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

FORM 10-Q

[X] Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the Quarterly Period Ended June 30, 2003

Commission File No. 0-14710

XOMA Ltd.

(Exact Name of Registrant as specified in its charter)

Bermuda	52-2154066
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2910 Seventh Street, Berkeley, CA 94710
(Address of principal executive offices) (Zip Code)

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

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes /X/ No / /

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).

Yes /X/ No / /

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at August 11, 2003
Common shares US$.0005 par value	72,629,047

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PART II OTHER INFORMATION

PART I - FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

XOMA Ltd.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	June 30, 2003	December 31, 2002
ASSETS	(Unaudited)	(Note 1)
Current assets:		
Cash and cash equivalents	$ 26,946	$ 36,262
Short-term investments	2,592	391
Restricted cash	-	1,500
Receivables	484	8,656
Related party receivables - current	100	206
Inventory	1,306	1,306
Prepaid expenses and other	1,044	449
Total current assets	32,472	48,770
Property and equipment, net	22,699	22,650
Related party receivables - long-term	108	190
Deposits and other	159	172
Total assets	$ 55,438	$ 71,782

LIABILITIES AND SHAREHOLDERS' EQUITY (Net Capital Deficiency)		
Current liabilities:		
Accounts payable	$ 2,961	$ 3,201
Accrued liabilities	5,379	7,096
Short-term loan	-	763
Capital lease obligations - current	542	667
Deferred revenue - current	1,650	1,729
Convertible subordinated note - current	5,214	5,146
Total current liabilities	15,746	18,602
Capital lease obligations - long-term	497	729
Deferred revenue - long-term	30	800
Note payable long-term	5,260	-
Convertible subordinated note - long-term	69,617	63,016

Total liabilities	91,150	83,147
Shareholders' equity (Net capital deficiency):		
Common shares	36	36
Additional paid-in capital	534,054	529,354
Accumulated comprehensive income	228	121
Accumulated deficit	(570,030)	(540,876)
Total shareholders' equity (Net capital deficiency)	(35,712)	(11,365)
Total liabilities and shareholders' equity	$55,438	$ 71,782

</TABLE>

Note 1 - Amounts derived from the Company's audited financial statements appearing in the Annual Report on Form 10-K for the year ended December 31, 2002 as filed with the Securities and Exchange Commission.

See accompanying notes to condensed consolidated financial statements.

XOMA Ltd.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, in thousands except per share amounts)

<TABLE>
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	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
Revenues:				
<S>	<C>	<C>	<C>	<C>
License and collaborative fees	$ 920	$ 1,340	$ 2,075	$ 7,653
Contract and other revenue	1,441	3,384	3,450	6,293
Total revenues	2,361	4,724	5,525	13,946
Operating costs and expenses:				
Research and development	13,502	10,759	25,484	20,694
Marketing, general and administrative	4,698	3,849	8,603	8,698
Total operating costs and expenses	18,200	14,608	34,087	29,392
Loss from operations	(15,839)	(9,884)	(28,562)	(15,446)
Other income (expense):				
Investment and other income	268	232	383	504
Interest expense	(489)	(493)	(975)	(1,142)
Net loss	$ (16,060)	$ (10,145)	$ (29,154)	$ (16,084)
Basic and diluted net loss per common share	$ (0.22)	$ (0.14)	$ (0.41)	$ (0.23)
Shares used in computing basic and diluted net loss per common share	72,023	70,309	71,937	70,269

</TABLE>

See accompanying notes to condensed consolidated financial statement.

XOMA Ltd.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

<TABLE>
<CAPTION>

	Six months ended June 30,	
	2003	2002
Cash flows from operating activities:		
<S>	<C>	<C>
Net loss	$ (29,154)	$ (16,084)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,878	823
Common shares contribution to 401(k) and management incentive plans	685	541
Increase (decrease) in notes to (from) a collaborative partner for cost allocations	270	1,250
Accrued interest on convertible notes	872	834
(Gain) loss on disposal/retirement of property and equipment and investments	(193)	1
Changes in assets and liabilities:		
Receivables and related party and other receivables	8,360	(5,169)
Inventory	-	(7)
Prepaid expenses and other	(595)	(460)
Deposits and other	13	(12)
Accounts payable	(240)	2,346
Accrued liabilities	(1,717)	1,164
Deferred revenue	(849)	(2,593)
Net cash used in operating activities	(20,670)	(17,366)
Cash flows from investing activities:		
Issuance of short-term investments	(4,000)	-
Transfer from restricted cash	1,500	-
Purchase of property and equipment, net of sale proceeds	(1,927)	(5,851)
Proceeds from sale of short-term investments	2,099	-
Net cash used in investing activities	(2,328)	(5,851)
Cash flows from financing activities:		
Proceeds from short-term loan	-	1,000
Principal payments - short-term loan	(763)	-
Principal payments under capital lease obligations	(357)	(374)
Proceeds from issuance of convertible notes	10,787	4,020
Proceeds from issuance of common shares, net of closing costs	4,015	399
Net cash provided by financing activities	13,682	5,045
Net increase (decrease) in cash and cash equivalents	(9,316)	(18,172)
Cash and cash equivalents at the beginning of the period	36,262	

67,320

Cash and cash equivalents at the end of the period $26,946 $ 49,148

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</TABLE>

See accompanying notes to condensed consolidated financial statements.

XOMA Ltd.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

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

Basis of Presentation

The interim information contained in this report is unaudited but, in management's opinion, includes all normal recurring adjustments necessary for a fair presentation of results for the periods presented. Interim results may not be indicative of results to be expected for the full year or future periods. The condensed consolidated balance sheet as of December 31, 2002 has been derived from the audited consolidated financial statements included in the Company's 2002 Annual Report on Form 10-K. The unaudited consolidated condensed financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2002 included in its Annual Report on Form 10-K.

Critical Accounting Policies

We believe there have been no significant changes in our critical accounting policies during the six months ended June 30, 2003 as compared to those previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2002 filed with the SEC on March 28, 2003.

Consolidation

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

Estimates

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

Concentration of Risk

Cash, cash equivalents, short-term investments and accounts receivable are financial instruments, which potentially subject the Company to concentrations of credit risk. The Company maintains and invests excess cash in money market funds and short-term investments, which bear minimal risk. The Company has not experienced any significant credit losses and does not generally require collateral on receivables. For the six months ended June 30, 2003, four customers represented 43%, 28%, 18% and 10% of total revenues and as of June 30, 2003 there were no billed or unbilled receivables outstanding from these customers. For the six months ended June 30, 2002, three customers represented 40%, 36% and 22% of total revenues.

Share-Based Compensation

In accordance with the provisions of the Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), the Company has elected to continue to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related interpretations, and to adopt the "disclosure only" alternative described in SFAS 123. Under APB 25, if the exercise price of the Company's employee share options equals or exceeds the fair market value on the date of the grant or the fair value of the underlying shares on the date of the grant as determined by the Company's Board of Directors, no compensation expense is recognized. Accordingly, the financial statements reflect amortization of compensation resulting from options granted at exercise prices which were below market price at the grant date. Had compensation cost for the Company's shares-based compensation plans been based on the fair value method at the grant dates for awards under these plans consistent with the provisions of SFAS 123, the Company's net loss and net loss per share would have been increased to the pro forma amounts indicated below for the three and six months ended June 30, 2003 and 2002 (in thousands, except per share amounts):

<TABLE>
<CAPTION>

	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
<S>	<C>	<C>	<C>	<C>
Net loss - as reported	$ (16,060)	$ (10,145)	$ (29,154)	$ (16,084)
Deduct:				
Total share-based employee compensation expense determined under fair value method	(948)	(1,053)	(1,602)	(1,846)
Pro forma net loss	$ (17,008)	$ (11,198)	$ (30,756)	$ (17,930)
Loss per share:				
Basic and diluted - as reported	$ (0.22)	$ (0.14)	$ (0.41)	$ (0.23)
Basic and diluted - pro forma	$ (0.24)	$ (0.16)	$ (0.43)	$ (0.26)

</TABLE>

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

	Three and six months ended June 30,	
	2003	2002
Dividend yield	0%	0%
Expected volatility	96%	99%
Risk-free interest rate	1.17%	1.50%
Expected life	4.9 years	6.2 years

Revenue Recognition

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

License and Collaborative Fees

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

Milestone payments under collaborative arrangements are recognized as revenue upon achievement of the milestone events, which represent the culmination of the earnings process because the Company has no future performance obligations related to the payment. Milestone payments that require a continuing performance obligation on the part of the Company are recognized over the period of the continuing performance obligation. Amounts received in advance are recorded as deferred revenue until the related milestone is completed.

Contract Revenue

Contract revenue for research and development involves the Company providing research, development, or manufacturing services to collaborative partners. The Company recognizes revenue under these arrangements as the related research and development costs are incurred and collectibility is reasonably assured.

