Continuance or Bye-Laws of the Company and (ii) do not contravene or conflict with or, based in part on the representations made by the Lender and assuming satisfaction of the requirements referenced in the Purchase Agreement and the Registration

Rights Agreement, constitute a violation of any provision of law, regulation, judgment, injunction, order or decree binding upon or applicable to the Company, or result in

a breach of or constitute a default under any material agreement of the Company (whether upon notice or passage of time), in any manner which would materially and adversely affect the Lender's rights or its ability to realize the intended benefits to it under this Note or the other Note Documents.

10. Filings. The Company has filed in a timely manner the following reports required to be filed with the Securities and Exchange Commission under the Exchange Act: (i) the Company's annual report on Form 10-K for the most recent fiscal year for which such filing is required by the Exchange Act and (ii) all of its other reports (including without limitation reports on Form 8-K), statements, schedules and registration statements filed with the Securities and Exchange Commission. As of its filing date, no such report or statement filed pursuant to the Exchange Act contained any untrue statement of a material fact or omitted to state any material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading.

11. Registration Rights. The Company is not, and will not become during the term of this Note or any Note Document, a party to any contract, agreement or understanding providing for the registration of its securities under Bermuda, federal or state securities laws that restricts, limits, prohibits, or conflicts or would restrict, limit, prohibit or conflict with the registration rights granted to the Lender pursuant to the Purchase Agreement and the Registration Rights Agreement.

SCHEDULE 1 TO EXHIBIT A

REPRESENTATIONS AND WARRANTIES OF THE LENDER

The Lender hereby makes the following representations and warranties to the Company each time the Company makes the representations and warranties listed on the Exhibit A to the Note Agreement (the capitalized terms used in this Schedule 1 to Exhibit A shall have the meanings set forth for each such term in the body of the Note Agreement to which it is attached):

1. Corporate Power. The Lender is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. The Lender has full corporate power and authority to carry on its business as presently conducted and to carry out the transactions contemplated hereby.

2. Authorization. The Lender has full corporate power to execute, deliver and perform the Purchase Agreement, the Collaboration Agreement, the Note Agreement, the Other Note, the Security Agreement and the Registration Rights Agreement (collectively, the "Note Documents"), and each such agreement has been duly executed and delivered by the Lender and is the legal, valid and, assuming due execution by the Company, binding obligation of the Lender, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium, reorganization or similar laws affecting creditors' rights generally, and to general equitable principles. The execution, delivery and performance by the Lender of the Note Documents, including the making of the loans contemplated thereby, have been duly and validly authorized by all necessary corporate action of the Lender.

3. Investment Representations.

   (a) The Lender (A) has acquired and will acquire the Note and the Other Note (including the making of each loan pursuant to Section 8.1 of the Collaboration Agreement), (B) will acquire the Series B Preference Shares upon conversion of the Note (in the event of any such conversion), and (C) will acquire the Common Shares upon conversion of the Series B Preference Shares (in the event of any such conversion) (the Note, the Other Note, the Series B Preference Shares and such Common Shares, collectively, the "Securities") for its own account for investment only and not with a view to any resale or distribution thereof, except pursuant to an effective registration statement under the Securities Act of 1933, as amended from time to time (the "Securities Act"), covering the sale, assignment or transfer or an

opinion of counsel in form and substance satisfactory to the Company that such registration is not required.

(b) The Lender has had the opportunity to obtain, receive and review the Company`s reports and other filings with the U.S. Securities and Exchange Commission and such other information as it deems necessary to understand the business and financial condition of the Company and to make the investment decision to purchase the Securities.

(c) As an investor in companies in the biopharmaceutical industry and a participant in such industry, the Lender has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of the investment represented by the Securities, and it is able to bear the economic risk of such investment.

(d) The Lender understands that the Securities have been, are being, or will be, sold or issued in a transaction which is exempt from the registration requirements of the Securities Act by reason of the provisions of Section 4(2) of the Securities Act (or Section 3(a)(9) of the Securities Act in the case of the issuance of the Series B Preference Shares and the Common Shares upon conversion of the Note and the Series B Preference Shares, respectively), and that such securities will be subject to transfer restrictions and must be held indefinitely unless subsequently registered under the Securities Act or an exemption from such registration is available.

EXHIBIT B

RESOLUTIONS
REGARDING
PREFERENCES AND RIGHTS OF
SERIES B PREFERENCE SHARES

RESOLVED, that upon the effectiveness of the registration of a Memorandum of Continuance with the Registrar of Companies of Bermuda (the "Effective Time"), which will result in the Company becoming a Bermuda company pursuant to a continuation procedure under Bermuda and Arizona law, there is hereby created a series of preference shares of the Company; which series shall have the following powers, preferences, and relative, participating, optional or other special rights, and the qualifications, limitations or restrictions thereof, in addition to those set forth in the Memorandum of Continuance and bye-laws of the Company:

Section 1. Designation and Amount. Eight Thousand (8,000) preferred shares, US$.05 par value, are designated "Series B Preference Shares" with the powers, preferences, rights, qualifications, limitations and restrictions specified herein (the "Series B Preference Shares" and each a "Series B Preference Share"). Such number of shares may be increased or decreased by resolution of the Board of Directors; provided, that no decrease shall reduce the number of Series B Preference Shares to a number less than the number of shares then outstanding plus the number of shares reserved for issuance upon the exercise of outstanding options, rights or warrants or upon the conversion of any outstanding securities (including indebtedness) issued by the Company convertible into Series B Preference Shares.

Section 2. Dividends. The Company shall not be required to pay, and the holders of the Series B Preference Shares shall not be entitled to receive, any dividends on the Series B Preference Shares.

Section 3. Liquidation, Dissolution or Winding Up. Upon any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, before any payment or distribution shall be made to the holders of the Common Shares of the Company, the holders of Series B Preference Shares shall be entitled to receive U.S.$10,000.00 per Series B Preference Share then held by such holders, plus an amount equal to declared and unpaid dividends and distributions thereon. After payment of the full liquidation preference of the Series B Preference Shares set forth in the preceding sentence, the holders of the Series B Preference Shares shall not be entitled to any further payments or distribution from the assets of the Company.

Section 4. Voting Rights. The holders of Series B Preference Shares shall not have any voting rights, except as required under Bermuda law.

Section 5. Redemption.

(A) General. Subject to the Companies Act 1981 (the "Act"), the Company at its option, in accordance with the terms and provisions of this Section 5, may, at any time and

from time to time, redeem any or all Series B Preference Shares at a redemption price per share equal to a cash amount determined by multiplying the Conversion Price by the number of Common Shares into which each such Series B Preference Shares would be convertible pursuant to the provisions of Section 6 hereof. If fewer than all the outstanding Series B Preference Shares are to be redeemed, the shares to be redeemed shall be selected pro rata as nearly as practicable or by lot, or by such other method as the Board of Directors of the Company may determine to be fair and appropriate.

(B) Notice of Redemption. The Company will provide notice of any redemption of Series B Preference Shares to the holders of record of the Series B Preference Shares to be redeemed not less than five (5) nor more than sixty (60) days prior to the date fixed for such redemption. Such notice shall be provided by first-class mail, postage prepaid, to each holder of record of the Series B Preference Shares to be redeemed, at such holder's address as it appears on the register of members of the Company. Each such notice shall state, as appropriate, the following:

a. the redemption date;

b. the number of Series B Preference Shares to be redeemed and, if fewer than all the shares held by any holder are to be redeemed, the number of such shares to be redeemed from such holder;

c. the redemption price;

d. the place or places where certificates for such shares are to be surrendered for redemption;

e. the then effective Conversion Price (as determined under Section 6); and

f. that the right of holders to convert Series B Preference Shares to be redeemed will terminate at the close of business on the business day next preceding the date fixed for redemption (unless the Company shall default in the payment of the redemption price).

Any notice that is mailed as set forth above shall be conclusively presumed to have been duly given, whether or not the holder of Series B Preference Shares receives such notice, and failure to give such notice by mail, or any defect in such notice, to the holders of any shares designated for redemption shall not affect the validity of the proceedings for the redemption of any other Series B Preference Shares.

(C) Mechanics of Redemption. Upon surrender in accordance with the aforesaid notice of the certificate for any shares so redeemed (duly endorsed or accompanied by appropriate instruments of transfer), the holders of record of such shares shall be entitled to receive the redemption price, without interest. In case fewer than all the shares represented by such certificate are redeemed, a new certificate representing the unredeemed shares shall be issued without cost to the holder thereof. Upon surrender of any shares so redeemed in accordance with this Section 5(C), the Company shall pay the full redemption amounts with respect to shares as provided herein.

(D) Rights After Redemption. Notwithstanding that any certificates for shares to be redeemed have not been surrendered in accordance with paragraph (C) of this Section 5, from and after the date of redemption designated in the notice of redemption (i) the shares represented thereby shall be deemed to be no longer outstanding, and (ii) all rights of the holders of such Series B Preference Shares shall cease and terminate, except only the right to receive the full redemption amounts as provided herein without interest.

Section 6. Conversion.

(A) Right to Convert. Each Series B Preference Share shall be convertible (which conversion may include, inter alia, bonus issues, sub-divisions and/or consolidations of shares), at the option of the holder thereof, into that number of common shares, par value US$.0005 per share, of the Company (herein, the "Common Shares" and each a "Common Share") as determined by dividing U.S.$10,000.00 by the Conversion Price (determined as provided below). The "Conversion Price" for any Series B Preference Shares issued in connection with a repayment pursuant to Section 3(a)(i) or 3(a)(iii) of the Amended and Restated

Convertible Secured Note Agreement, dated as of March 31, 2003, between the Company and Genentech, Inc., as amended (herein, the "Note Agreement"), shall be an amount per share equal to the Current Market Price (as defined below) of the Common Shares determined as of the date the Company notifies the Lender (as defined in the Note Agreement) of its intent to make such prepayment in accordance with Section 4(a)(iv)(A) or 4(a)(v), as applicable, of the Note Agreement (herein, the "Repayment Determination Date"). The "Conversion Price" for any Series B Preference Shares issued in connection with a conversion pursuant to Section 3(a)(ii) of the Note Agreement shall be an amount per share equal to the lower of (i) the Current Market Price of the Common Shares determined as of the date of receipt by both the Company and the Lender of notice of Regulatory Approval in the United States, and (ii) the Current Market Price of the Common Shares determined as of the date the Company notifies the Lender of its intent to so convert in accordance with Section 4(a)(v) of the Note Agreement (herein, each a "Regulatory Determination Date"). The number of Common Shares into which a Series B Preference Share is convertible is hereinafter referred to as the "Conversion Rate" of such series. The Conversion Price shall be subject to adjustment from time to time after the applicable Regulatory Determination Date or applicable Repayment Determination Date, as the case may be, as set forth in this Section 6.

For purposes of this Section 6(A), "Current Market Price" shall mean the average daily Closing Prices (as defined below) per Common Share for the fifteen (15) consecutive trading days immediately prior to the Applicable Regulatory Determination Date or applicable Repayment Determination Date, as the case may be. "Closing Price" with respect to any securities on any day shall mean the closing sale price regular way on such day or, in case no such sale takes place on such day, the average of the reported closing bid and asked prices, regular way, in each case on the New York Stock Exchange, or, if such security is not listed or admitted to trading on such exchange, on the principal national security exchange or quotation system on which such security is quoted or listed or admitted to trading, or, if not quoted or listed or admitted to trading on any national securities exchange or quotation system, the average of the closing bid and asked prices of such security on the over-the-counter market on the day in question as reported by the National Quotation Bureau Incorporated, or a similar generally accepted reporting service, or, if not so available, in such manner as furnished by any New York Stock Exchange

member firm selected from time to time by the Board of Directors of the Company for that purpose, or a price determined in good faith by the Board of Directors of the Company or, to the extent permitted by applicable law, a duly authorized committee thereof, whose determination shall be conclusive. If any Series B Preference Shares shall be called for redemption, the right to convert the shares designated for redemption shall terminate at the close of business on the business day next preceding the date fixed for redemption unless the Company defaults in the payment of the redemption price. In the event of a default in the payment of the redemption price, the right to convert the shares designated for redemption shall terminate at the close of business on the business day next preceding the date that such default is cured. The Common Shares issuable upon conversion of the Series B Preference Shares, when the same shall be issued in accordance with the terms hereof, are hereby declared to be and shall be fully paid and non-assessable Common Shares in the hands of the holders thereof.