Product Sales

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

Research and Development Expenses

Research and development expenses consist of direct and research-related allocated overhead costs such as facilities costs, salaries and related personnel costs, and material and supply costs. In addition, research and development expenses include costs related to clinical trials to validate the Company's testing processes and procedures and related overhead expenses. From time to time, research and development expenses may include upfront fees and milestones paid to collaborative partners for the purchase of rights to in-process research and development. Such amounts are expensed as incurred. The timing of upfront fees and milestone payments in the future may cause variability in the Company's future research and development expenses.

Comprehensive Income (Loss)

Unrealized gains or losses on the Company's available-for-sale securities are included in other comprehensive income (loss). Comprehensive income (loss) and its components for the three and six months ended June 30, 2003 and 2002 are as follows (in thousands):

<TABLE>
<CAPTION>

	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
<S>	<C>	<C>	<C>	<C>
Net loss	$ (16,060)	$ (10,145)	$ (29,154)	$ (16,084)
Unrealized gain (loss) on securities available-for-sale	141	--	228	--
Comprehensive loss	$ (15,919)	$ (10,145)	$ (28,926)	$ (16,084)

</TABLE>

Net Loss Per Share

Basic and diluted net loss per share is based on the weighted average number of shares outstanding during the period in accordance with Financial Accounting Standard No. 128. The following potentially dilutive outstanding securities were not considered in the computation of diluted net loss per share because they would be antidilutive for the six months ended June 30, 2003 and 2002 (in thousands):

<TABLE>

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	Six months ended June 30,	
	2003	2002
<S>	<C>	<C>
Options for shares	5,719	4,655
Warrants for shares	700	700
Convertible notes, debentures and related interest, as if converted*	13,021	16,834

</TABLE>

* The number of shares, as if converted represents a conversion price equal to the prevailing market prices of $5.32 and $3.99 at the close of business on June 30, 2003 and June 28, 2002, respectively.

Recent Accounting Pronouncements

In November of 2002, the Financial Accounting Standards Board (or FASB) issued Interpretation No. 45 (or FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 elaborates on the existing disclosure requirements for most guarantees, including residual value guarantees issued in conjunction with operating lease agreements. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value of the obligation it assumes under that guarantee and must disclose that information in its interim and annual financial statements. The initial recognition and measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002. The Company's adoption of the recognition requirements in January of 2003 of FIN 45 did not have a material impact on the Company's results of operations and financial position.

In November of 2002, the Financial Accounting Standards Board issued Emerging Issues Task Force (referred to as EITF) Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables." EITF Issue No. 00-21 addresses certain aspects of the accounting by a company for arrangements under which it will perform multiple revenue-generating activities. EITF Issue No. 00-21 addresses when and how an arrangement involving multiple deliverables should be divided into separate units of accounting. EITF Issue No. 00-21 provides guidance with respect to the effect of certain customer rights due to company nonperformance on the recognition of revenue allocated to delivered units of accounting. EITF Issue No. 00-21 also addresses the impact on the measurement and/or allocation of arrangement consideration of customer cancellation provisions and consideration that varies as a result of future actions of the customer or the company. Finally, EITF Issue No. 00-21 provides guidance with respect to the recognition of the cost of certain deliverables that are excluded from the revenue accounting for an arrangement. The provisions of EITF Issue No. 00-21 will apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The Company's adoption of the recognition requirements in June of 2003 of EITF Issue No. 00-21 did not have a material impact on its consolidated financial position or results of operations.

In December of 2002, the FASB issued Statement No. 148 (or FAS 148), "Accounting for Stock-Based Compensation - Transition and Disclosure." FAS 148 amends SFAS 123 "Accounting for Stock-Based Compensation" to provide alternative methods of transition for a voluntary change to the fair based method of accounting for stock-based employee compensation. In addition, FAS 148 amends the disclosure requirements of SFAS 123 to require more prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The additional disclosure requirements of FAS 148 are effective for fiscal years ending after December 15, 2002. The Company elected to continue to follow the intrinsic value method of accounting as prescribed by Accounting Principles Board

Opinion No. 25 (or APB 25), "Accounting for Stock Issued to Employees," to account for employee stock options. See above in the "Significant Accounting Policies" note for the disclosure required by FAS 148.

In January of 2003, the FASB issued Interpretation No. 46 (or FIN 46), "Consolidation of Variable Interest Entities." FIN 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. A variable interest entity is a corporation, partnership, trust, or any other

legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. A variable interest entity often holds financial assets, including loans or receivables, real estate or other property. A variable interest entity may be essentially passive or it may engage in research and development or other activities on behalf of another company. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply to all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The Company's adoption of the disclosure requirements in January of 2003 did not have an impact on the Company's financial position and results of operations. The adoption of the recognition requirements of FIN 46 in July of 2003 is not expected to have a material impact on the Company's financial position or result of operations.

In May 2003, the FASB issued Statements of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" (FAS 150). FAS 150 establishes standards for the classification and measurement of financial instruments with characteristics of both liabilities and equity. FAS 150 will become effective for financial instruments entered into or modified after May 31, 2003. The adoption of FAS 150 did not have a material effect on the Company's financial position or results of operations.

2. BALANCE SHEET COMPONENTS

Inventories

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

	June 30, 2003	December 31, 2002
Raw materials	$ 202	$ 202
Finished goods	1,104	1,104
Total	$ 1,306	$ 1,306

Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	June 30, 2003	December 31, 2002
Accrued payroll expenses	$ 3,054	$ 3,198
Accrued clinical trial expenses	356	559
Accrued legal and other professional fees	1,100	2,425
Other	869	914
Total	$ 5,379	$ 7,096

3. LICENSE AGREEMENTS AND RELATED CONTINGENCIES

In February of 2002, XOMA and MorphoSys AG announced cross-licensing agreements for antibody-related technologies. The term of the XOMA license to MorphoSys commenced in February of 2002 and remains in effect until the expiration of the last patent within the XOMA patent rights provided under the terms of the agreement. Because there are no continuing performance obligations on the part of the Company under the MorphoSys agreement, the license fee provided for in that agreement was recognized as revenue in the first quarter of 2002. Under the terms of the agreement, the $5.0 million license fee was to be paid in two installments. The first $1.0 million installment was due and paid in

the first quarter of 2002, and the second portion in the amount of $4.0 million was due in the fourth quarter of 2002. The second installment could be paid in either cash or with MorphoSys shares valued at the time of MorphoSys' election to pay the second installment in shares.

During the fourth quarter of 2002, we were notified by MorphoSys of its intention to exercise its option to pay the second installment totaling $4.0 million owed to XOMA under the license agreement with 363,466 of its ordinary shares, which number of shares was determined with reference to the market price of MorphoSys shares at the time of such notice (October 23, 2002). XOMA applied for, and on January 31, 2003 was granted, an exemption from German withholding tax on the full license fee from MorphoSys. The administrative process in Germany for the issuance of the shares was delayed pending resolution of the withholding tax matter. Upon receipt of the tax exemption, MorphoSys re-initiated the process, and on May 6, 2003, the shares were issued to XOMA. The balance of these shares, totaling $2.1 million, are held as available-for-sale and are classified as short-term investments in the financial statements. During the second quarter of 2003, 171,581 shares were sold for net proceeds of $2.1 million and the gain on the sale of investment of $0.2 million was recognized as investment and other income.

In June of 2003, Onyx Pharmaceuticals, Inc. announced that it was discontinuing its therapeutic virus program to focus its resources on its BAY 43-9006 anticancer compound. Onyx subsequently notified XOMA on June 23, 2003 of its intention to terminate the Company's related process development and manufacturing agreement effective 120 days from the date of notification. Under the terms of the agreement, Onyx is obligated to pay $0.5 million as a facility fee plus $1.0 million as a termination fee by the end of the 120-day notification period. In accordance with our revenue recognition policy, these amounts will be recognized in future periods as the Company's service commitments are completed. Additionally, the Company plans to accelerate the amortization of $1.0 million remaining in deferred revenue over the 120-day notification period.

4. GENENTECH AGREEMENT MODIFICATION

In the first quarter of 2003, the Company's financing arrangement with Genentech, Inc. related to development and commercialization of RaptivaTM was modified to provide the following terms:

The credit limit under the convertible subordinated debt agreement to finance XOMA's share of development costs was increased to $80.0 million. The convertible subordinated note is due upon the earlier of (a) April of 2005, except for advances made after April 2003 in which case payment will be due on the second anniversary date(s) of such advances or (b) within 90 days after first product approval (which could be before the end of 2003). At XOMA's election, the convertible subordinated note may be repaid in cash or with shares with the conversion price to be calculated at the time of payment based on the fair market value at the time of election. If repayment is triggered by product approval, XOMA may elect to defer payment of up to $40.0 million as an offset against the Company's proceeds from its 25% share of U.S. operating profits on the product. At June 30, 2003, the outstanding balance under this note totaled $69.6 million.

A new $15.0 million debt facility was established to finance XOMA's share of U.S. commercialization costs. The note payable is due upon the earlier of (a) April of 2005, except for advances made after April 2003 in which case payment will be due on the second anniversary date(s) of such advances or (b) within 90 days after first product approval by the FDA (which could be before the end of 2003). The commercial note payable must be repaid in cash. At June 30, 2003 the outstanding balance under this note totaled $5.3 million.

XOMA granted Genentech a security interest in the Company's profit share on RaptivaTM as collateral against any unpaid past due amounts of the loans.

5. MILLENNIUM INVESTMENT AGREEMENT MODIFICATION

In the second quarter of 2003, the Company announced the amendment of certain terms of the investment agreement with Millennium Pharmaceuticals, Inc. The key elements of the revised investment agreement include an extension of the maturity date of the $5.0 million outstanding convertible debt from May of 2003 to February of 2004 and a re-scheduling of the Company's decision points regarding whether to sell the remaining common shares from three option dates through May of 2004 to six option dates through February of 2005. In June of 2003, the Company exercised an option to sell 608,766 shares to Millennium for gross proceeds of $4.0 million or $6.57 per share, leaving a balance of $33.5 million available under this arrangement, excluding the convertible debt.

6. SUBSEQUENT EVENTS

On July 3, 2003, the Company and Baxter Healthcare Corporation terminated the license and supply agreements for the NEUPREX(R) product. Baxter has agreed to make a one-time termination payment of $10.0 million to the Company no later than January of 2004. Until such payment is made, Baxter is committed to reimburse the Company for a portion of certain development expenses which may be incurred. The Company expects to recognize the $10.0 million termination payment as revenue in the third quarter of 2003 and to establish an inventory reserve of $1.3 million for NEUPREX(R) products that were included in inventory as of June 30, 2003.

In July of 2003, a complaint was filed in the General Court of Justice, Superior Court Division, Orange County, North Carolina, in a lawsuit captioned Hamlet v. Genentech, Inc., et al., No. 03 CVS 1161, and was subsequently amended, by a participant in one of the Phase III clinical trials of Raptiva(TM). The complaint asserts claims for alleged negligence, breach of fiduciary duty, fraud, misrepresentation and medical negligence against the plaintiff's treating physician, the physician's medical practice, Genentech, XOMA, the institutional review board responsible for the trial and the contract research organization retained to conduct the trial. The complaint seeks unspecified compensatory damages alleged to be in excess of $10,000.00. As set forth in the complaint, the plaintiff was initially in the placebo group of this trial; he did not receive Raptiva(TM) during this time, and his claims are based on his failure to receive his indicated treatment, not his receipt of Raptiva(TM). Although this case is at an early stage, XOMA believes the claims against it to be without merit and intends to vigorously defend against them.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

Revenues for the three months ended June 30, 2003 were $2.4 million compared with $4.7 million for the three months ended June 30, 2002, a 49% decrease. This decrease was primarily due to lower recognition of deferred revenue from license fees and milestone payments related to the NEUPREX(R) license agreement with Baxter Healthcare Corporation ("Baxter") as a result of achieving full amortization in the first quarter of 2003 and the fourth quarter of 2002, respectively, and to lower development service revenues from Onyx Pharmaceuticals, Inc. ("Onyx"). Revenues for the six months ended June 30, 2003 were $5.5 million compared with $13.9 million for the same period of 2002. This decrease was primarily due to lower license fees due from the amortization of deferred revenue mentioned earlier, to lower development service revenues from Onyx, and to a non-recurring $5.0 million license fee from MorphoSys AG recognized in the first quarter of 2002. License fee revenue is expected to be higher in the second half of 2003 including the $11.0 million termination fees associated with Baxter and Onyx. Contract revenue is expected to be lower in the second half of 2003 due to reduced development services for Baxter and Onyx.

Research and development expenses for the three and six months ended June 30, 2003 were $13.5 million and $25.5 million, respectively, compared with $10.8 million and $20.7 million, respectively, for the same periods of 2002, or increases of 25% and 23%, respectively. These increases reflected increased development costs associated with RaptivaTM, MLN2201 (formerly known as MLN01), CAB-2, and the Company's XMP.629 compound being developed for acne. These increases were partially offset by decreased spending on Onyx-015, NEUPREX(R), and ING-1. In July 2003, the Company's licensing arrangement with Baxter for NEUPREX(R) was terminated, and future development plans are under review. In the third quarter, the Company expects to establish an inventory reserve of $1.3 million for NEUPREX(R) products.

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

	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
Earlier stage programs	$ 9,492	$ 6,252	$ 16,691	$ 10,916
Later stage programs	4,010	4,507	8,793	9,778
Total	$ 13,502	$ 10,759	$ 25,484	$ 20,694

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

	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
Internal projects	$ 5,077	$ 4,653	$ 9,499	$ 9,613
Collaborative arrangements	8,425	6,106	15,985	11,081
Total	$ 13,502	$ 10,759	$ 25,484	$ 20,694

For the three and six months ended June 30, 2003, one project accounted for approximately 20% of our total research and development costs. No other single project was greater than 20% of our total research and development costs during the three and six months ended June 30, 2003 and 2002.

Marketing, general and administrative expenses for the three months ended June 30, 2003 increased to $4.7 million, or 24%, from $3.8 million for the three months ended June 30, 2002. The most significant component of this increase was pre-launch activities for RaptivaTM offset by lower legal expenses. Marketing, general and administrative expenses for the six months ended June 30, 2003 were $8.6 million compared with $ 8.7 million for the same period of 2002. The net decrease of $0.1 million represents primarily an increase in pre-launch activities for RaptivaTM and business development expenses, which were offset by lower legal expenses. Pre-launch marketing expenses for RaptivaTM are expected to continue at similar or higher levels until the product launch date.

Investment income for the three months ended June 30, 2003 increased to $0.3 million, or 50%, compared to $0.2 million for the three months ended June 30, 2002 primarily due to gains recognized on the sale of MorphoSys AG shares issued to XOMA on May 6, 2003. The gains were partially offset by lower interest income due to lower interest rates and lower average cash balances. Investment income for the six months ended June 30, 2003 decreased to $0.4 million, or 20%, compared to $0.5 million for the same period of 2002. This decrease reflected lower interest rates on lower average cash balance. Interest expense for the three and six months ended June 30, 2003 were to $0.5 million and $1.0 million, respectively, compared to $0.5 million and $1.1 million, respectively, for the three and six months ended June 30, 2002. This reflected lower interest rates on a higher average outstanding balance of the convertible notes due to Genentech, Inc. ("Genentech") and Millennium Pharmaceuticals, Inc. ("Millennium"). Interest expense for the remainder of 2003 is expected to increase due to anticipated higher development and commercial loan balances due to Genentech.

Liquidity and Capital Resources

Cash, cash equivalents, short-term investments and restricted cash decreased during the six months ended June 30, 2003 by $8.7 million to $29.5 million at June 30, 2003, compared with $38.2 million at December 31, 2002. The Company's cash, cash equivalents and short-term investments are expected to decrease through 2003, except to the extent that the Company may utilize debt funding by Genentech for XOMA's share of RaptivaTM development and marketing costs, obtain additional funding under the terms of our investment agreement with Millennium, or secure additional sources of funding.

Net cash used in operating activities was $20.7 million for the six months ended June 30, 2003, compared with $17.4 million for the six months ended June 30, 2002. The increase in the first half of 2003 when compared with the first half of 2002 primarily reflected a higher net loss and reductions in accrued expenses related primarily to legal expenses, partially offset by reductions in accounts receivable in the first half of 2003 compared to increases in the first half of 2002.

Net cash used in investing activities was $2.3 million for the six months ended June 30, 2003, compared to cash used in investing activities of $5.9 million for the six months ended June 30, 2002. The decrease in the first half of 2003 when compared to the first half of 2002 was primarily due to the release of $1.5 million of restricted cash, which was securing a short-term loan that was paid off during the first quarter of 2003, to proceeds received on the sale of MorphoSys shares in the second quarter of 2003, and to reduced purchases of property and equipment in 2003. Capital programs in 2002 included renovating and expanding our manufacturing and warehouse facilities and other infrastructure investments. Capital spending is expected to continue at this lower level for the remainder of 2003.

Net cash provided by financing activities was $13.7 million for the six

months ended June 30, 2003, compared with $5.0 million for the six months ended June 30, 2002. Financing activities in the first half of 2003 included $10.8 million net funding from Genentech under our development and commercial loan agreements and $4.0 million proceeds from common share sold under our investment agreement with Millennium. This was partially offset by principal payments of $1.1 million to retire a short-term loan obligation and for principal payments on capital lease obligations.