(B) Automatic Conversion. Each Series B Preference Share shall automatically be converted into Common Shares at its then effective Conversion Rate immediately upon the transfer of ownership by the initial holder to any third party which is not an Affiliate (as such term is defined below) of such holder. "Affiliate" means, when used with respect to any specified person, any other person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified person. For the purposes of this definition, "control," when used with respect to any person, means the power to direct the management and policies of such person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise, and the terms "affiliated," "controlling" and "controlled" have meanings correlative to the foregoing.

(C) Mechanics of Conversion. Each holder of Series B Preference Shares who desires to convert the same into Common Shares pursuant to this Section 6 shall surrender the certificate or certificates therefor, duly endorsed, at the office of the Company or any transfer agent for the Series B Preference Shares, and shall give written notice to the Company at such office that such holder elects to convert the same. Such notice shall state the number of Series B Preference Shares being converted. Thereupon, the Company shall promptly issue and deliver at such office to such holder a certificate or certificates for the number of Common Shares to which such holder is entitled and shall promptly pay in cash or, to the extent sufficient funds are not then legally available therefor, in Common Shares (at the fair market value of the Common Shares as of the date of such conversion as determined by the Board of Directors of the Company), any declared and unpaid dividends on the Series B Preference Shares being converted. Such conversion shall be deemed to have been made at the close of business on the date of such surrender of the certificates representing the Series B

Preference Shares to be converted, and the person entitled to receive the Common Shares issuable upon such conversion shall be treated for all purposes as the record holder of such Common Shares on such date.

(D) Adjustment for Subdivisions and Combinations. If the Company shall at any time or from time to time after the Applicable Regulatory Determination Date or applicable Repayment Determination Date, as the case may be, effect a subdivision of the outstanding Common Shares, the Conversion Price in effect immediately before that subdivision shall be proportionately decreased. Conversely, if the Company shall at any time or from time to time after the Applicable Regulatory Determination Date or applicable Repayment Determination Date, as the case may be, combine the outstanding Common Shares into a smaller number of shares, the

Conversion Price in effect immediately before the combination shall be proportionately increased. Any adjustment under this paragraph (D) shall become effective at the close of business on the date the subdivision or combination becomes effective.

(E) Adjustment for Certain Dividends and Distributions. If the Company at any time or from time to time after the Applicable Regulatory Determination Date or applicable Repayment Determination Date, as the case may be, makes, or fixes a record date for the determination of holders of Common Shares entitled to receive, a dividend or other distribution payable in additional Common Shares, in each such event (without duplication for related events) the Conversion Price that is then in effect shall be decreased as of the time of such issuance or, in the event such record date is fixed, as of the close of business on such record date, by multiplying the Conversion Price then in effect by a fraction (1) the numerator of which is the total number of Common Shares issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, and (2) the denominator of which is the total number of Common Shares issued and outstanding immediately prior to the time of such issuance or the close of business on such record date plus the number of Common Shares issuable in payment of such dividend or distribution; provided, however, that if such record date is fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the Conversion Price shall be recomputed accordingly as of the close of business on such record date and thereafter the Conversion Price shall be adjusted pursuant to this paragraph (E) to reflect the actual payment of such dividend or distribution.

(F) Adjustment for Other Dividends and Distributions. If the Company at any time or from time to time after the Applicable Regulatory Determination Date or applicable Repayment Determination Date, as the case may be, makes, or fixes a record date for the determination of holders of Common Shares entitled to receive, a dividend or other distribution payable in securities of the Company other than Common Shares, in each such event provision shall be made so that the holders of the Series B Preference Shares shall receive upon conversion thereof, in addition to the number of Common Shares receivable thereupon, the amount of other securities of the Company which they would have received had their Series B Preference Shares been converted into Common Shares on the date of such event and had they thereafter, during the period from the date of such event to and including the conversion date, retained such securities receivable by them as aforesaid during such period, subject to all other adjustments called for during such period under this Section 6 with respect to the rights of the holders of the Series B Preference Shares or with respect to such other securities by their terms.

(G) Adjustment for Recapitalizations, etc. If at any time or from time to time after the Applicable Regulatory Determination Date or applicable Repayment Determination Date, as the case may be, the Common Shares issuable upon the conversion of the Series B Preference Shares is changed into the same or a different number of shares of any class or classes of stock, whether by recapitalization, reclassification or otherwise (other than a subdivision or combination of shares or stock dividend or a reorganization, amalgamation, merger, consolidation or sale of assets provided for elsewhere in this Section 6 or in Section 3), in any such event each holder of Series B Preference Shares shall have the right thereafter to convert such stock into the kind and amount of stock and other securities and property receivable upon such recapitalization, reclassification or other change by holders of the maximum number of Common Shares into which such Series B Preference Shares could have been converted immediately prior to such re-

capitalization, reclassification or change, all subject to further adjustment as provided herein or with respect to such other securities or property by the terms thereof.

(H) Compliance with Laws. Notwithstanding any provision of this Section 6

to the contrary, no conversion of any Series B Preference Shares shall be effective unless such conversion is permitted under then applicable laws.

Section 7. Reacquired Shares. Any Series B Preference Shares purchased or otherwise acquired by the Company in any manner whatsoever shall be retired and canceled promptly upon the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued preferred shares and may be reissued as part of a new series of preferred shares subject to the conditions and restrictions on issuance set forth herein, in the Company's Memorandum of Continuance or bye-laws or in any resolutions creating a series of preference shares or any similar shares or as otherwise required by law.

Section 8. Exclusion of Other Rights. Except as may otherwise be required by Bermuda law, Series B Preference Shares shall not have any preferences or relative, participating, optional or other special rights, other than those specifically set forth herein (as may be amended from time to time) and in the Company's Memorandum of Continuance or bye-laws. No Series B Preference Shares shall have any preemptive or subscription rights whatsoever as to any securities of the Company.

Section 9. Notice. All notices and other communications provided for or permitted to be given to the Company hereunder shall be made by hand delivery, next day air courier or certified first-class mail to the Company at its principal executive office (currently located on the date of the adoption of these resolutions at 2910 Seventh Street, Berkeley, California 94710, Attention: General Counsel).

Section 10. Transferability; Registration; Rights of Transferees.

(A) Transferability. The Series B Preference Shares may not be sold, assigned, conveyed, transferred, pledged, hypothecated or otherwise disposed of other than as set forth in, and in accordance with, that certain Common Stock and Convertible Note Purchase Agreement, dated as of April 22, 1996, between the Company (as successor to XOMA Corporation) and Genentech, Inc.

(B) Transfer Mechanics; Registration. The Series B Preference Share certificate representing Series B Preference Shares to be transferred shall be duly endorsed by the transferring holder or by his duly authorized attorney or representative, or accompanied by proper evidence of succession, assignment or authority to transfer. In all cases of a transfer by an attorney, the original power of attorney, duly approved, or a copy thereof, duly certified, shall be deposited and remain with the Company. In case of a transfer by executors, administrators, guardians or other legal representatives, duly authenticated evidence of their authority shall be produced, and may be required to be deposited and to remain with the Company in its discretion. Upon any registration of a transfer, the Company shall deliver new Series B Preference Share certificates to the persons entitled to the Series B Preference Shares represented thereby. The Series B Preference Share certificates may be exchanged at the option of the holder thereof, when

surrendered at the offices of the Company, for other Series B Preference Share certificates of different denominations, of like tenor and representing in the aggregate a like number of Series B Preference Shares. Any Series B Preference Share certificate so surrendered shall be promptly canceled by the Company and retired. Each Series B Preference Share certificate issued in exchange as provided above shall be substantially in the form of the Series B Preference Share certificate being exchanged and shall be subject to all of the terms and provisions hereof.

(C) Required Legend(s). Each of the Series B Preference Share certificates shall contain the legend(s) required by that certain Common Stock and Convertible Note Purchase Agreement, dated as of April 22, 1996, between the Company (as successor to XOMA Corporation) and Genentech, Inc.

Section 11. Amendments. These resolutions may be amended without notice to or the consent of any holder of Series B Preference Shares to cure any ambiguity, defect or inconsistency, provided that such amendment does not vary the rights of any holder of Series B Preference Shares. In any other case, any provisions of these resolutions may be amended by the Company with the written consent of holders of a majority of the outstanding Series B Preference Shares.

<TABLE>
<CAPTION>

EXHIBIT C

LOANS AND PAYMENTS OF PRINCIPAL AND INTEREST

Applicable Tranche Notation	By	Date	Principal Amount Borrowed	Principal Amount Repaid	Interest Paid	Amount Converted
<S>	<C>	<C>	<C>	<C>	<C>	<C>
A	$59,996,087	March 31, 2003	$59,996,087	N/A	N/A	N/A
B	$7,837,000	March 31, 2003	$7,837,000	N/A	N/A	N/A

</TABLE>

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 AND MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED, HYPOTHECATED, ASSIGNED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER SAID ACT COVERING THE TRANSFER OR AN OPINION OF COUNSEL IN FORM AND SUBSTANCE SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED.

Berkeley, California
As of March 31, 2003

Up to $15,000,000

XOMA LTD.

SECURED NOTE AGREEMENT

COMMERCIAL LAUNCH LOAN

WHEREAS, XOMA LTD., a Bermuda company having its registered office at Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda (the "Company"), and GENENTECH, INC., a Delaware corporation having its principal executive office at 1 DNA Way, South San Francisco, California 94080-4990 (the "Lender"), desire to further the collaboration arrangements embodied in (a) that certain Common Stock and Convertible Note Purchase Agreement, dated as of April 22, 1996, between the Company (then a Delaware corporation known as XOMA Corporation) and the Lender, as amended as of April 14, 1999 (the "Purchase Agreement"), and (b) that certain Collaboration Agreement, effective as of April 22, 1996, between the Company and the Lender, as amended as of April 14, 1999 and as amended and restated as of March 31, 2003 (the "Collaboration Agreement").

WHEREAS, the Lender has made loans to the Company pursuant to the Collaboration Agreement and has agreed from time to time to make additional loans to the Company for U.S. Commercialization Costs (as defined in the Collaboration Agreement) pursuant to Section 8.1 of the Collaboration Agreement, all such loans (to the extent not repaid) to be evidenced by this Secured Note Agreement which shall, together with that certain Amended and Restated Convertible Secured Note Agreement - Development Loan (the "Other Note"), that certain Security Agreement (the "Security Agreement"), and that certain Registration Rights Agreement (the "Registration Rights Agreement"), each concurrently being entered into as of the date hereof, between the Company and Lender, supersede any prior agreement with respect to the subject matter hereof (this "Note Agreement" or "Note").

WHEREAS, the Company has agreed to repay any such loans in accordance with the terms of this Note Agreement.

WHEREAS, in connection with the Collaboration Agreement, the Company and the Lender desire to set forth in this Note the terms and conditions on which the Company agrees to repay to the Lender loans (the "Loans") in an aggregate principal amount not to exceed FIFTEEN MILLION DOLLARS ($15,000,000) the "Commitment Amount") lent or to be lent

to the Company by the Lender pursuant to Section 8.1 of the Collaboration Agreement for the purpose of financing the Company's share of marketing and sales costs in the United States prior to the date that the receipt of Regulatory Approval (as such term and all other capitalized terms used, but not otherwise defined herein, are defined in Section 16 below) in the United States.

NOW, THEREFORE, FOR VALUE RECEIVED, the Company promises to repay to the order of the Lender the principal amount of loans evidenced by this Note together with interest thereon, all as set forth below.

1. Principal.

(a) Commitment to Make Loans. In accordance with, and subject to the terms and conditions of, this Note and the other Note Documents, from time to time from the date of this Note until the earliest of the date of Regulatory Approval, April 22, 2005 or termination upon the occurrence of an Event of Default in accordance with Section 5 below, the Lender has agreed to make Loans to the Company, and the Company has agreed to repay such Loans, in an aggregate principal amount not to exceed the Commitment Amount.