In the first quarter of 2003, the Company's financing arrangement with Genentech related to development and commercialization of RaptivaTM was modified to provide the following terms:

The credit limit under the convertible subordinated debt agreement to finance XOMA's share of development costs was increased to $80.0 million. The convertible subordinated debt is due upon the earlier of (a) April of 2005, except for advances made after April 2003 in which case payment will be due on the second anniversary date(s) of such advances or (b) within 90 days after first product approval (which could be before the end of 2003). At XOMA's election, the convertible subordinated debt may be repaid in cash or with shares with the conversion price to be calculated at the time of payment based on the fair market value at the time of election. If repayment is triggered by product approval, XOMA may elect to defer payment of up to $40.0 million as an offset against the Company's proceeds from its 25% share of U.S. operating profits on the product. At June 30, 2003, the outstanding balance under this note totaled $69.6 million.

A new $15.0 million debt facility was established to finance XOMA's share of U.S. commercialization costs. The note payable is due upon the earlier of (a) April of 2005, except for advances made after April 2003 in which case payment will be due on the second anniversary date(s) of such advances or (b) within 90 days after first product approval by the FDA (which could be before the end of 2003). The commercial note must be repaid in cash. At June 30, 2003 the outstanding balance under this note totaled $5.3 million.

XOMA granted Genentech a security interest in the Company's profit share on RaptivaTM as collateral against any unpaid past due amounts of the loans.

In the second quarter of 2003, the Company announced the amendment of certain terms of the investment agreement with Millennium. The key elements of the revised investment agreement include an extension of the maturity date of the $5.0 million outstanding convertible debt from May of 2003 to February of 2004 and a re-scheduling of the Company's decision points regarding whether to sell the remaining common shares from three option dates through May of 2004 to six option dates through February of 2005. In June of 2003, the Company exercised an option to sell 608,766 shares to Millennium for gross proceeds of $4.0 million or $6.57 per share, leaving a balance of $33.5 million available under this arrangement, excluding the convertible debt.

The present outlook is for higher losses in 2003 than recorded in 2002, primarily due to increased expenses on RaptivaTM and on the Millennium collaboration. The Company's strategy is to attempt to continue broadening its product pipeline through additional development collaborations such as its arrangements with Genentech and Millennium. To support these activities, the Company expanded its manufacturing capacity and other development capabilities during 2001 and 2002. For example, the Company relocated its technical development and pilot plant facilities from Santa Monica to Berkeley in 2001 to improve efficiencies. XOMA also installed a third 2750-liter fermentation line in its Berkeley production facility, which became operational in the second half of 2002.

Based on current spending levels, anticipated revenues, debt financing provided by Genentech for XOMA's share of RaptivaTM development and marketing costs, and financing commitments from Millennium under the collaborative agreement between the companies, the Company estimates it has sufficient cash resources to meet its operating needs through at least the end of 2004. Any significant revenue shortfalls, or increases in planned spending on development programs could shorten this period. Any change in spending on RaptivaTM prior to approval should have no material impact on liquidity due to the Company's financing arrangement with Genentech. Approval of RaptivaTM during this period would be expected to improve operating cash flow to the extent of XOMA's share of operating profits from sales of RaptivaTM in the U.S., but require repayment of amounts owed to Genentech under the financial arrangements discussed above. Additional licensing arrangements or collaborations or otherwise entering into new equity or other financing arrangements could potentially extend this period. In December of 2002, Genentech submitted a Biologics License Application (or BLA) to the U.S. Food and Drug Administration for marketing approval of RaptivaTM for the treatment of moderate-to-severe plaque psoriasis. The timeliness of review of the BLA by the FDA may have a material impact on the Company's cash flow, and its ability to raise new funding on acceptable terms. Progress or setbacks by the Company in its other development programs or by potentially competing companies' products may also affect XOMA's ability to raise new funding on acceptable terms. The Company continues to evaluate

alternative financing arrangements to strengthen its overall financial position and mitigate risks. For a further discussion of the risks related to our business and their effects on our cash flow and ability to raise new funding on acceptable terms, see "Forward-Looking Statements and Cautionary Factors that May Affect Future Results," included in this Item 2 below.

As of June 30, 2003, future contractual obligations are as follows (in thousands):

<TABLE>
<CAPTION>

	Note Payable*	Capital Leases	Operating Leases	Convertible Notes**	Total
<S>	<C>	<C>	<C>	<C>	<C>
Remainder of 2003	$ -	$ 246	$ 1,515	$ -	$ 1,761
2004	-	572	2,894	5,214	8,680
2005	5,260	221	2,890	69,617	77,988
2006	-	-	2,900	-	2,900
2007	-	-	2,730	-	2,730
Thereafter	-	-	708	-	708
Total	$ 5,260	$ 1,039	$ 13,637	$ 74,831	$ 94,767

</TABLE>

* The amount due in 2005 relates to XOMA's commercial loan agreement with Genenetech. This amount is due at the earlier of (a) April of 2005, except for advances made after April 2003 in which case payment will be due on the second anniversary date(s) of such advances or (b) within 90 days after first product approval (which could be before the end of 2003).

** The amount due in 2005 relates to XOMA's convertible subordinated debt agreement with Genentech. This amount is due at the earlier of (a) April of 2005, except for advances made after April 2003 in which case payment will be due on the second anniversary date(s) of such advances or (b) within 90 days after the first product approval (which could be before the end of 2003). The amount due in 2004 represents the amount due to Millennium in February of 2004.

Under an effective shelf registration statement filed on November 17, 2000, we registered 10,000,000 common shares, of which 7,000,000 common shares have not been issued and remain available to be sold from time to time by us. We also intend to file a registration statement with the SEC to increase the common shares available to be issued under this shelf registration by an additional 13,000,000 shares. Once this registration statement becomes effective, we will be able to issue these shares from time to time in response to market conditions or other circumstances. This Form 10-Q does not itself constitute an offer to sell or the solicitation of offers to purchase any securities.

In addition, pursuant to our agreements with Millennium, we have an effective registration statement filed on December 12, 2002 and amended on May 23, 2003 covering the resale by Millennium of up to 6,000,000 common shares we have issued or may issue to Millennium, and we have issued a total of 2,052,184 shares to Millennium which may be resold under that registration statement. Pursuant to our arrangement with Genentech, we have an effective registration statement filed on August 5, 1999 covering the resale by Genentech of up to 2,000,000 common shares we may issue to Genentech, of which 482,000 have been issued and resold.

Critical Accounting Policies

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, if any, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates. The following critical accounting policies are important to our financial condition and results of operations presented in the financial statements and require management to make judgments, assumptions and estimates

that are inherently uncertain:

We believe there have been no significant changes in our critical accounting policies during the six months ended June 30, 2003 as compared to those previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2002 filed with the SEC on March 28, 2003.

Revenue Recognition

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

License and Collaborative Fees

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

Milestone payments under collaborative arrangements are recognized as revenue upon completion of the milestone events, which represent the culmination of the earnings process because the Company has no future performance obligations related to the payment. Milestone payments that require a continuing performance obligation on the part of the Company are recognized over the period of the continuing performance obligation. Amounts received in advance are recorded as deferred revenue until the related milestone is completed.

Contract Revenue

Contract revenue for research and development involves the Company providing research, development or manufacturing services to collaborative partners. The Company recognizes revenue under these arrangements as the related research and development costs are incurred and collectibility is reasonably assured.

Product Sales

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

Research and Development Expenses

Research and development expenses consist of direct and research-related allocated overhead costs such as facilities costs, salaries and related personnel costs and material and supply costs. In addition, research and development expenses include costs related to clinical trials to validate our testing processes and procedures and related overhead expenses. From time to time, research and development expenses may include upfront fees and milestones paid to collaborative partners for the purchase of rights to in-process research and development. Such amounts are expensed as incurred. The timing of upfront fees and milestone payments in the future may cause variability in our future research and development expenses.

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

Certain statements contained herein related to the relative size of the Company's loss for 2003, the estimated levels of its expenses and revenues for the balance of 2003, the sufficiency of its cash resources, the FDA advisory committee review and the BLA review timeframe, as well as other statements related to current plans for product development (including the progress of clinical trials, the regulatory process and the timing of clinical trials and regulatory filings and approvals) and existing and potential collaborative and licensing relationships, or that otherwise relate to future periods, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements are based on assumptions that may not prove accurate. Actual results could differ materially from those anticipated due to certain risks inherent in the biotechnology industry and for companies engaged in the development of new products in a regulated market. Among other things, the actual loss for 2003 could be higher depending on revenues from licensees and collaborators, the size and timing of expenditures, and whether there are unanticipated expenses. The suf-

ficiency of cash resources could be shortened if expenditures are made earlier or in larger amounts than anticipated or are unanticipated or if funds are not available on acceptable terms; and regulatory approvals could be delayed or denied as a result of safety or efficacy issues regarding the products being tested, action, inaction or delay by the FDA, European or other regulators or their advisory bodies, or issues relating to analysis or interpretation by, or submission to, these entities or others of scientific data. These and other risks, including those related to the results of pre-clinical testing, the design and progress of clinical trials, changes in the status of existing collaborative relationships, availability of additional licensing or collaboration opportunities, the timing or results of pending and future clinical trials, the ability of collaborators and other partners to meet their obligations, market demand for products, actions by the U.S. Food and Drug Administration, the U.S. Patent and Trademark Office or the U.S. Securities and Exchange Commission, scale-up and marketing capabilities, competition, international operations, share price volatility, the Company's financing needs and opportunities, uncertainties regarding the status of biotechnology patents, uncertainties as to the costs of protecting intellectual property, and risks associated with our status as a Bermuda company are described in more detail in the remainder of this section.

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

Even our most advanced therapeutic product has not received regulatory approval. Our products cannot be manufactured and marketed in the United States and other countries without required regulatory approvals. The United States government and governments of other countries extensively regulate many aspects of our products, including:

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

In the United States, the FDA regulates pharmaceutical products under the Federal Food, Drug, and Cosmetic Act and other laws, including, in the case of biologics, the Public Health Service Act. At the present time, we believe that our products will be regulated by the FDA as biologics. The FDA has announced that it is consolidating its responsibility for reviewing new pharmaceutical products into its Center for Drug Evaluation and Research, the body that currently reviews drug products, combining that operation with part of its biologics review operation, the Center for Biologics Evaluation and Research. Because implementation of this plan may not be complete, we do not know when or how this change will affect us. State regulations may also affect our proposed products.

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

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

- our future filings will be delayed,

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

For example,

- in 1996, we and Genentech began testing RaptivaTM (Efalizumab) in patients with moderate-to-severe psoriasis. In April of 2002, we and Genentech announced that a pharmacokinetic study conducted on RaptivaTM comparing XOMA-produced material and Genentech-produced material did not achieve the pre-defined statistical definition of comparability, and the FDA requested that another Phase III study be completed before the filing of a Biologics License Application for RaptivaTM, delaying the filing of a Biologics Licensing Application with the FDA for RaptivaTM beyond the previously-planned time frame of summer 2002. In September of 2002, we and Genentech announced the results of the additional Phase III study which achieved its primary efficacy endpoint. In December of 2002, Genentech submitted a Biologics License Application for RaptivaTM for the treatment of moderate-to-severe plaque psoriasis, which was accepted by the FDA in February of 2003. Genentech has projected a single cycle (approximately 10-month) regulatory review period, which could potentially lead to FDA action in late 2003. A FDA advisory committee is scheduled to review the Biologics License Application for RaptivaTM on September 9, 2003. However, we do not yet know what issues the FDA or its advisory committee may raise with respect to efficacy or safety of the drug or other elements of the application. In March 2003, we announced completion of enrollment in a Phase II study of RaptivaTM in patients suffering from rheumatoid arthritis. In May of 2003, we and Genentech announced our decision to terminate Phase II testing of RaptivaTM in patients suffering from rheumatoid arthritis based on an evaluation by an independent Data Safety Monitoring Board that suggested no overall net clinical benefit in patients receiving the study drug. We have also announced the initiation of enrollment in a Phase II study of RaptivaTM as a possible treatment for patients with psoriatic arthritis. We do not know whether or when any such testing will demonstrate product safety and efficacy in this patient population or result in regulatory approval.

- in December of 1992, we began human testing of our NEUPREX(R)product, a genetically engineered fragment of a particular human protein, and licensed certain worldwide rights to Baxter. In April of 2000, members of the FDA and representatives of XOMA and Baxter discussed results from the Phase III trial that tested NEUPREX(R)in pediatric patients with a potentially deadly bacterial infection called meningococcemia, and senior representatives of the FDA indicated that the data presented were not sufficient to support the filing of an application for marketing approval at that time. In November of 2002, Baxter completed enrollment in a Phase II pilot study with NEUPREX(R) in Crohn's disease patients. In July of 2003, XOMA announced the termination of its license and supply agreements with Baxter for XOMA's NEUPREX(R)product, and the rights returned to XOMA.

Given that regulatory review is an interactive and continuous process, we maintain a policy of limiting announcements and comments upon the specific details of the ongoing regulatory review of our products, subject to our obligations under the securities laws, until definitive action is taken.

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

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

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

Based on current spending levels, anticipated revenues, debt financing provided by Genentech for our share of RaptivaTM development and marketing costs, and financing commitments from Millennium under the collaborative agreement between the companies, we estimate we have sufficient cash resources to meet our operating needs through at least the end of 2004. However, to the

extent we experience changes in the timing or size of expenditures or unanticipated expenditures, or if our collaborators do not meet their obligations to us or anticipated revenues otherwise do not materialize, these funds may not be adequate for this period. As a result, we do not know whether:

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

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

Specifically, although changes in spending on RaptivaTM should not impact liquidity due to our financing arrangements with Genentech and FDA approval of RaptivaTM would generally be expected to improve operating cash flow to the extent of XOMA's share of operating profits from sales of RaptivaTM in the U.S., such approval will also require repayment in cash, shares or deferred repayment of up to $40.0 million of amounts owed to Genentech (approximately $74.9 million under both loan agreements as of June 30, 2003). In addition, any delays in the review by the FDA of the Biologics License Application for RaptivaTM may have a material impact on our cash flow and on our ability to raise new funding on acceptable terms.

The Financial Terms Of Some Of Our Existing Collaborative Arrangements Could Result In Dilution Of Our Share Value.

We have financed, and anticipate continuing to finance, our most significant development program, RaptivaTM, principally by borrowing from Genentech, and this debt is convertible at XOMA's option into our common shares with the conversion price to be calculated at the time of conversion. The outstanding amount of such convertible debt as of June 30, 2003 was approximately $69.6 million. This debt will come due at the earlier of April of 2005 or within 90 days after first product approval (which could be before the end of 2003). Unless we secure substantial alternative financing, it is likely that some or all of this debt, as well as some or all of any convertible debt issued in the future as part of this financing arrangement, will be converted into equity when it comes due rather than be repaid in cash, resulting in the issuance of additional common shares.

Our financing arrangement with Millennium includes a $5.0 million convertible note we issued to Millennium in November of 2001, which comes due in February of 2004 and may be converted into common shares at that time. In addition, we have the option to issue up to $33.5 million worth of common shares, excluding the converti-

ble debt, to Millennium through February of 2005. The total amount issuable in the remainder of 2003 could be $9.0 million. The number of shares to be issued will be based on a conversion price to be calculated at the time of conversion.

These arrangements, as well as future arrangements we may enter into with similar effect, could result in dilution in the value of our shares.

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

We have experienced significant losses and, as of June 30, 2003, we had an accumulated deficit of $570.0 million.

For the six months ended June 30, 2003, we had a net loss of approximately $29.2 million, or $0.41 per common share (basic and diluted). For the year ended December 31, 2002, we had a net loss of approximately $33.2 million, or $0.47 per common share (basic and diluted). We expect to incur additional losses in the future, primarily due to increased expenses on RaptivaTM, on the Millennium collaboration and on our XMP.629 compound.

Our ability to make profits is dependent in large part on obtaining regulatory approval for our products and entering into agreements for product development and commercialization, both of which are uncertain. Our ability to fund our ongoing operations is dependent on the foregoing factors and on our ability to secure additional funds. Because all of our products are still in development, we do not know whether we will ever make a profit or whether cash flow from future operations will be sufficient to meet our needs.

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

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

- In April of 1996, we and Genentech entered into an agreement whereby we agreed to co-develop Genentech's humanized monoclonal antibody product RaptivaTM. In April of 1999, the companies extended and expanded the agreement. In March of 2003, the Company further expanded the agreement.

- In November of 2001, we entered into a collaboration with Millennium Pharmaceuticals, Inc. to develop two of Millennium's products for certain vascular inflammation indications.

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

Even when we have a collaborative relationship, other circumstances may prevent it from resulting in successful development of marketable products.

- In January of 2000, we licensed the worldwide rights to all pharmaceutical compositions containing a particular human protein for treatment of meningococcemia and additional potential future human clinical indications to Baxter. In July of 2003, this arrangement was terminated, and the rights returned to XOMA. Although we are evaluating future options for developing this product, we do not know whether any options we may pursue will succeed.

- In January of 2001, we entered into a strategic process development and manufacturing alliance with Onyx Pharmaceuticals, Inc. pursuant to which we are scaling up production to commercial volume to manufacture one of Onyx's cancer products. In June of 2003, Onyx notified XOMA

that it was discontinuing development of the product and terminating the agreement so that it could focus on its anticancer compound.

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

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

As a biopharmaceutical company, we have experienced significant volatility in our common shares. Fluctuations in our operating results and general market conditions for biotechnology stocks could have a significant impact on the volatility of our common share price. From December 31, 2001 through August 12, 2003, our share price has ranged from a high of $12.19 to a low of $2.84. On August 11, 2003, the last reported sale price of the common shares as reported on the Nasdaq National Market was $8.40 per share. Factors contributing to such volatility include, but are not limited to:

- results of preclinical studies and clinical trials
- information relating to the safety or efficacy of our products
- developments regarding regulatory filings
- announcements of new collaborations
- failure to enter into collaborations
- developments in existing collaborations
- our funding requirements and the terms of our financing arrangements
- announcements of technological innovations or new indications for our therapeutic products
- government regulations
- developments in patent or other proprietary rights
- the number of shares outstanding

- the number of shares trading on an average trading day
- announcements regarding other participants in the biotechnology and pharmaceutical industries
- market speculation regarding any of the foregoing.