(b) Tranches of Loans and Entries on Exhibit B. The principal amount of each Loan shall be recorded by the Lender and endorsed by the Lenders and the Company on Exhibit B attached hereto, which is hereby made a part of this Note. Each such Loan shall be treated as a separate Loan hereunder, and, as such, shall be treated as, and designated, a separate "Tranche" hereunder. The first Loan, made as contemplated by Section 1(c) below, is hereby designated "Tranche A" and recorded as such on Exhibit B attached hereto. Each repayment and subsequent Loan made hereunder as contemplated by Section 1(d) below, shall be

similarly designated with consecutive letter designations, such as "Tranche B", "Tranche C", etc., and the applicable designation shall be recorded by the Lender and endorsed by the Lenders and the Company on Exhibit B attached hereto at the time any such Loan is made. Notwithstanding the foregoing, any failure of the Lender to make any notation on Exhibit B shall not affect the obligation of the Company to repay Loans actually made with interest in accordance with this Note.

(c) Initial Loan. As of the date of this Note, Loans in an aggregate principal amount of TWO MILLION NINE HUNDRED FORTY THREE THOUSAND THREE hundred AND FIFTY NINE DOLLARS ($2,943,359) are outstanding, and the aggregate amount of the Commitment Amount remaining available for borrowing is TWELVE MILLION FIFTY SIX THOUSAND SIX hundred AND FORTY ONE DOLLARS ($12,056,641). The aggregate principal amount of Loans outstanding as of the date of this Note shall be recorded and endorsed on Exhibit B attached hereto and designated as Tranche A thereon.

(d) Additional Loans. The Lender's obligation to make any Loan to the Company after the date of this Note is subject to the condition that no Default or Event of Default shall have occurred and be continuing and to the fulfillment on or prior to the date such Loan is to be made of the following conditions (and by requesting or accepting a Loan, the Company shall be deemed to have represented to the Lender that such conditions have been satisfied):

(i) Such Loan shall be legally permitted by all laws and regulations to which the Company is subject;

(ii) Each of the representations and warranties of the Company set forth in Exhibit A to this Note and the Other Note, Section 4 of the Security Agreement and Section 14.1 of the Collaboration Agreement shall be true and correct as of the date such Loan is to be made as if made on and as of such date;

(iii) The Company shall have performed and complied in all material respects with all agreements, obligations and conditions contained in this Note, and the other Note Documents that are required to be performed or complied with by it on or prior to the date of making such Loan; and

(iv) The Company shall have obtained all consents (including all governmental and regulatory consents, approvals, or authorizations required in connection with such Loan), permits and waivers necessary or required in connection with such Loan.

(e) Borrowing and Funding Procedures. Not later than the last business day of each calendar quarter, in accordance with the annual budget (the "Approved Budget") formulated by the Joint Core Team and approved by the Joint Steering Committee in accordance with Article 3 of the Collaboration Agreement and subject to satisfaction or waiver of the conditions referred to in this Note, the Lender shall make a Loan to the Company equal to the Company's budget as represented in the Approved Budget for marketing and sales costs for Raptiva for the next calendar quarter. The Lender and the Company shall meet not later than each January 31st, April 30th, July 31st and October 31st to review the actual spending by the parties in the just-completed calendar quarter in comparison to the just completed quarter's advance, to determine any adjustments to be applied to the outstanding Loan balance and the next quarter's loan funding, so long as the reconciliation is consistent with those limits imposed by the Joint Steering Committee under Section 3.1(b) of the Collaboration Agreement.

Each such Loan shall be made by wire transfer of immediately available funds to an account in the United States designated by the Company denominated in the currency of the United States of America.

(f) Maturity Date. Unless earlier accelerated by reason of the occurrence of an Event of Default (as provided in Section 5 below), any unpaid principal amount of any Tranche owed by the Company to the Lender, together with accrued and unpaid interest thereon, shall be due and payable in full on the earlier of (a) the later of (i) April 22, 2005 or (ii) the second anniversary of the date of the Loan comprising such Tranche (or portion thereof) was made to the Company or (b) the date that is ninety (90) days after the date of receipt of Regulatory Approval in the United States.

(g) Use of Proceeds. The proceeds of the Loans shall be used and, to the extent disbursed prior to the date of this Note, have been used by the Company only to finance the Company's share of marketing and sales costs for Raptiva in the United States prior to the receipt of Regulatory Approval in the United States.

2. Interest. Interest on the unpaid balance of the principal amount of each Tranche hereunder and on any unpaid interest thereon from time to time outstanding shall accrue from the date disbursed to but not including the date repaid or converted and compound on the last day of each Interest Period at a rate per annum equal to the applicable LIBOR Rate (as such rate may change on the first day of each Interest Period) plus one percent (1%) (calculated on the basis of a year of 360 days). Interest on each Loan shall be due and payable on the earlier of the date that such Loan is repaid or matures.

3. Payment.

(a) Form of Payment. The principal amount of and accrued interest on each Tranche hereunder when due or otherwise paid or payable hereunder shall be payable, at the option of the Company as set forth in written notice to the Lender in cash denominated in the currency of the United States of America.

(b) Method, Application. Payments of principal and accrued interest shall be made at the address of the Lender set forth in the Collaboration Agreement, or at such other place as the Lender shall have notified the Company in writing at least five (5) business days before such payment is due. Unless an Event of Default shall have occurred, all payments in respect of any Tranche under this Note shall be applied first to accrued and unpaid interest thereon, and thereafter to the unpaid principal amount thereof. After the occurrence of an Event of Default, payments shall be applied as determined by the Lender in its discretion.

(c) Recordation; Return of Note. All payments of interest and principal in respect of each Tranche (or portion thereof) hereunder, as well as all adjustments thereto based on the parties' payment of U.S. Commercialization Costs (as such term is defined in the Collaboration Agreement), shall be recorded by the Lender and endorsed by the Lender and the Company on Exhibit B attached hereto, which is hereby made a part of this Note. Upon final payment in full of all principal of and interest on this Note and each Tranche hereunder, and termination of any commitment of the Lender to make Loans hereunder, the Lender shall return this Note to the Company for cancellation.

(d) Prepayments. This Note and any Tranche (or portion thereof) hereunder may be prepaid by the Company, at any time without penalty, in whole or in part, in the manner prescribed for repayment in Section 3(a) above (which prepayment shall be accompanied by interest on the amount so prepaid). In the event of any prepayment of less than all of the amounts outstanding under this Note, the Company may designate the Tranche or Tranches to which such payment shall apply.

4. Subordination. Any Excess Indebtedness evidenced by this Note is hereby expressly subordinated, to the extent and in the manner hereinafter set forth, in right of payment to the prior payment in full in cash of all Senior Indebtedness (as defined in Section 16 below) of the Company. Except for the Excess Indebtedness, the obligations of the Company to the Lender under this Note shall at all times be senior to or pari passu with all other obligations of the Company to the extent they are unsecured.

(a) Insolvency Proceedings. If there shall occur any receivership, insolvency, assignment for the benefit of creditors, bankruptcy (voluntary or involuntary), reorganization, or arrangements with creditors (whether or not pursuant to bankruptcy or other insolvency laws), sale of all or substantially all of the assets (other than in the form of a merger not resulting in insolvency), dissolution, liquidation, or any other marshaling of the assets and liabilities of the Company, (i) the holder(s) of Senior Indebtedness shall be entitled to receive payment in full in cash of all Senior Indebtedness then outstanding before the Lender shall be entitled to receive any payment or distribution, whether in cash, securities, or other property, in respect of the Excess Indebtedness, and (ii) any payment or distribution, whether in cash, securities or other property (other than securities of the Company or any other company provided for by a plan of reorganization or readjustment, the payment of which is subordinated, at least to the extent provided in this Section 4, to the payment of all Senior Indebtedness at the time outstanding and to any securities issued in respect thereof under any such plan of reorganization or readjustment) which would otherwise (but for this Section 4) be payable or deliverable in respect of Excess Indebtedness shall be paid or delivered directly to the holder(s) of the Senior Indebtedness (ratably according to the aggregate amounts remaining unpaid on account of the Senior Indebtedness held by each) or to a trustee or other representative for holder(s) of Senior Indebtedness.

(b) Permitted Payments; Default on Senior Indebtedness. Subject to Section 4(a), so long as there shall not have occurred and be continuing an event of default which as been declared in writing, or is automatically effective in the case of bankruptcy or insolvency events, with respect to any Senior Indebtedness (as such event of default is defined therein or in the instrument under which it is outstanding), which event of default permits the holder or its representative to accelerate the maturity thereof (a "Senior Default"), the Company shall be permitted to make, and the Lender to accept and receive, payments of principal

and accrued interest under this Note, including the Excess Indebtedness. Notwithstanding anything to the contrary contained in this Section 4, the Company shall not make and the Lender shall not receive any payment of any Excess Indebtedness after delivery by a holder of Senior Indebtedness to the Company and the Lender of written notice that a Senior Default has occurred; provided, however, that such payments may thereafter be made if such holder of Senior Indebtedness consents to such payments in writing or agrees in writing that such Senior Default has been cured or waived.

(c) Turnover of Payment. Except for payments permitted under Section 4(a) or 5(b), should any payment or distribution, whether in cash, securities or other property, be received by the Lender on account of the Excess Indebtedness by any means, including, without limitation, set off, prior to the payment in full in cash of the Senior Indebtedness, the Lender shall receive and hold the same in trust, as trustee, for the benefit of the holder(s) of the Senior Indebtedness, and shall forthwith deliver the same to the holder(s) of the Senior Indebtedness (ratably according to the aggregate amounts remaining unpaid on account of the Senior Indebtedness held by each) or to a trustee or other representative for holder(s) of Senior Indebtedness in precisely the form received for application to the Senior Indebtedness (whether or not it is then due).

(d) Subrogation. Subject to the payment in full in cash of all Senior Indebtedness and the termination of any commitments to lend under the agreements or

instruments governing such Senior Indebtedness, the Lender shall be subrogated to the rights of the holder(s) of such Senior Indebtedness (to the extent of the payments or distributions made to the holder(s) of such Senior Indebtedness pursuant to the provisions of this Section 4) to receive payments and distributions of assets of the Company applicable to the Senior Indebtedness. No such payments or distributions applicable to the Senior Indebtedness shall, as between the Company and its creditors, other than the holder(s) of Senior Indebtedness and the Lender, be deemed to be a payment by the Company to or on account of this Note; and for purposes of such subrogation, no payments or distributions to the holder(s) of Senior Indebtedness to which the Lender would be entitled except for the provisions of this Section 4 shall, as between the Company and its creditors, other than the holder(s) of Senior Indebtedness and the Lender, be deemed to be a payment by the Company to or on account of the Senior Indebtedness.

(e) Continuing Subordination. The subordination effected by these provisions is a continuing subordination and may not be modified or terminated by the Lender until payment in full in cash of the Senior Indebtedness. At any time and from time to time, without consent of or notice to the Lender and without impairing or affecting the obligations of the Lender hereunder but subject to the terms of the definition of "Senior Indebtedness": (i) the time for the Company's performance of, or compliance with any agreement relating to Senior Indebtedness may be modified or extended or such performance may be waived; (ii) a holder of Senior Indebtedness may exercise or refrain from exercising any rights under any agreement relating to the Senior Indebtedness; (iii) any agreement relating to the Senior Indebtedness may be revised, amended or otherwise modified for the purpose of adding or changing any provision thereof or changing in any manner the rights of the Company, any holder of Senior Indebtedness or any guarantor thereunder; (iv) payment of Senior Indebtedness or any portion thereof may be accelerated or extended or refunded or any instruments evidencing the Senior Indebtedness may be renewed in whole or in part; (v) any person liable in any manner for payment of the Senior Indebtedness may be released by a holder of Senior Indebtedness; (vi) a holder of Senior Indebtedness may make loans or otherwise extend credit to the Company whether or not any default or event of default exists with respect to such Senior Indebtedness; and (vii) a holder of Senior Indebtedness may take and/or release any lien at any time on any collateral now or hereafter securing the Senior Indebtedness and take or fail to take any action to perfect any lien at any time granted therefor, and take or fail to take any action to enforce such liens. Notwithstanding the occurrence of any of the foregoing, these subordination provisions shall remain in full force and effect with respect to the Senior Indebtedness.