Because Many Of The Companies We Do Business With Are Also In The Biotechnology Sector, The Volatility Of That Sector Can Affect Us Indirectly As Well As Directly.

The same factors that affect us directly because we are a biotechnology company can also adversely impact us indirectly by affecting the ability of our collaborators, partners and others we do business with to meet their obligations to us or our ability to realize the value of the consideration provided to us by these other companies. For example, in connection with our licensing transaction with MorphoSys AG, MorphoSys has announced that it has exercised its option to pay a portion of the license fee owed to us in the form of equity securities of MorphoSys.

XOMA has only recently received these shares and the future value of these shares is subject both to market risks affecting our ability to realize the value of these shares and more generally to the business and other risks to which the issuer of these shares is subject. Since the date of MorphoSys' election on October 23, 2002, the per share closing price for MorphoSys shares has ranged from approximately $4.77 to $15.95, which demonstrates the volatility of these shares in the current market.

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

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

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

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

If Our And Our Partners' Patent Protection For Our Principal Products And Processes Is Not Enforceable, We May Not Realize Our Profit Potential.

Because of the length of time and the expense associated with bringing new products to the marketplace, we and our partners hold and are in the process of applying for a number of patents in the United States and abroad to protect our products and important processes and also have obtained or have the right to obtain exclusive licenses to certain patents and applications filed by others. However, the patent position of biotechnology companies generally is highly uncertain and involves complex legal and factual questions, and no consistent policy regarding the breadth of allowed claims has emerged from the actions of the U.S. Patent and Trademark Office with respect to biotechnology patents. Legal considerations surrounding the validity of biotechnology patents continue to be in transition, and historical legal standards surrounding questions of validity may not continue to be applied, and current defenses as to issued biotechnology patents may not in fact be considered substantial in the future. These factors have contributed to uncertainty as to:

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

The Patent Office has issued approximately 69 patents to us related to our products based on human bactericidal permeability-increasing protein, which we call BPI, including novel compositions, their manufacture, formulation, assay and use. In addition, we are the exclusive licensee of BPI-related patents and applications owned by

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

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

Due to the uncertainties regarding biotechnology patents, we also have relied and will continue to rely upon trade secrets, know-how and continuing technological advancement to develop and maintain our competitive position. All of our employees have signed confidentiality agreements under which they have agreed not to use or disclose any of our proprietary information. Research and development contracts and relationships between us and our scientific consultants and potential customers provide access to aspects of our know-how that are protected generally under confidentiality agreements. These confidentiality agreements may not be honored or may not be enforced by a court. To the extent proprietary information is divulged to competitors or to the public generally, such disclosure may adversely affect our ability to develop or commercialize our products by giving others a competitive advantage or by undermining our patent position.

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

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

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

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

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

These factors may enable others to develop products and processes competitive with or superior to our own or those of our collaborators. In addition, a significant amount of research in biotechnology is being carried out in universities and other non-profit research organizations. These entities are becoming increasingly interested in the

commercial value of their work and may become more aggressive in seeking patent

protection and licensing arrangements.

Furthermore, positive or negative developments in connection with a potentially competing product may have an adverse impact on our ability to raise additional funding on acceptable terms. For example, if another product is perceived to have a competitive advantage, or another product's failure is perceived to increase the likelihood that our product will fail, then investors may choose not to invest in us on terms we would accept or at all.

Without limiting the foregoing, we are aware that:

- Biogen Inc. has announced that the FDA has approved Amevive(R)to treat moderate-to-severe chronic plaque psoriasis in adult patients who are candidates for systematic therapy or phototherapy;

- Centocor Inc., a unit of Johnson & Johnson, has announced that it has tested its rheumatoid arthritis and Crohn's disease drug, Remicade(R), in psoriasis showing clinical benefits (and it has been announced that the drug has shown promising results in patients with psoriatic arthritis);

- it has been announced that Amgen Inc. tested its rheumatoid arthritis and psoriatic arthritis drug, Enbrel(R), in a Phase III clinical trial in patients with moderate-to-severe plaque psoriasis; meeting the primary endpoint and all secondary endpoints, that the primary and key secondary endpoints were met in a second Phase III trial, and that a filing for regulatory approval with the U.S. FDA for this medication was submitted in July of 2003;

- MedImmune, Inc. has completed enrollment in three Phase II trials to evaluate its anti-T cell monoclonal antibody in psoriasis;

- GenMab A/S has announced that its investigational new drug application for HuMax-CD4 for psoriasis has been cleared through the FDA to initiate a Phase II study;

- Abbott Laboratories has announced the commencement of a Phase II psoriasis trial and Phase III psoriatic arthritis trial of its rheumatoid arthritis drug HumiraTM; and

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

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

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

As We Do More Business Internationally, We Will Be Subject To Additional Political, Economic And Regulatory Uncertainties.

We may not be able to successfully operate in any foreign market. We believe that, because the pharmaceutical industry is global in nature, international activities will be a significant part of our future business activities and that, when and if we are able to generate income, a substantial portion of that income will be derived from product sales and other activities outside the United States. Foreign regulatory agencies often establish standards different from those in the United States, and an inability to obtain foreign regulatory approvals on a timely basis could put us at a competitive disadvantage or make it uneconomical to proceed with a product's development. International operations may be limited or disrupted by:

- imposition of government controls,

- export license requirements,

- political or economic instability,

- trade restrictions,

- changes in tariffs,

- restrictions on repatriating profits,

- exchange rate fluctuations,

- withholding and other taxation, and

- difficulties in staffing and managing international operations.

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

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

Even If We Bring Products To Market, We May Be Unable To Effectively Price Our Products Or Obtain Adequate Reimbursement For Sales Of Our Products, Which Would Prevent Our Products From Becoming Profitable.

If we succeed in bringing our product candidates to the market, they may not be considered cost-effective, and reimbursement to the patient may not be available or may not be sufficient to allow us to sell our products on a competitive basis. In both the United States and elsewhere, sales of medical products and treatments are dependent, in part, on the availability of reimbursement to the patient from third-party payors, such as government and private insurance plans. Third-party payors are increasingly challenging the prices charged for pharmaceutical products and services. Our business is affected by the efforts of government and third-party payors to contain or reduce the cost of health care through various means. In the United States, there have been and will continue to be a number of federal and state proposals to implement government controls on pricing. In addition, the emphasis on managed care in the United States has increased and will continue to increase the pressure on the pricing of pharmaceutical products. We cannot predict whether any legislative or regulatory proposals will be adopted or the effect these proposals or managed care efforts may have on our business.

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

The testing and marketing of medical products entails an inherent risk of allegations of product liability. We believe that we currently have adequate levels of insurance for our clinical trials, however, in the event of one or

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

We May Be Subject To Increased Risks Because We Are A Bermuda Company.

Alleged abuses by certain companies that have changed their legal domicile from jurisdictions within the United States to Bermuda have created an environment where, notwithstanding that we changed our legal domicile in a transaction that was approved by our shareholders and fully taxable to our company under U.S. law, we may be exposed to various prejudicial actions, including:

- "blacklisting" of our common shares by certain pension funds;

- legislation restricting certain types of transactions; and

- punitive tax legislation.

We do not know whether any of these things will happen, but if implemented one or more of them may have an adverse impact on our future operations or our share price.

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

We are a Bermuda company. All or a substantial portion of our assets may be located outside the United States. As a result, it may be difficult for shareholders and others to enforce in United States courts judgments obtained against us. We have irrevocably agreed that we may be served with process with respect to actions based on offers and sales of securities made hereby in the United States by serving Christopher J. Margolin, c/o XOMA Ltd., 2910 Seventh Street, Berkeley, California 94710, our United States agent appointed for that purpose. We have been advised by our Bermuda counsel, Conyers Dill & Pearman, that there is doubt as to whether Bermuda courts would enforce judgments of United States courts obtained in actions against XOMA or our directors and officers that are predicated upon the civil liability provisions of the U.S. securities laws or entertain original actions brought in Bermuda against XOMA or such persons predicated upon the U.S. securities laws. There is no treaty in effect between the United States and Bermuda providing for such enforcement, and there are grounds upon which Bermuda courts may not enforce judgments of United States courts. Certain remedies available under the United States federal securities laws may not be allowed in Bermuda courts as contrary to that nation's policy.

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

In February of 2003, we renewed our shareholder rights agreement, which could make it considerably more difficult or costly for a person or group to acquire control of XOMA in a transaction that our board of directors opposes.