(f) Lender's Waivers. The Lender hereby expressly waives for the benefit of the holder(s) of Senior Indebtedness but subject to the terms of the definition of "Senior Indebtedness" (i) all notices not specifically required pursuant to the terms of this Note (other than notices of the incurrence of Senior Indebtedness, which shall be provided to the Lender substantially concurrently with the incurrence of such Senior Indebtedness); (ii) any claim which the Lender may now or hereafter have against a holder of Senior Indebtedness arising out of any and all actions which a holder of Senior Indebtedness in good faith, takes or omits to take with respect to the Senior Indebtedness (including, without limitation, (A) actions with respect to the creation, perfection or continuation of liens in or on any collateral security for the Senior Indebtedness, (B) actions with respect to the occurrence of any event of default

under any Senior Indebtedness, (C) actions with respect to the foreclosure upon, sale, release, or depreciation of, or failure to realize upon, any of the collateral security for the Senior Indebtedness and (D)

actions with respect to the collection of any claim for all or any part of the Senior Indebtedness or the valuation, use, protection or release of any collateral security for the Senior Indebtedness); and (iii) any right to require holders of Senior Indebtedness to exhaust any collateral or marshal any assets.

(g) Reliance of Holder(s) of Senior Indebtedness. The Lender, by its acceptance hereof, shall be deemed to acknowledge and agree that the foregoing subordination provisions are, and are intended to be, an inducement to and a consideration of each holder of Senior Indebtedness whether such Senior Indebtedness was created or acquired before or after the creation of the indebtedness evidenced by this Note, and each such holder of Senior Indebtedness shall be deemed conclusively to have relied on such subordination provisions in acquiring and holding, or in continuing to hold, such Senior Indebtedness.

5. Events of Default.

(a) It shall constitute a "Default" under this Note if

(i) An Insolvency Event shall occur,

(ii) A "Default" shall occur under and as defined in the Other Note,

(iii) The Collaboration Agreement shall be terminated (i) by the Lender due to a breach thereof or default thereunder by the Company or (ii) by the Company for reasons other than a breach thereof or default thereunder by the Lender,

(iv) The Company shall default in any material respect in payment or performance of its obligations under this Note or any other Note Document, or

(v) Any representation or warranty of the Company made in this Note or any other Note Document shall be materially inaccurate or untrue when made.

(b) It shall constitute an "Event of Default" under this Note if (i) a Default shall have occurred and (ii) either (A) such Default is an Insolvency Event or (B) such Default shall have occurred and be continuing for a period of at least ten (10) business days after the Lender has provided written notice of such Default to the General Counsel or the Chief Patent Counsel of the Company.

(c) Automatically upon the occurrence of an Insolvency Event and, at the option of the Lender, upon the occurrence of any other Event of Default (so long as such Event of Default shall be continuing on the date the Lender exercises such option), all principal, interest and other amounts payable by the Company to the Lender hereunder shall be immediately due and payable, the commitment of the Lender to make Loans in accordance with Section 1 above shall terminate, and the Lender may exercise such rights and remedies in respect

thereof and the Collateral as may be provided in this Note, in any security agreement governing the Collateral, and as are permitted by law or equity.

6. Lost Documents. Upon receipt by the Company of evidence satisfactory to it of the loss, theft, destruction or mutilation of this Note, and indemnity satisfactory to the Company (in the case of loss, theft or destruction) or surrender and cancellation of the Note (in the case of mutilation), the Company will make and deliver to the Lender a new Note of like tenor and unpaid principal amount and dated as of the date to which interest has been paid on the unpaid principal balance hereunder.

7. Notices. All notices and other communications required or appropriate to be given hereunder shall be in writing and shall be delivered by hand or mailed by certified mail, return receipt requested, or sent by facsimile (in which case a confirming copy shall also be sent by certified mail or courier), to the following respective addresses or to such other addresses as may be specified in any notice delivered or mailed as above provided:

(a) If to the Lender, to:

Genentech, Inc.
1 DNA Way
South San Francisco, CA 94080-4990
Telephone: (650) 225-1000
Facsimile: (650) 952-9881

Attention: Corporate Secretary, with a copy to the Treasurer

(b) If to the Company, to:

XOMA Ltd.
2910 7th Street
Berkeley, CA 94710
Telephone: (510) 204-7200
Facsimile: (510) 649-7571

Attention: Company Secretary

Any notice of other communication delivered by hand or mail shall be deemed to have been delivered on the date on which such notice or communication is delivered by hand, or in the case of certified mail deposited with the appropriate postal authorities on the date when such notice of communication is actually received, and in any other case shall be deemed to have been delivered on the date on which such notice or communication is actually received.

8. Amendments. No provision of this Note may be waived, changed or modified, or the discharge thereof acknowledged orally, but only by an agreement in writing signed by the party against which the enforcement of any waiver, change, modification or discharge is sought.

9. Assignment.

(a) Except as set forth in this Section 9, none of the rights or obligations of either party hereto may be assigned or transferred without the prior written consent of the other party hereto.

(b) Neither party may assign any of its rights and obligations under this Note in connection with a merger or similar reorganization or the sale of all or substantially all of its assets; provided, however, that the Lender may assign such rights and obligations under the Note to F. Hoffmann-La Roche Ltd or any of its affiliates (the "Roche Affiliates") which are directly or indirectly controlled by it (collectively, with the Roche Affiliates, "Roche") so long as Roche continues to own at least a majority of the voting capital stock entitled to participate generally in the election of directors of the Lender.

(c) The Lender may sell, assign or transfer all or a portion of its interest herein in accordance with, and with the effect provided for in Section 6(b) of the Purchase Agreement and Section 13(a) of the Registration Rights Agreement.

(d) This Note shall be binding upon and inure to the benefit of the successors and permitted assigns of the parties. Any assignment not in accordance with this Note shall be void.

10. Presentment, Demand, Etc. Except as otherwise provided herein, the Company hereby waives presentment for payment, demand, protest and notice of protest for nonpayment of this Note, and consents to any extension or postponement of the time of payment or any other indulgence.

11. Governing Law. The parties have agreed that this Note will be governed by and construed in accordance with the laws of the State of Delaware.

12. Counterparts. This Note may be executed in two or more counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

13. Titles. The titles of the Sections of this Note are inserted for reference only, and are not to be considered as part of this Note in construing this Note Agreement.

14. Disputes. Any disputes under this Agreement will be governed by the provisions of Article 18 of the Collaboration Agreement.

15. Conditions to Effectiveness; Construction.

(a) This Note shall be effective upon (i) receipt by the Lender of a fully executed copy of this Note, and (ii) receipt by the Lender of a fully executed copy of the Security Agreement and each of the other Note Documents.

(b) Upon effectiveness of this Note, all references to loans and notes in the Collaboration Agreement and the other Note Documents shall be deemed to include references to this Note.

16. Definitions. In addition to definitions contained in the Recitals to this Note, as used in this Note, the following terms shall have the meanings set forth below:

"Capital Lease Obligations" means the obligations of the Company under leases of property which are capitalized on the balance sheet of the Company in accordance with GAAP that are shown as a liability on a balance sheet of the Company prepared in accordance with GAAP.

"Collateral" has the meaning given such term in the Security Agreement.

"Excess Indebtedness" means the amount, if any, of any obligations of the Company to the Lender remaining due and payable after the occurrence of an Event of Default and disposition (or receipt by the Lender of the value as determined by a court of competent jurisdiction) of all Collateral. Unless and until an Event of Default shall have occurred and the Lender received the proceeds of disposition thereof (or the value thereof as determined by a court of competent jurisdiction), there will be no Excess Indebtedness.

"GAAP" means generally accepted accounting principles in the United States as in effect from time to time.

"Insolvency Event" means any of the following events: (1) the Company or the Subsidiary shall have had an order for relief entered with respect to it or shall commence a voluntary case under any applicable bankruptcy, insolvency or similar law, or shall consent to the entry of an order for relief in an involuntary case or to the conversion of an involuntary case to a voluntary case, or shall consent to the appointment of or taking possession by a receiver, trustee or other custodian for all or a substantial part of its property; or the Company or the Subsidiary shall make any assignment for the benefit of creditors; (2) the Company or the Subsidiary shall be unable to pay its debts as such debts become due; (3) a court of competent jurisdiction shall enter a decree or order for relief in respect of the Company in an involuntary case under applicable bankruptcy, insolvency or similar law, which decree or order is not stayed; or (4) an involuntary case shall be commenced against the Company or the Subsidiary under applicable bankruptcy, insolvency or similar law; or a decree or order of a court having jurisdiction in the premises for the appointment of a receiver, liquidator, sequestrator, trustee, custodian or other officer having similar powers over the Company, the Subsidiary or any of their respective property, shall have been entered; or there shall have occurred the involuntary appointment of an interim receiver, trustee or other custodian of the Company or the Subsidiary for all or a substantial part of its property; or a warrant of attachment, execution or similar process shall have been issued against any substantial part of the property of the Company or the Subsidiary, and such event described in shall continue for 60 days without having been dismissed, bonded or discharged.

"Interest Period" means, with respect to any Loan and subject to the custom and practice of the London eurodollar deposit market, a period beginning on the date such Loan is

made and on each January 1 and July 1 thereafter and ending on the earlier of the next January 1, July 1, or the scheduled maturity date of such Loan.

"Joint Core Team" means the Joint Core Team established in accordance with the Collaboration Agreement.

"Joint Steering Committee" means the Joint Steering Committee established in accordance with the Collaboration Agreement.

"LIBOR Rate" means, for each Interest Period, a rate of interest per annum equal to the London Interbank Offered Rate (LIBOR) for eurodollar deposits made on the applicable LIBOR Rate Determination Date for a period most closely corresponding to such Interest Period as determined by the Lender based on published rates from Bloomberg or The Wall Street Journal (Western Edition). The Lender shall determine the applicable interest rate for each Interest Period as of each LIBOR Rate Determination Date in accordance with Section 2(a) and shall notify the Company promptly thereafter. If LIBOR Rates cease to be available as contemplated hereby or shall fail to fairly reflect a basis for determining the cost for the Lender to fund Loans under this Note or it shall be illegal for the Lender to make loans on such basis, the parties agree to discuss in good faith a comparable interest rate on each Tranche.

"LIBOR Rate Determination Date" means the first day of each Interest Period, it being understood that, in accordance with the custom and practice of the London eurodollar deposit market, the LIBOR Rate effective as of the LIBOR Rate Determination Date may be based on calculations made as a result of market conditions and quotations made two London business days prior to the LIBOR Rate Determination Date

"Note Documents" means this Note, the Other Note, the Purchase Agreement, the Collaboration Agreement, the Security Agreement, the Registration Rights Agreement and each other document, agreement or instrument executed or delivered by the Company in connection herewith or therewith.

"Regulatory Approval" has the meaning given such term in the Collaboration Agreement.

"Senior Indebtedness" means, unless otherwise agreed by the Lender in writing, (i) Capital Lease Obligations of the Company in effect as of the date of this Note in an aggregate amount not to exceed $2,400,000 secured by such equipment and (ii) other obligations of the Company incurred with the consent of Lender, which consent shall not be unreasonably withheld.

"Subsidiary" means XOMA (US) LLC.

"Tranche" means one of the loans made from time to time under Section 1 hereof, and "Tranches" means two or more of such loans collectively.

(Signature page follows)

IN WITNESS WHEREOF, this Note Agreement has been executed and delivered on the date first above written by duly authorized representatives of the Company and the Lender.

XOMA LTD.

By:

Name: Clarence L. Dellio
Title: Senior Vice President and Chief Operating Officer

GENENTECH, INC.

By:

Name: Louis J. Lavigne, Jr.
Title: Executive Vice President and Chief Financial Officer

EXHIBIT A

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The capitalized terms used in this Exhibit A shall have the meanings set forth for each such term in body of the Note Agreement to which it is attached.

1. Subsidiaries. The Company has no active subsidiaries and does not otherwise directly or indirectly control any other business entity, other than XOMA Limited, a United Kingdom company, XOMA (US) LLC, a Delaware limited liability company, XOMA (Bermuda) Ltd., a Bermuda company, XOMA Technology Ltd., a Bermuda company and XOMA Ireland Limited, an Irish company, all of which are wholly-owned by the Company. The Company has furnished the Lender with true, correct and complete copies of its Memorandum of Continuance and Bye-Laws, together with any amendments thereto as of the date hereof.

2. Organization. The Company is a company duly organized, validly existing and in good standing under the laws of the Commonwealth of Bermuda and is

qualified to do business as a foreign company in each jurisdiction where failure to qualify would have a material adverse effect on the business or properties of the Company. The Company has full company power and authority to own its property, to carry on its business as presently conducted and to carry out the transactions contemplated hereby.

3. Authorization. The Company has requisite company power to execute, deliver and perform this Note and each of the other Note Documents, and each such agreement has been duly executed and delivered by the Company and is the legal, valid and, assuming due execution by the Lender as necessary, binding obligation of the Company, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium, reorganization or similar laws affecting creditors generally, and to general equitable principles. The execution, delivery and performance by the Company of this Note and each of the other Note Documents, including the borrowing of Loans and the issuance, sale and delivery of this Note, Series B Preference Shares and the Common Shares as contemplated hereby and thereby have been duly and validly authorized by all necessary company action of the Company.

4. Valid Issuance of Common Shares, Note; Series B Preference Shares. The Series B Preference Shares and Common Shares, when issued, sold and delivered in accordance with the terms hereof for the consideration expressed herein, will be duly authorized, validly issued, fully paid and non-assessable, and, based in part upon the representations of the Lender on Schedule 1 hereof, will be issued in compliance with the Bermuda Companies Act and all applicable Bermuda, federal and state securities laws. This Note is duly authorized and validly issued and, based in part upon the representations of the Lender, has been issued in compliance with the Bermuda Companies Act and all applicable Bermuda, federal and state securities laws.

5. Governmental Approvals. Based in part on the representations made by the Lender on Schedule 1 hereof no authorization, consent, approval, license, exemption of or filing or registration with any court or governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, under any applicable laws, rules or regulations presently in effect, is or will be necessary to be made or obtained by the Company for, or in connection with the execution and delivery of this Note or any Note Document or consummation of the transactions contemplated hereby or thereby or performance by the Company of its obligations hereunder or thereunder, except for (i) such other filings under applicable securities laws which will be made by the Company within the prescribed periods, including the filing by the Company of a notice under Section 25102(f) of the California Codes, as amended, and the payment of any fee relating thereto and (ii) any of the foregoing required in connection with the conversion of the Series B Preference Shares.

6. Litigation. Except as disclosed in the Company's most recent report filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1943, as amended (the "Exchange Act") that calls for such disclosure, there is no litigation or governmental proceeding or investigation pending or, to the knowledge of the Company, threatened against the Company which would materially and adversely affect (i) the execution and delivery of this Note and the other Note Documents, or (ii) the performance by the Company of its obligations hereunder or thereunder.

7. Absence of Certain Developments. Since the date of its most recent report filed with the Securities and Exchange Commission pursuant to the Exchange Act that calls for such disclosure, except as disclosed therein or in Company press releases (including joint press releases) released publicly prior to the date hereof, there has been no (i) material adverse change in the business, properties, results of operations or financial condition of the Company, excluding, however, any such effect caused by economic, tax, or other matters of general applicability or by matters generally affecting the industry in which the Company conducts business (in each case, however, only to the extent the Company is not affected disproportionately).

8. Other Indebtedness. Except as disclosed or reflected in the financial statements contained in its most recent report filed with the Securities and Exchange Commission pursuant to the Exchange Act that calls for such disclosure, the Company has no outstanding material indebtedness. For this purpose, indebtedness means all obligations of the Company for borrowed money evidenced by notes, bonds, debentures or similar instruments, for which interest charges are customarily paid, other than accounts payable and accrued obligations incurred in the ordinary course of business consistent with past practice.

9. Non-Contravention. The execution, delivery and performance by the Company of this Note and the other Note Documents (i) do not and will not contravene or conflict with the Memorandum of Continuance or Bye-Laws of the Company and (ii) do not contravene or conflict with or, based in part on the representations made by the Lender and assuming satisfaction of the requirements referenced in the Purchase Agreement and the Registration Rights Agreement, constitute a violation of any provision of law, regulation, judgment, injunction, order or decree binding upon or applicable to the Company, or result

in a breach of or constitute a default under any material agreement of the Company (whether

upon notice or passage of time), in any manner which would materially and adversely affect the Lender's rights or its ability to realize the intended benefits to it under this Note or the other Note Documents.

10. Filings. The Company has filed in a timely manner the following reports required to be filed with the Securities and Exchange Commission under the Exchange Act: (i) the Company's annual report on Form 10-K for the most recent fiscal year for which such filing is required by the Exchange Act and (ii) all of its other reports (including without limitation reports on Form 8-K), statements, schedules and registration statements filed with the Securities and Exchange Commission. As of its filing date, no such report or statement filed pursuant to the Exchange Act contained any untrue statement of a material fact or omitted to state any material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading.

SCHEDULE 1 TO EXHIBIT A

REPRESENTATIONS AND WARRANTIES OF THE LENDER

The Lender hereby makes the following representations and warranties to the Company each time the Company makes the representations and warranties listed on the Exhibit A to the Note Agreement (the capitalized terms used in this Schedule 1 to Exhibit A shall have the meanings set forth for each such term in the body of the Note Agreement to which it is attached):

1. Corporate Power. The Lender is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. The Lender has full corporate power and authority to carry on its business as presently conducted and to carry out the transactions contemplated hereby.

2. Authorization. The Lender has full corporate power to execute, deliver and perform the Purchase Agreement, the Collaboration Agreement, the Note Agreement, the Other Note, the Security Agreement and the Registration Rights Agreement (collectively, the "Note Documents"), and each such agreement has been duly executed and delivered by the Lender and is the legal, valid and, assuming due execution by the Company, binding obligation of the Lender, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium, reorganization or similar laws affecting creditors' rights generally, and to general equitable principles. The execution, delivery and performance by the Lender of the Note Documents, including the making of the loans contemplated thereby, have been duly and validly authorized by all necessary corporate action of the Lender.

3. Investment Representations.

(a) The Lender (A) has acquired and will acquire the Note and the Other Note (including the making of each loan pursuant to Section 8.1 of the Collaboration Agreement), (B) will acquire the Series B Preference Shares upon conversion of the Other Note (in the event of any such conversion), and (C) will acquire the Common Shares upon conversion of the Series B Preference Shares (in the event of any such conversion) (the Note, the Other Note, the Series B Preference Shares and such Common Shares, collectively, the "Securities") for its own account for investment only and not with a view to any resale or

distribution thereof, except pursuant to an effective registration statement under the Securities Act of 1933, as amended from time to time (the "Securities Act"), covering the sale, assignment or transfer or an opinion of counsel in form and substance satisfactory to the Company that such registration is not required.

(b) The Lender has had the opportunity to obtain, receive and review the Company`s reports and other filings with the U.S. Securities and Exchange Commission and such other information as it deems necessary to understand the business and financial condition of the Company and to make the investment decision to purchase the Securities.

(c) As an investor in companies in the biopharmaceutical industry and a participant in such industry, the Lender has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of the investment represented by the Securities, and it is able to bear the economic risk of such investment.

(d) The Lender understands that the Securities have been, are being, or will be, sold or issued in a transaction which is exempt from the registration requirements of the Securities Act by reason of the provisions of Section 4(2) of the Securities Act (or Section 3(a)(9) of the Securities Act in the case of the issuance of the Series B Preference Shares and the Common Shares upon conversion of the Other Note and the Series B Preference Shares, respectively), and that such securities will be subject to transfer restrictions and must be held indefinitely unless subsequently registered under the Securities Act or an exemption from such registration is available.

<TABLE>
<CAPTION>

EXHIBIT B

LOANS AND PAYMENTS OF PRINCIPAL AND INTEREST

Applicable Tranche	Date	Principal Amount Borrowed	Principal Amount Repaid	Interest Paid	Amount Converted	Notation By
<S> <C>	<C>	<C>	<C>	<C>	<C>	
A $2,943,359	March 31, 2003	$2,943,359	N/A	N/A	N/A	

</TABLE>

EXHIBIT 5

SECURITY AGREEMENT

THIS SECURITY AGREEMENT (the "Security Agreement") is made and dated as of the 31st day of March, 2003 by and between XOMA LTD, a Bermuda company (the "Company"), and GENENTECH, INC., a Delaware corporation (the "Lender").

RECITALS

A. In accordance with that certain Common Stock and Convertible Note Purchase Agreement, dated as of April 22, 1996, between the Company (then a Delaware corporation known as XOMA Corporation) and the Lender, as amended on April 14, 1999 (collectively, the "Purchase Agreement") and that certain Collaboration Agreement dated as of April 22, 1996 between the Company and the Lender, as amended on April 14, 1999 and as further amended and restated as of March 31, 2003 (collectively, the "Collaboration Agreement"), the Lender has agreed to make loans to the Company;

B. Those loans are evidenced by an Amended and Restated Convertible Secured Note Agreement-Development Loan, dated as of the date hereof, in a maximum principal amount of $80,000,000 and a Secured Note Agreement-Commercial Launch Loan, dated as of the date hereof, in a maximum principal amount of $15,000,000 (as amended, modified or waived from time to time, collectively, the "Notes," and individually, a "Note"). All capitalized terms not otherwise defined herein shall have the meanings given such terms in the Notes. All other terms not otherwise defined herein shall have the meanings attributed to such terms in the California Uniform Commercial Code as in effect from time to time.

C. As a condition precedent to the Lender's obligation to extend credit under the Notes and as security for the payment and performance of the Obligations (as defined in Section 3 below), the Company is required to execute and deliver this Security Agreement, and to grant to the Lender and to create a security interest in certain property of the Company, as hereinafter provided.

NOW, THEREFORE, in consideration of the above Recitals and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto hereby agree as follows:

AGREEMENT

1. Grant of Security Interest; Term of Effectiveness. The Company hereby pledges, assigns and grants to the Lender a security interest in the property described in Section 2 below (collectively and severally, the "Collateral") to secure payment and performance of the Obligations. Upon the earlier of (i) the date on which the Lender is required to return both of the Notes in accordance with Section 3(c) thereof or (ii) any date on which no Event of Default (as defined in each Note) shall have occurred under any Note and the Lender, nevertheless, fails to make a loan to the Company in accordance with Section 8.1 of the Collaboration Agreement (unless (A) such failure is due to force majeure or operational failure beyond the reasonable control of the Lender, and either such failure is cured within ten days after the force majeure or operational failure ceases to exist or such force majeure or operational failure has continued for less than 180 days, or (B) such failure is a consequence of a dispute between the Company and the Lender that

has arisen under the Collaboration Agreement, the provisions of Article 18 of the Collaboration Agreement have been properly invoked and are being adhered to and such dispute has not been resolved in the favor of the Lender under Article 18 thereunder), the Company may, or may cause the Lender to, file or authorize the filing of a termination statement for any financing statement filed to perfect the security interest granted hereby and record or cause to be recorded a reconveyance substantially in the form of Exhibit A to this Security Agreement of any security agreement filed with the United States Patent and Trademark Office (the "PTO") pursuant to the terms hereof. The Lender hereby grants to the Company an exclusive, irrevocable power of attorney, with full power and authority in the place and stead of the Lender to take all such action permitted under this Section 1.

2. Collateral. The Collateral shall consist of all right, title and interest of the Company in and to the following, whether now existing or hereafter acquired:

(a) the Company's share of profits from the sale of Licensed Products as defined in the Collaboration Agreement, payable to the Company pursuant to Section 8.2 of the Collaboration Agreement; and

(b) all proceeds of the foregoing Collateral.

3. Obligations. The obligations (the "Obligations") secured by this Security Agreement shall consist of all obligations of the Company under the Notes, this Security Agreement, and any other documents entered into connection

with the transactions contemplated hereunder and thereafter (collectively, the "Note Documents") including, without limitation, the obligation to repay principal and interest and, in each case whether now existing or hereafter arising, voluntary or involuntary, whether or not jointly owed with others, direct or indirect, absolute or contingent, liquidated or unliquidated, and whether or not from time to time decreased or extinguished and later increased, created or incurred. For the avoidance of doubt (and without limiting the provisions of the Note Agreement), it is understood that in no event shall outstanding Series B Preference Shares represent Obligations, and once any Series B Preference Shares are issued, the Obligations under the Notes that were converted into such Series B Preference Shares shall cease to exist.

4. Representations and Warranties. In addition to all representations and warranties of the Company set forth in the Notes and the other Note Documents, which are incorporated herein by this reference, the Company hereby represents and warrants that:

(a) The Company is and will be the sole owner of, and has good and valid title to, the Collateral and has not transferred, licensed, leased, or encumbered any of the Collateral except to or in favor of the Lender;

(b) The Company is a company organized under the laws of Bermuda; it has more than one place of business, and its chief executive office from which it manages the main part of its business operations and other affairs is located in Berkeley, California.