Our bye-laws:

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

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

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

The Company's exposure to market rate risk due to changes in interest rates relates primarily to the Company's investment portfolio. The Company does not use derivative financial instruments in its investment portfolio. By policy, the Company places its investments with high quality debt security issuers, limits the amount of credit exposure to any one issuer, limits duration by restricting the term, and holds investments to maturity except under rare circumstances. The Company classifies its cash equivalents as fixed rate if the rate of return on an instrument remains fixed over its term. As of June 30, 2003, all the Company's cash equivalents are classified as fixed rate.

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

The table below presents the amounts and related weighted interest rates of the Company's cash equivalents at June 30, 2003:

	Maturity	Fair Value (in thousands)	Average Interest Rate
Cash equivalents, fixed rate	Daily	$26,946	1.15%

Other Market Risk

At June 30, 2003, the Company had a long-term convertible note outstanding which is convertible into common shares based on the market price of the

Company's common shares at the time of conversion. A 10% decrease in the market price of the Company's common shares would increase the number of shares issuable upon conversion of either security by approximately 11%. An increase in the market price of Company common shares of 10% would decrease the shares issuable by approximately 9%.

The Company's investment in MorphoSys stock is subject to market risk volatility as evidenced by the range of closing prices from $4.77 to $15.95 per share from October 23, 2002, the date of MorphoSys' election to issue shares, through August 11, 2003.

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including Chairman of the Board, President and Chief Executive Officer and our Vice President, Finance and Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-14(c) promulgated under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report. Based on this evaluation, our Chairman of the Board, President and Chief Executive Officer and our Vice President, Finance and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to the Company and its consolidated subsidiaries required to be included in our periodic SEC filings.

In April of 2003, the Company implemented a new financial reporting system which represents a significant change in our internal controls. During our evaluation of internal controls conducted for the second quarter of 2003, special procedures were performed regarding the system conversion and implementation. We concluded that the system conversion and implementation was properly controlled to ensure accurate financial reporting. Apart from this new system, there were no changes in the Company's internal control over financial reporting during the

fiscal quarter to which this report relates that have materially affected, or are reasonable likely to materially affect, the Company's internal control over financial accounting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In July of 2003, a complaint was filed in the General Court of Justice, Superior Court Division, Orange County, North Carolina, in a lawsuit captioned Hamlet v. Genentech, Inc., et al., No. 03 CVS 1161, and was subsequently amended, by a participant in one of the Phase III clinical trials of Raptiva(TM). The complaint asserts claims for alleged negligence, breach of fiduciary duty, fraud, misrepresentation and medical negligence against the plaintiff's treating physician, the physician's medical practice, Genentech, XOMA, the institutional review board responsible for the trial and the contract research organization retained to conduct the trial. The complaint seeks unspecified compensatory damages alleged to be in excess of $10,000.00. As set forth in the complaint, the plaintiff was initially in the placebo group of this trial; he did not receive Raptiva(TM) during this time, and his claims are based on his failure to receive his indicated treatment, not his receipt of Raptiva(TM). Although this case is at an early stage, XOMA believes the claims against it to be without merit and intends to vigorously defend against them.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

The Company continues to use the net proceeds from its June 2001 registered offering of common shares for general corporate purposes, including leasehold improvements, equipment acquisitions, current research and development projects, the development of new products or technologies, general working capital and operating expenses. Pending application of the net proceeds as described above, the Company has invested the remaining net proceeds of the offering in short-term, investment-grade, interest-bearing securities.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On May 21, 2003, the Company held its annual general meeting of shareholders. The following persons (the only nominees) were elected as the Company's directors, having received the indicated votes:

Name	Votes For	Votes Withheld
James G. Andress	57,160,604	2,067,616
William K. Bowes, Jr.	54,754,802	4,473,418
John L. Castello	57,115,248	2,112,972
Arthur Kornberg, M.D.	57,155,671	2,072,549
Steven C. Mendell	56,484,064	2,744,156
Patrick J. Scannon, M.D., Ph.D.	57,144,481	2,083,739
W. Denman Van Ness	54,765,642	4,462,578
Patrick J. Zenner	57,156,285	2,071,935

The appointment of Ernst & Young LLP to act as the Company's independent auditors for the 2003 fiscal year was ratified and the authorization of the Board to agree to such auditors' fee was approved, having received 58,186,546 votes for, 836,846 votes against, 204,828 abstentions and no broker non-votes.

The amendments to the Company's 1981 Share Option Plan and Restricted Share Plan to increase the number of shares issuable over the term of the plans by 2,500,000 shares to 11,150,000 shares in the aggregate was approved, having received 18,072,914 votes for, 4,430,910 votes against, 945,374 abstentions and 35,779,022 broker non-votes.

The amendment to the Company's Restricted Share Plan to increase the number of shares issuable over the term of the plan by 250,000 shares to 1,500,000 shares in the aggregate was approved, having received 15,448,525 votes for, 7,734,725 votes against, 265,948 abstentions and 35,779,022 broker non-votes.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

Exhibits:

10.1 Letter Agreement dated May 16, 2003 by and among XOMA Ltd., Millennium Pharmaceuticals, Inc. and mHoldings Trust. (1)

10.2 Press Release dated May 20, 2003. (1)

10.3 Letter Agreement dated June 30, 2003 terminating the License Agreement dated as of January 25, 2000 between XOMA Ireland Limited and Baxter Healthcare Corporation. (2)

10.4 Letter Agreement dated June 30, 2003 terminating the Supply Agreement effective as of January 25, 2000 between XOMA (US) LLC and Baxter Healthcare Corporation. (2)

10.5 Press Release dated August 13, 2003. (3)

31.1 Certification of John L. Castello, filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (2)

31.2 Certification of Peter D. Davis, filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (2)

32.1 Certification of John L. Castello ,furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (3)

32.2 Certification of Peter D. Davis, furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 . (3)

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(1) Incorporated by reference to the referenced exhibit to XOMA's Amendment No. 1 to Current Report on Form 8-K/A filed May 21, 2003 (File No. 0-14710).
(2) Filed herewith.
(3) Furnished herewith.

Reports on Form 8-K:

1. Current Report on Form 8-K dated and filed on November 27, 2001, as amended by amendments on Form 8-K/A dated and filed on December 13, 2001, October 24, 2002 and May 21, 2003, respectively (file no. 0-14710).

2. Current Report on Form 8-K dated and filed on April 11, 2003, as amended by amendment on Form 8-K/A dated and filed on April 18, 2003 (file no. 0-14710).

3. Current Report on Form 8-K dated and filed on June 30, 2003 (file no. 0-14710).

SIGNATURES

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

XOMA Ltd.

Date: August 13, 2003 By: /s/ JOHN L. CASTELLO

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

Date: August 13, 2003 By: /s/ PETER D. DAVIS

Peter D. Davis
Vice President, Finance and
Chief Financial Officer

EXHIBIT 10.3

XOMA IRELAND LIMITED
Shannon Airport House
Shannon, County Clare
Ireland

June 30, 2003

Baxter Healthcare Corporation
1627 Lake Cook Road
Deerfield, IL 60015
Attention: Victor W. Schmitt

Re: Termination of License Agreement

Reference is made to that certain License Agreement dated as of January 25, 2000 (the "License Agreement") between XOMA Ireland Limited, a company with limited liability organized under the laws of the Republic of Ireland ("XOMA"), and Baxter Healthcare Corporation, a Delaware corporation ("Baxter"). Capitalized terms used and not defined herein shall have the meanings ascribed to them in the License Agreement.

Upon execution hereof by both parties, the parties hereto agree that the License Agreement, together with any and all agreements between the parties that are related to the subject matter thereof, will terminate in their entirety and be of no further force and effect as of June 30, 2003, except for the provisions specified below, which shall survive the termination of the License Agreement. In consideration thereof, Baxter agrees to pay to XOMA on or prior to January 5, 2004, by wire transfer payment of immediately available funds to the account of XOMA designated to Baxter in advance in writing, the sum of US$6,960,000 plus reimbursement of fifty percent (50%) of expenses incurred from the date hereof through the date of such payment.

Upon execution hereof by both parties, Baxter, on behalf of itself and its parents, subsidiaries, assigns, successors, stockholders, directors, officers, employees, and agents, hereby releases and forever discharges XOMA, and each of its parents, subsidiaries, assigns, successors, stockholders, directors, officers, employees, attorneys and agents, of and from any and all claims, counterclaims, rights, demands, costs, damages, losses, liabilities, actions and causes of actions whatsoever, whether in law or equity, arising from or related to the License Agreement existing as of the date hereof. Upon the later of timely payment in full of the aggregate amount referred to in the last sentence of the preceding paragraph and com-

pletion of the transfer, in usable form, of the data referred to in the fifth paragraph hereof, XOMA, on behalf of itself and its parents, subsidiaries, assigns, successors, stockholders, directors, officers, employees, and agents, shall be deemed to have released and forever discharged Baxter, and each of its parents, subsidiaries, assigns, successors, stockholders, directors, officers, employees, attorneys and agents, of and from any and all claims, counterclaims, rights, demands, costs, damages, losses, liabilities, actions and causes of actions whatsoever, whether in law or equity, arising from or related to the License Agreement existing as of the date hereof.