5. Covenants and Agreements of the Company. In addition to all covenants and agreements of the Company set forth in the Notes and the other Note Documents, which are in-

corporated herein by this reference, the Company hereby agrees, at no cost or expense to the Lender:

(a) To assist Lender in delivering to the Assignment Division of the PTO a PTO Security Agreement substantially in the form of Exhibit B to this Security Agreement with respect to U.S. Patent Application Nos. 09/819,912 and 09/936,603 and any subsequent continuations or divisionals thereof; provided, that the PTO's failure or refusal to accept such filing shall not be deemed a breach of this Security Agreement.

(b) To do all acts (other than acts which are required to be done by the Lender) within its control that are reasonably necessary to maintain, preserve and protect the Collateral and the first priority, perfected security interest of the Lender therein; and

(c) To not transfer, license, lease or encumber any Collateral except to or in favor of the Lender or as otherwise permitted by the Notes and the Note Documents.

(d) To notify the Lender if it changes its legal name, jurisdiction of organization or chief executive office.

6. Authorized Action by Lender. After the occurrence of an Event of Default or if the Company is in breach of Section 5(b) hereof, the Company hereby agrees that, at any time, without presentment, notice or demand, and without affecting or impairing in any way the rights of the Lender with respect to the Collateral, the obligations of the Company hereunder or the Obligations, the Lender may, but shall not be obligated to and shall incur no liability to the Company or any third party for failure to, take any action which the Company is obligated by this Security Agreement to do. The Company hereby grants to the Lender an exclusive, irrevocable power of attorney, with full power and authority in the place and stead of the Company to take all such action permitted under this Section 6.

7. Remedies. Upon the occurrence of an Event of Default under any Note or if any Obligations are not paid when due, the Lender may, without notice to or demand on the Company, take any proceeds of the Collateral, when and as received or payable and apply such proceeds to the Obligations in accordance with Section 9607 of the California Uniform Commercial Code ("CUCC") or, if any Extenuating Event (as defined below) shall have occurred and be continuing for a period of five (5) business days after notice to the Company of such Extenuating Event, exercise any other rights and remedies of a secured party, at law, in equity or otherwise, and recover from the Company all costs and expenses, including, without limitation, reasonable attorneys' fees, incurred or paid by the Lender in exercising any such right, power or remedy. Any deficiency with respect to the Obligations which exists after the disposition or liquidation of the Collateral shall be a continuing liability of the Company to the Lender and shall be immediately paid by the Company to the Lender. As used in this Section 7, each of the following events shall constitute an "Extenuating Event":

(a) If taking any proceeds of the Collateral or application thereof to the Obligations shall be construed as acceptance of collateral in full or partial

satisfaction of the Obligations, after the occurrence of the relevant Event of Default or failure to pay when due, or the

Company shall have failed to consent thereto in accordance with Section 9620(c) of the CUCC; or

(b) The Lender shall receive an objection to retention by the Lender of proceeds of Collateral in satisfaction of Obligations from any person entitled to object thereto pursuant to Section 9620 of the CUCC; or

(c) The Lender is prohibited from taking proceeds of the Collateral and/or applying the same to the Obligations by any statute, rule, regulation, judicial process or any interpretation thereof binding on the Lender or the Company; or

(d) The Lender is required by any statute, rule, regulation, judicial process or interpretation thereof binding on the Lender or the Company to exercise remedies against the Collateral other than taking proceeds and applying the same to the obligations.

8. Application of Cash and Non-Cash Proceeds. After the occurrence of an Event of Default, cash proceeds received by the Lender from the Collateral, whether upon disposition pursuant to this Security Agreement or otherwise, may be applied by the Lender against the Obligations in such order as the Lender may determine in its discretion. Notwithstanding anything else contained in this Security Agreement, if any non-cash proceeds are received in connection with any sale or disposition of any Collateral, the Lender shall not apply such non-cash proceeds to the Obligations unless and until such proceeds are converted to cash; provided, however, that if such non-cash proceeds are not expected on the date of receipt thereof to be converted to cash within one year after such date, the Lender shall use commercially reasonable efforts to convert such non-cash proceeds to cash within such one year period.

9. Waiver of Hearing. The Company expressly waives to the extent permitted under applicable law any constitutional or other right to a judicial hearing prior to the time the Lender takes possession or disposes of the Collateral upon the occurrence of an Event of Default.

10. Cumulative Rights. The rights, powers and remedies of the Lender under this Security Agreement shall be in addition to all rights, powers and remedies given to the Lender by virtue of any statute or rule of law, the Notes or any other agreement, all of which rights, powers and remedies shall be cumulative and may be exercised successively or concurrently without impairing the Lender's security interest in the Collateral.

11. Waiver. Any forbearance or failure or delay by the Lender in exercising any right, power or remedy shall not preclude the further exercise thereof, and every right, power or remedy of the Lender shall continue in full force and effect until such right, power or remedy is specifically waived in a writing executed by the Lender. The Company waives any right to require the Lender to proceed against any person or to exhaust any Collateral or to pursue any remedy in the Lender's power.

12. Setoff. The Company agrees that the Lender may exercise its rights of setoff with respect to the Obligations in the same manner as if the Obligations were unsecured.

13. Financing Statements. The Company hereby consents to and instructs the Lender to file financing statements in all locations deemed appropriate by the Lender from time to time.

In connection with the filing of such financing statements, the Company acknowledges and agrees that the Lender may utilize a general description of the Collateral.

14. Cumulative Rights; No Waiver. The rights, powers and remedies of the Lender hereunder and under the other Loan Documents are cumulative and in addition to all rights, power and remedies provided under any and all agreements between the Lender and the Company relating hereto, at law, in equity or otherwise. Any delay or failure by the Lender to exercise any right, power or remedy shall not constitute a waiver thereof by the Lender, and no single or partial exercise by the Lender of any right, power or remedy shall preclude other or further exercise thereof or any exercise of any other rights, powers or remedies.

15. Entire Agreement. This Security Agreement, the Notes and the other Note Documents embody the entire agreement and understanding between the parties hereto and supersede all prior agreements and understandings relating to the subject matter hereof and thereof.

16. Survival. All representations, warranties, covenants and agreements of the Company contained herein, in the Notes and the other Note Documents shall survive the termination of this Agreement and shall be effective until the Obligations are paid and performed in full or longer as expressly provided herein.

17. Notices. All notices shall be given in accordance with the Notes.

18. Governing Law. This Security Agreement shall be governed by and construed in accordance with the laws of the State of California without giving effect to its choice of law rules.

19. Counterparts. This Security Agreement may be executed in any number of counterparts, all of which together shall constitute one agreement.

20. Severability. The illegality or unenforceability of any provision of this Security Agreement or any instrument or agreement required hereunder or thereunder shall not in any way affect or impair the legality or enforceability of the remaining provisions hereof or thereof.

(Signature page follows)

IN WITNESS WHEREOF, this Security Agreement has been executed and delivered on the date first above written by duly authorized representatives of the Company and the Lender.

XOMA LTD., the Company

By: _____
Name: Clarence L. Dellio
Title: Senior Vice President and Chief Operating Officer

GENENTECH, INC., the Lender

By: _____
Name: Louis J. Lavigne, Jr.
Title: Executive Vice President and Chief Financial Officer

EXHIBIT A

RECONVEYANCE OF PTO SECURITY AGREEMENT

THIS RECONVEYANCE OF PTO SECURITY AGREEMENT (the "Reconveyance") is made and dated this __ day of _____, 200_ by Genentech, Inc., a Delaware corporation (the "Lender"), with reference to the PTO Security Agreement dated as of March __, 2003 (the "PTO Security Agreement") between Xoma Ltd., a Bermuda company (the "Company") and the Lender recorded in the records of the United States Patent and Trademark Office on _____, 2003 at _____ with respect to the following patents:
_____.

For value received, effective as of the date of this Reconveyance, the Lender hereby releases, terminates, and re-transfers to the Company all right, title and interest conveyed to the Lender by the PTO Security Agreement.

GENENTECH, INC.

By: _____
Name: _____
Title: _____

<TABLE>
<CAPTION>

EXHIBIT B

<S>	<C>	<C>
Form PTO-1595	RECORDATION FORM COVER SHEET	U.S. DEPARTMENT OF COMMERCE
(Rev. 10/02)	PATENTS ONLY	U.S. Patent and Trademark Office
OMB No. 0651-0027 (exp. 6/30/2005)		
Tab settings		

To the Honorable Commissioner of Patents and Trademarks: Please record the attached original documents or copy thereof.

1. Name of conveying party(ies):

Additional name(s) of conveying party(ies) attached?
Yes |_| No |_|

3. Nature of conveyance:
|_| Assignment |_| Merger
|X| Security Agreement |_| Change of Name
|_| Other _____
Execution Date:_____

2. Name and address of receiving party(ies)

Name:_____

Internal Address:_____

_____

_____

Street Address:_____

City:_____ State:_____ Zip:_____

Additional name(s) & address(es) attached?
|_| Yes |_| No

4. Application number(s) or patent number(s):

If this document is being filed together with a new application, the execution date of the application is: __

A. Patent Application No.(s): 09/819,921; 09/936,603

B. Patent No.(s)_____

_____

Additional numbers attached? |_| Yes |_| No

5. Name and address of party to whom correspondence concerning document should be mailed:

Name:_____

Internal Address:_____

_____

_____

Street Address:_____

_____

City:_____ State: _____ Zip: _____

6. Total number of applications and patents involved: |_|

7. Total fee (37 CFR 3.41).....$

|_| Enclosed

|_| Authorized to be charged to deposit account

8. Deposit account number:

_____

DO NOT USE THIS SPACE

9. Signature.

Name of Person Signing	Signature	Date

Total number of pages including cover sheet, attachments, and documents: |_|

Mail documents to be recorded with required cover sheet information to:
Commissioner of Patents & Trademarks, Box assignments
Washington, D.C. 20231

</TABLE>

PTO SECURITY AGREEMENT

THIS PTO SECURITY AGREEMENT (the "PTO Security Agreement") is made and dated this 31st day of March, 2003 by and between Xoma Ltd., a Bermuda company (the "Company"), and Genentech, Inc., a Delaware corporation (the "Lender").

RECITALS

A. The Lender has made or agreed to make loans to the Company pursuant to the terms of an Amended and Restated Convertible Secured Note Agreement-Development Loan dated as of March 31, 2003 and a Secured Note Agreement-Commercial Launch Loan dated as of March 31, 2003 (as amended, modified or waived from time to time, collectively, the "Notes" and, individually, a "Note"). All capitalized terms not otherwise defined herein used with the meanings given such terms in the Notes. All other terms not otherwise defined herein shall have the meanings attributed to such terms in the California Uniform Commercial Code as in effect from time to time.

B. In connection with the Notes, the Company agreed, among other things, to execute and deliver this PTO Security Agreement in favor of the Lender.

NOW, THEREFORE, in consideration of the above Recitals and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto hereby agree as follows:

AGREEMENT

1. Grant of Security Interest. As collateral security for the Obligations (as defined in that certain Security Agreement dated as of March 31, 2003 between the Company and the Lender (the "Security Agreement")), the Company hereby mortgages, assigns, grants and conveys to the Lender a security interest, pledge, assignment and mortgage in all of the Company's right, title and interest in the following (the "PTO Collateral"):

(a) the Company's share of profits from the sale of Licensed Products (as defined in the Collaboration Agreement referred to below) payable to the Company pursuant to Section 8.2 of the Collaboration Agreement dated as of April 22, 1996 between the Company and the Lender, as amended on April 14, 1999 and as further amended and restated as of March 31, 2003; and

(b) all proceeds of any of the foregoing.

2. No Present Assignment. Neither this PTO Security Agreement, the Security Agreement, the Notes nor any other Note Document (as defined in the Security Agreement) creates or is intended to create a present assignment of the PTO Collateral. Subject to the rights of Lender, it is the intention of the parties hereto that the Company continue to own the PTO Collateral.

3. Relationship to Other Documents. The PTO Collateral shall constitute Collateral for all purposes of the Security Agreement, the Notes and the other Note Documents, and Lender

shall have all rights, powers and remedies with respect to the PTO Collateral to the same extent as it has with respect to other collateral.

4. Miscellaneous.

(a) All covenants and other agreements contained in this PTO Security Agreement by or on behalf of any of the parties hereto bind and inure to the benefit of their respective successors and assigns.

(b) Any provision of this PTO Security Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall (to the full extent permitted by law) not invalidate or render unenforceable such provision in any other jurisdiction.

(c) Each covenant contained herein shall be construed (absent express provision to the contrary) as being independent of each other covenant contained herein, so that compliance with any one covenant shall not (absent such an express contrary provision) be deemed to excuse compliance with any other covenant. Where any provision herein refers to action to be taken by any person, or which such person is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such person.

(d) This PTO Security Agreement may be executed in any number of counterparts, each of which shall be an original but all of which together shall constitute one instrument. Each counterpart may consist of a number of copies hereof, each signed by less than all, but together signed by all, of the parties hereto.

(e) This PTO Security Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of California excluding choice-of-law principles of the law of such State that would require the application of the laws of a jurisdiction other than such State.

(Signature page follows)

IN WITNESS WHEREOF, the parties hereto have caused this PTO Security Agreement to be executed on and as of the day and year first above written.

XOMA LTD., the Company

By:

Name: Clarence L. Dellio
Title: Senior Vice President and Chief Operating Officer

GENENTECH, INC., the Lender

By:

Name: Louis J. Lavigne, Jr.
Title: Executive Vice President and Chief Financial Officer

EXHIBIT 6

REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT (this "Agreement") is made as of March 31, 2003 by and between XOMA LTD., a Bermuda company having its registered office at Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda (the "Company"), and GENENTECH, INC., a Delaware corporation having its principal executive office at 1 DNA Way, South San Francisco, California 94080-4990 (the "Lender").

RECITALS

A. The Lender and the Company are parties to that certain Amended and Restated Convertible Secured Note Agreement -- Development Loan dated substantially concurrently with this Agreement (the "Note Agreement") relating to the making of certain loans to the Company by the Lender which are convertible into Series B Preference Shares of the Company (the "Series B Preference Shares"), which Series B Preference Shares will, when issued, be convertible by their terms into the Company's Common Shares, par value US$.0005 per share (the "Common Shares").

B. The Lender previously executed with the Company (then a Delaware corporation known as XOMA Corporation) that certain Common Stock and Convertible Note Purchase Agreement, dated as of April 22, 1996, as amended as of April 14, 1999 (the "Purchase Agreement").

C. In order to induce the Lender to enter into the Note Agreement, the Company desires to provide certain registration rights for the Common Shares issuable to the Lender, and to supersede and consolidate in this Agreement the registration rights previously granted to the Lender under the Purchase Agreement.

NOW, THEREFORE, in consideration of the mutual premises and covenants set forth herein, the parties hereto agree as follows:

1. Certain Definitions. As used in this Agreement, the following terms shall have the following respective meanings. Capitalized terms used in this Agreement and not otherwise defined herein shall have the meanings given to them in the Note Agreement.

(a) "Commission" shall mean the United States Securities and Exchange Commission.

(b) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended from time to time, together with the rules and regulations promulgated thereunder.

(c) "Holder" shall mean the Lender, or transferee of the Lender which is a holder of Registrable Securities and which acquired such shares in accordance with Section 6(b) of the Purchase Agreement.

(d) "Newly Registered Shares" shall mean the Common Shares issuable upon conversion of Series B Preference Shares issuable to the Lender upon conversion of all or a portion of the Note Agreement, other than the Previously Registered Shares.

(e) "Original Common Shares" shall mean (i) 50,000 of the 1,500,000 Common Shares issued to the Lender on or about April 22, 1996 pursuant to Section 1 of the Purchase Agreement (after giving effect to the subsequent conversion of the Company's common stock into Common Shares in connection with its reincorporation in Bermuda), and (ii) any equity securities of the Company issued in respect of such Common Shares as a result of any stock split, stock dividend or recapitalization.

(f) "Previously Registered Shares" shall mean (i) the 2,000,000 Common Shares issuable upon conversion of the Series B Preference Shares issuable to the Lender upon conversion of a portion of the Other Loans, which Common Shares were registered with the Commission pursuant to the Registration Statement on Form S-3 filed August 5, 1999 (File No. 333-84585), and (ii) any equity securities of the Company issued in respect of such Common Shares as a result of any stock split, stock dividend or recapitalization.

(g) "Prospectus" shall mean the prospectus included in any Registration Statement (including, without limitation, a prospectus that discloses information previously omitted from a prospectus filed as part of an effective registration statement in reliance upon Rule 430A promulgated pursuant to the Securities Act), as amended or supplemented by any prospectus supplement, with respect to the terms of the offering of any portion of the Registrable Securities covered by such Registration Statement, and all other amendments and supplements to any such prospectus, including post-effective amendments, and all

materials incorporated by reference or deemed to be incorporated by reference, if any, in such prospectus.

(h) "Registrable Securities" shall mean (i) the Original Common Shares, (ii) the Previously Registered Shares, (iii) the Newly Registered Shares, and (iv) any equity securities of the Company issued in respect of any of the foregoing as a result of any stock split, stock dividend or recapitalization.

(i) "Registration Expenses" shall mean all expenses incurred by the Company in complying with Sections 2, 3 or 4 of this Agreement, including, without limitation, all registration, qualification and filing fees, printing expenses, escrow fees, fees and disbursements of counsel for the Company, Blue Sky fees and expenses, and the expense of any special audits incident to or required by any such registration (but excluding the compensation of regular employees of the Company which shall be paid in any event by the Company).

(j) "Registration Statement" shall mean any registration statement of the Company that covers any of the Registrable Securities pursuant to the provisions of this Agreement, including the Prospectus, amendments and supplements to such registration statement or Prospectus, including pre- and post-effective amendments, all exhibits thereto, and all material incorporated by reference or deemed to be incorporated by reference, if any, in such registration statement.

(k) "Securities Act" shall mean the Securities Act of 1933, as amended from time to time, together with the rules and regulations promulgated thereunder.

(l) "Shelf Registration Statement" shall mean a Registration Statement for an offering to be made on a continuous basis pursuant to Rule 415 of the Securities Act.

2. Shelf Registration Statements.

(a) Original Common Shares. The Company agrees to use its commercially reasonable efforts to keep continuously effective under the Securities Act a Shelf Registration Statement registering the Original Common Shares, until termination of such obligation pursuant to Section 6 herein. The obligations of the Company under this paragraph may be satisfied by keeping effective the Shelf Registration Statement under which the Original Common Shares were previously registered (Registration Statement on Form S-3 filed June 28, 1996 (File No. 333-07263)).

(b) Registrable Securities issuable upon prepayment. In the event that the Company intends to make a prepayment of the Note Agreement or any Tranche thereunder by conversion into Series B Preference Shares of the amount to be prepaid and accrued interest thereon, as contemplated in Section 3(d) of the Note Agreement, the Company shall, prior to such prepayment, file with the Commission a Shelf Registration Statement covering all of the Registrable Securities issuable in respect of such Series B Preference Shares. Such Shelf Registration Statement shall be on Form S-3 under the Securities Act or another appropriate form permitting registration of such Registrable Securities for resale by the Holder. The Company shall use commercially reasonable efforts to have such Shelf Registration Statement declared effective on or prior to the time of such prepayment, and such Shelf Registration Statement shall permit resale of the Registrable Securities by the Holder at the time of prepayment. In the case of Previously Registered Shares that are issued upon prepayment of the Note Agreement, the obligations of the Company under this paragraph may be satisfied by keeping effective the Shelf Registration Statement under which such Previously Registered Shares were previously registered (Registration Statement on Form S-3 filed August 5, 1999 (File No. 333-84585)).

(c) Registrable Securities issuable upon receipt of Regulatory Approval. In the event that the Note or any portion thereof is converted into Series B Preference Shares upon maturity by reason of receipt of Regulatory Approval as provided in Section 3(a)(iii) of the Note Agreement, within ninety (90) days after receipt of such Regulatory Approval in the United States the Company shall file, and shall use its commercially reasonable efforts to have declared effective, a Shelf Registration Statement covering the Registrable Securities issuable in respect of such Series B Preference Shares. Such Shelf Registration Statement shall be on Form S-3 under the Securities Act or another appropriate form permitting registration of such Registrable Securities for resale by the Holder. Such Shelf Registration Statement shall permit resale of the Registrable Securities by the Holder upon effectiveness thereof. The obligations of the Company under this paragraph may be satisfied by filing a post-effective amendment to the Shelf Registration Statement under which the Previously Registered Shares were previously registered or may be satisfied in part by including, pursuant to Rule 429 under the Securities Act, any available Previously Registered Shares in the prospectus forming a part of a new Shelf Registration Statement.

3. Certain Notices; Suspension of Sales. The Holder agrees that, upon receipt of any notice from the Company of the happening of any event of the kind described in any of clauses (ii) through (v) of Section 4(c) herein (with, if requested by the Holder, a description in reasonable detail thereof), the Holder will forthwith discontinue disposition of the Registrable Securities covered by such Registration Statement or Prospectus until the Holder's receipt of copies of the supplemented or amended Prospectus contemplated by Section 4(e) herein or until it is advised in writing (the "Advice") by the Company that the use of the applicable Prospectus may be resumed, and, in either case, has received copies of any additional or supplemental filings that are incorporated or deemed to be incorporated by reference in such Prospectus.

4. Registration Procedures. In connection with the Company's registration obligations under Section 2 herein, the Company shall with respect to each Registration Statement:

(a) Prepare and file with the Commission such amendments, including post-effective amendments, to each Registration Statement as may be necessary to keep such Shelf Registration Statement continuously effective for the applicable time period set forth in, and subject to, Section 2; cause the related Prospectus to be supplemented by any required Prospectus supplement, and as so supplemented to be filed pursuant to Rule 424 (or any similar provisions then in force) under the Securities Act and the Exchange Act with respect to the disposition of all securities covered by such Registration Statement during such period in accordance with the intended methods of disposition by the Holder set forth in such Registration Statement as so amended or in such Prospectus as so supplemented, provided such Holder complies with the information requirements of Section 8 herein.

(b) Deliver to the Holder, without charge, as many copies of the Prospectus or Prospectuses (including each form of prospectus) and each amendment or supplement thereto it reasonably requests; and, subject to Section 3 herein, the Company hereby consents to the use of such Prospectus and each amendment or supplement thereto by the Holder in connection with the offering and sale of the Registrable Securities covered by such Prospectus and any amendment or supplement thereto, provided that no Holder shall be entitled to use the Prospectus unless and until such Holder shall have furnished to the Company any required information pursuant to Section 3.

(c) Notify the Holder (i) when a Prospectus or any Prospectus supplement or post-effective amendment is proposed to be filed, and, with respect to a Registration Statement or any post-effective amendment, when the same has become effective, (ii) of any request of the Commission or any other Federal or state governmental authority for amendments or supplements to a Registration Statement or related Prospectus or for additional information related thereto, (iii) of the issuance by the Commission, any state securities commission, any other governmental agency or any court of any stop order, order or injunction suspending or enjoining the use or the effectiveness of a Registration Statement or the initiation of any proceedings for that purpose, (iv) of the receipt by the Company of any notification with respect to the suspension of the qualification or exemption from qualification of any of the Registrable Securities for sale in any jurisdiction, or the initiation or threatening of any proceeding for such purpose, and (v) of the existence of any fact and the happening of any event that makes any statement made in such Registration Statement or related Prospectus or any document incorporated or deemed to be in-

corporated therein by reference untrue in any material respect, or that requires the making of any changes in such Registration Statement, Prospectus or document so that in the case of the Registration Statement, it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading and that, in the case of the Prospectus, such Prospectus will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(d) Use its commercially reasonable efforts (which shall include appropriate responses to any requests of the type described in clause (ii) of Section 4(c) herein) to avoid the issuance of, or, if issued, obtain the withdrawal of any order enjoining or suspending the use or effectiveness of a Registration Statement or the lifting of any suspension of the qualification (or exemption from qualification) of any of the covered Registrable Securities for sale in any jurisdiction, at the earliest practicable moment.

(e) Upon the occurrence of any event contemplated by clause (v) of Section 4(c) herein, as promptly as practicable but in no event later than 60 days thereafter, prepare a supplement or amendment, including, if appropriate, a post-effective amendment, to each Registration Statement or a supplement to the

related Prospectus or any document incorporated or deemed to be incorporated therein by reference, and file any other required document so that, as thereafter delivered, such Prospectus will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. Notwithstanding anything herein to the contrary, nothing herein shall require the Company to prepare and file any such supplement or amendment if the Company shall determine in its reasonable judgment that compliance with the requirements hereof would require the disclosure of non-public material corporate developments, the disclosure of which in the reasonable judgment of the Company would be adverse to the interests of the Company, and the obligations of the Company to prepare and file any such supplements or amendments shall be suspended until such time as such nonpublic developments otherwise become publicly known or announced or would not be required to be so disclosed in connection therewith, provided that if as a consequence of any delay in the filing of any supplement or amendment, the Holder is prevented from effecting sales under the Registration Statement for more than thirty (30) consecutive days, if requested by the Holder, the Company's determination shall have been confirmed by a determination by the Board of Directors of the Company.

(f) Use its commercially reasonable efforts to register or qualify, or cooperate with the Holder in connection with the registration or qualification (or exemption from such registration or qualification), of the Registrable Securities for offer and sale under the securities or Blue Sky laws of such jurisdictions within the United States as the Holder reasonably requests in writing, keep each such registration or qualification (or exemption therefrom) effective during the period such Registration Statement is required to be kept effective and do any and all other acts or things necessary or advisable to enable the disposition in such jurisdictions of the Registrable Securities covered by the applicable Registration Statement; provided, however, that the Company shall not be required to qualify generally to do business in any jurisdiction where it is not then so qualified or take any action that would subject it to general service of process in any

such jurisdiction where it is not then so subject or subject the Company to any tax in any such jurisdiction where it is not then so subject.

(g) Comply with applicable rules and regulations of the Commission and make generally available to its security holders earning statements satisfying the provisions of Section 11(a) of the Securities Act and Rule 158 thereunder (or any similar rule promulgated under the Securities Act), no later than 60 days after the end of any 12-month period (or 90 days after the end of any 12-month period if such period is a fiscal year), commencing on the first day of the first fiscal quarter after the effective date of a Registration Statement, which statement shall cover said period, consistent with the requirements of Rule 158.

(h) List all Registrable Securities covered by such Registration Statement on any securities exchange on which the Common Shares are then listed or authorize for quotation on the National Association of Securities Dealers Automated Quotation System ("Nasdaq") or the Nasdaq National Market all Registrable Securities covered by such Registration Statement if the Common Shares are then so authorized for quotation.

5. Expenses of Registration. All Registration Expenses incurred in connection with any registration, qualification or compliance by the Company pursuant to Sections 2, 3 or 4 herein shall be borne by the Company.

6. Termination of Registration Rights. The registration obligations of the Company pursuant to Sections 2, 3 and 4 herein shall terminate at the time when (i) the Lender has no obligation to make additional loans to the Company under the Note which are convertible into Common Shares (directly or indirectly through conversion into Series B Preference Shares) and (ii) all of the Registrable Securities required to be covered by any Registration Statement called for hereunder can be sold within a given three-month period without compliance with the registration requirements of the Securities Act, pursuant to Rule 144 or other applicable exemption, supported by a written opinion of legal counsel for the Company which shall be reasonably satisfactory in form and substance to legal counsel for Holder, provided, however, that such registration obligations shall not terminate with respect to any Registrable Securities for which it is reasonably likely (as supported by an opinion of counsel to the Company or counsel to the Lender reasonably acceptable to the Company) that a limitation on dispositions within a three-month period without compliance with the registration requirements of the Securities Act will again be applicable to such Registrable Securities in the foreseeable future (for example, if the Holder, though temporarily not an "affiliate" for purposes of Rule 144, may become an "affiliate" in the future due to conversion of convertible instruments).

7. Indemnification.

(a) The Company agrees to indemnify and hold harmless (A) the Holder, (B) each person, if any, who controls (within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act) the Holder (any of the persons referred to in this clause (B) being hereinafter referred to as a "controlling person"), and (C) the respective officers, directors, partners, employees, representatives and agents of the Holder, or any controlling person (any person referred to in clause (A), (B) or (C) may hereinafter be referred to as an "Indemnified Person"), from and against any and all losses, claims, damages, liabilities, expenses and judgments caused

by any untrue statement or alleged untrue statement of a material fact contained in any Registration Statement, Prospectus or form of Prospectus or in any amendment or supplement thereto or in any preliminary Prospectus, or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein (in the case of any Prospectus or form of Prospectus or supplement thereto, in light of the circumstances under which they were made) not misleading, except insofar as such losses, claims, damages, liabilities, expenses or judgments are caused by any such untrue statement or omission or alleged untrue statement or omission based upon information relating to any Indemnified Person furnished in writing to the Company by or on behalf of such Indemnified Person expressly for use therein; provided that the foregoing indemnity with respect to any Prospectus shall not inure to the benefit of any Indemnified Person from whom the person asserting such losses, claims, damages, liabilities, expenses and judgments purchased securities if such untrue statement or omission or alleged untrue statement or omission made in such Prospectus is eliminated or remedied by an amendment or supplement thereto and a copy of such amended or supplemented Prospectus shall not have been furnished to such person in a timely manner due to the wrongful action or wrongful inaction of such Indemnified Person, whether as a result of negligence or otherwise.

(b) In case any action shall be brought against any Indemnified Person, based upon any Registration Statement or any such Prospectus or any amendment or supplement thereto and with respect to which indemnity may be sought against the Company, such Indemnified Person shall promptly notify the Company in writing and the Company shall assume the defense thereof, including the employment of counsel reasonably satisfactory to such Indemnified Person and payment of all reasonable fees and expenses. Any Indemnified Person shall have the right to employ separate counsel in any such action, but the fees and expenses of such counsel shall be at the expense of such Indemnified Person, unless (A) the employment of such counsel shall have been specifically authorized in writing by the Company, (B) the Company shall have failed to assume the defense and employ counsel or (C) such Indemnified Person or Persons shall have been advised by counsel that there may be a conflict between the positions of the indemnifying party or parties and of the indemnified party or parties in conducting the defense of such action or proceeding or that there may be legal defenses available to such Indemnified Person or Persons different from or in addition to those available to the indemnifying party or parties (in which case the Company shall not have the right to assume the defense of such action on behalf of such Indemnified Person), it being understood, however, that the Company shall not, in connection with any one such action or separate but substantially similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances, be liable for the reasonable fees and expenses of more than one separate firm of attorneys (in addition to any local counsel) for all such Indemnified Persons, which firm shall be designated in writing by such Indemnified Persons. The Company shall not be liable for any settlement of any such action effected without its written consent, but if settled with the written consent of the Company, the Company agrees to indemnify and hold harmless any Indemnified Person from and against any loss or liability by reason of such settlement. No indemnifying party shall, without the prior written consent of the Indemnified Person, effect any settlement of any pending or threatened proceeding in respect of which any indemnified Person is or could have been a party and indemnity could have been sought hereunder by such Indemnified Person, unless such settlement includes an unconditional release of such Indemnified Person from all liability on claims that are the subject matter of such proceeding.

(c) In connection with any Registration Statement in which the Holder is participating, the Holder agrees, severally and not jointly, to indemnify and hold harmless the Company, its directors, its officers and any person controlling the Company within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, to the same extent as the foregoing indemnity from the Company to each Indemnified Person but only with reference to information relating to such Indemnified Person furnished in writing by or on behalf of such Indemnified Person expressly for use in such Registration Statement. In case any action shall be brought against the Company, any of its directors, any such officer or any person controlling the Company based on such

Registration Statement and in respect of which indemnity may be sought against any Indemnified Person, the Indemnified Person shall have the rights and duties given to the Company (except that if the Company shall have assumed the defense thereof, such Indemnified Person shall not be required to do so, but may employ separate counsel therein but the fees and expenses of such counsel shall be at the expense of such Indemnified Person), and the Company, its directors, any such officers and any person controlling the Company shall have the rights and duties given to the Indemnified Person by Section 7(b) herein.

(d) If the indemnification provided for in this Section 7 is unavailable to an indemnified party in respect of any losses, claims, damages, liabilities, expenses or judgments referred to therein, then each indemnifying party, in lieu of indemnifying such Indemnified Person, shall contribute to the amount paid or payable by such Indemnified Person as a result of such losses, claims, damages, liabilities, expenses and judgments in such proportion as is appropriate to reflect the relative fault of the Company and each such Indemnified Person in connection with the statements or omissions which resulted in such losses, claims, damages, liabilities, expenses or judgments, as well as any other relevant equitable considerations. The relative fault of the Company and each such Indemnified Person shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the Company or such Indemnified Person and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the Holder agree that it would not be just and equitable if contribution pursuant to this Section 7(d) were determined by pro rata allocation (even if the Indemnified Person were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to in the immediately preceding paragraph. The amount paid or payable by an Indemnified Person as a result of the losses, claims, damages, liabilities, expenses or judgments referred to in the immediately preceding paragraph shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

8. Information by and Assistance of Holder. The Holder shall furnish to the Company such information regarding such Holder and any distribution proposed by the Holder as the Company may reasonably request in writing or as shall be required in connection with any registration, qualification or compliance referred to in this Agreement and shall provide such other assistance as may be reasonably requested by the Company in connection with the Company's obligations hereunder.

9. Rule 144 Reporting. With a view to making available to the Holder the benefits of certain rules and regulations of the Commission which may permit the sale of the Registrable Securities to the public without registration, the Company agrees to use commercially reasonable efforts to (a) make and keep public information available, as those terms are understood and defined in the Commission's Rule 144, at all times, (b) file with the Commission in a timely manner all reports and other documents required of the Company under the Exchange Act, and (c) furnish to the Holder, so long as the Holder owns any Registrable Securities, forthwith upon reasonable request a written statement by the Company that it has complied with the reporting requirements of Rule 144 and the Exchange Act.

10. Obligations under Purchase Agreement Superseded. This Agreement shall supersede in the entirety the Company's obligations under Section 10 of the Purchase Agreement, other than Section 10(g), which shall remain in full force and effect notwithstanding this Agreement.

11. Notices. All notices and other communications required or appropriate to be given hereunder shall be in writing and shall be delivered by hand or mailed by certified mail, return receipt requested, or sent by facsimile (in which case a confirming copy shall also be sent by certified mail or courier), to the following respective addresses or to such other addresses as may be specified in any notice delivered or mailed as above provided:

(a) If to the Lender or Holder, to:

Genentech, Inc.
1 DNA Way
South San Francisco, CA 94080-4990
Telephone: (650) 225-1000
Facsimile: (650) 952-9881
Attention: Corporate Secretary

(b) If to the Company, to:

XOMA Ltd.
2910 7th Street
Berkeley, CA 94710
Telephone: (510) 204-7200
Facsimile: (510) 649-7571
Attention: Company Secretary

Any notice of other communication delivered by hand or mail shall be deemed to have been delivered on the date on which such notice or communication is delivered by hand, or in the case of certified mail deposited with the appropriate postal authorities on the date when such notice of communication is actually received, and in any other case shall be deemed to have been delivered on the date on which such notice or communication is actually received.

12. Amendments. No provision of this Agreement may be waived, changed or modified, or the discharge thereof acknowledged orally, but only by an agreement in writing signed by the party against which the enforcement of any waiver, change, modification or discharge is sought.

13. Assignment.

(a) Except as set forth in this Section 13, none of the rights or obligations of either party hereto may be assigned or transferred without the prior written consent of the other party hereto, provided that the rights of the Holder and the obligations of the Company hereunder may be transferred to an Affiliate, to Roche or to any bona fide purchaser for value of at least 500,000 shares of Registrable Securities, which transfer shall otherwise be in compliance with this Agreement, without the prior written consent of the Company.

(b) Neither party may assign any of its rights and obligations under this Agreement in connection with a merger or similar reorganization or the sale of all or substantially all of its assets; provided, however, that the Holder may assign such rights and obligations under this Agreement Note to Roche (so long as Roche continues to own at least a majority of the outstanding voting capital stock entitled to participate generally in the election of directors of the Holder).

14. Governing Law. The parties have agreed that this Agreement will be governed by and construed in accordance with the laws of the State of Delaware.

15. Counterparts. This Agreement may be executed in two or more counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

16. Titles. The titles of the Sections of this Agreement are inserted for reference only, and are not to be considered as part of this Agreement in construing this Agreement.

17. Disputes. Any disputes under this Agreement will be governed by the provisions of Article 18 of the Collaboration Agreement.

(Signature page follows)

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed as of the date first written above.

XOMA LTD.

By: _____
Name: Clarence L. Dellio
Title: Senior Vice President and Chief Operating Officer

GENENTECH, INC.

By: _____
Name: Louis J. Lavigne, Jr.

Title: Executive Vice President and
Chief Financial Officer