For the avoidance of doubt, the parties acknowledge that the termination provided for herein is mutual and that therefore neither Section 12.4.1 nor Section 12.4.2 shall apply. Notwithstanding the foregoing, the provisions of Article 8 and Sections 13.3, 13.5, 13.7.1 and 13.9 through 13.12 shall survive this termination.

Notwithstanding either the foregoing or any provision of the License Agreement, the parties agree that promptly upon execution hereof Baxter shall transfer to XOMA, as directed by XOMA, any and all data, whether clinical or pre-clinical, under Baxter's control relating to the subject matter of the License Agreement.

The parties agree that any action or dispute arising from or relating to this agreement may only be brought in Superior Court of the State of California or a United States District Court in the State of California. Each of the parties hereby (a) submits to the exclusive jurisdiction of such courts; (b) waives the defense of inconvenient forum; (c) agrees that a final judgment in

any such action or proceeding shall be conclusive and may be enforced in other jurisdictions in any manner provided by law; and (d) to the extent that it or its properties have or hereafter acquire immunity from jurisdiction of any court or from any legal process, waives such immunity in respect of its obligations under this agreement. Baxter hereby consents to service of process upon it by making or delivering such service to the attention of the General Counsel at Baxter Healthcare Corporation at One Baxter Parkway Deerfield, IL 60015, and XOMA hereby consents to service of process upon it by mailing or delivering such service to the attention of Geoffrey E. Liebmann at Cahill Gordon & Reindel at 80 Pine Street, New York, NY 10005.

This letter shall be governed by and construed in accordance with the laws of the State of California, without regard to principles of conflicts of laws. This letter may be executed in counterparts and delivered by facsimile transmission.

Please acknowledge your agreement with all of the foregoing by signing below, whereupon this letter shall become a binding agreement between us.

Very truly yours,

XOMA IRELAND LIMITED

Alan Kane, Director,
duly authorized on behalf of XOMA Ireland Limited in the presence of:

Witness:

Name:

ACKNOWLEDGED and AGREED
as of the date first above written:

BAXTER HEALTHCARE CORPORATION

By:

Name: Victor W. Schmitt
Title: President, Venture Management

Cc: General Counsel, Baxter Healthcare Corporation
President, Baxter BioScience

EXHIBIT 10.4

XOMA (US) LLC
2910 Seventh Street
Berkeley, CA 94710

June 30, 2003

Baxter Healthcare Corporation
1627 Lake Cook Road
Deerfield, IL 60015
Attention: Victor W. Schmitt

Re: Termination of Supply Agreement

Reference is made to that certain Supply Agreement effective as of January 25, 2000 (the "Supply Agreement") between XOMA (US) LLC, a Delaware limited liability company ("XOMA"), and Baxter Healthcare Corporation, a Delaware corporation ("Baxter"). Capitalized terms used and not defined herein shall have the meanings ascribed to them in the Supply Agreement.

We have been informed that XOMA Ireland Limited and you have agreed to terminate the License Agreement dated as of January 25, 2000 pursuant to a letter agreement dated the date hereof. Accordingly, the parties hereto agree that, pursuant to Section 8.3 of the Supply Agreement, the Supply Agreement will terminate in its entirety and be of no further force and effect as of June 30, 2003, except for the provisions specified below, which shall survive the termination of the Supply Agreement. In consideration thereof, Baxter agrees to pay to XOMA on or prior to January 5, 2004, by wire transfer payment of immediately available funds to the account of XOMA designated to Baxter in advance in writing, the sum of US$3,040,000. Upon timely payment in full of such amount, any other amounts then due and owing relating to the purchase of Product or Bulk Product in connection with the Development Program and any future expenses due related to the Development Program shall be extinguished.

Upon execution hereof by both parties, Baxter, on behalf of itself and its parents, subsidiaries, assigns, successors, stockholders, directors, officers, employees, and agents, hereby releases and forever discharges XOMA, and each of its parents, subsidiaries, assigns, successors, stockholders, directors, officers, employees, attorneys and agents, of and from any and all claims, counterclaims, rights, demands, costs, damages, losses, liabilities, actions and causes of actions whatsoever, whether in law or equity, arising from or related to

the Supply Agreement existing as of the date hereof. Upon timely payment in full of the amount referred to in the third sentence of the preceding paragraph, XOMA, on behalf of itself and its parents, subsidiaries, assigns, successors, stockholders, directors, officers, employees, and agents, shall be deemed to have released and forever discharged Baxter, and each of its parents, subsidiaries, assigns, successors, stockholders, directors, officers, employees, attorneys and agents, of and from any and all claims, counterclaims, rights, demands, costs, damages, losses, liabilities, actions and causes of actions whatsoever, whether in law or equity, arising from or related to the Supply Agreement existing as of the date hereof.

For the avoidance of doubt, the parties acknowledge that the termination provided for herein is mutual and that Section 8.4 shall not apply. Notwithstanding the foregoing, the provisions of Article 6 and Sections 10.2, 10.6.1, and 10.8 through 10.11 shall survive this termination.

The parties agree that any action or dispute arising from or relating to this agreement may only be brought in the Superior Court of the State of California or a United States District Court in the State of California.

This letter shall be governed by and construed in accordance with the laws of the State of California, without regard to principles of conflicts of laws. This letter may be executed in counterparts and delivered by facsimile transmission.

Please acknowledge your agreement with all of the foregoing by signing below, whereupon this letter shall become a binding agreement between us.

Very truly yours,

XOMA (US) LLC

By: _____
Name: Christopher J. Margolin
Title: Vice President, General Counsel and Secretary

ACKNOWLEDGED and AGREED
as of the date first above written:

BAXTER HEALTHCARE CORPORATION

By: _____
Name: Victor W. Schmitt
Title: President, Venture Management

Cc: General Counsel, Baxter Healthcare Corporation
President, Baxter BioScience

Investor and Media Contacts:
Laura Zobkiw
Corporate Communications & Investor Relations
(510) 204-7200

Peter Davis
Chief Financial Officer
(510) 204-7200

XOMA Reports Second Quarter 2003 Financial Results

Raptiva(TM) FDA Advisory Panel Scheduled for September

Berkeley, CA - August 13, 2003-- XOMA Ltd. (Nasdaq: XOMA), a biopharmaceutical development company, today announced financial results for the quarter ended June 30, 2003.

For the second quarter of 2003, the Company recorded a net loss of $16.1 million ($0.22 per share), compared with $10.1 million ($0.14 per share) for the second quarter of 2002. The Company's net loss for the six-month period ended June 30, 2003 was $29.2 million ($0.41 per share), compared with $16.1 million ($0.23 per share) in the prior year period.

Revenues for the second quarter of 2003 decreased to $2.4 million compared with $4.7 million in the same period of 2002. Revenues for the first half of 2003 decreased to $5.5 million compared with $13.9 million for the prior year period. This decrease was primarily due to lower recognition of deferred revenue from license fees and milestone payments related to the NEUPREX(R) license agreement with Baxter Healthcare Corporation as a result of achieving full amortization in the first quarter of 2003 and the fourth quarter of 2002, respectively, as well as to lower development service revenues from Onyx Pharmaceuticals, Inc. The Company also recorded revenue of $5.0 million in the first quarter of 2002 related to the licensing of its bacterial cell expression technology to MorphoSys AG.

Research and development expenses for the second quarter of 2003 increased to $13.5 million compared with $10.8 million in the same period of 2002. Research and development expenses for the first half of 2003 were $25.5 million, compared with $20.7 million in the 2002 period. The increase in expenses reflects increased costs related to collaborations with Genentech, Inc. on Raptiva(TM) and Millennium Pharmaceuticals, Inc. on MLN2201 and CAB-2, as well as the internal development of XOMA's proprietary XMP.629 compound, which is under development for acne. These increases were partially offset by decreased spending on Onyx-015, NEUPREX(R), and ING-1.

Marketing, general and administrative expenses for the second quarter of 2003 increased to $4.7 million, compared with $3.8 million for the same period in 2002 and decreased to $8.6 million for the six-month period ending June 30, 2003, compared with $8.7 million for the same period in 2002. The higher marketing, general and administrative expenses reported for the second quarter of 2003 primarily related to pre-launch activities for Raptiva(TM) and to business development activities, partially offset by reduced legal expenses, which in the 2002 period included litigation expenses relating to matters that have since been settled.

The Company continues to anticipate a higher net loss in 2003 compared with 2002, primarily due to the following factors:

- The Millennium collaboration and increased spending on Raptiva(TM), including pre-launch activities in anticipation of possible approval for marketing in the United States, and
- Reduced revenues under the Baxter and Onyx agreements.

However, the Company anticipates net losses will be lower in the second half of 2003 compared with the first six months. This lower anticipated loss reflects higher license fee revenue including the $11.0 million in termination fees from Baxter and Onyx.

- More -

The size of the Company's net loss and year-end cash position for 2003 may also be impacted by: 1) any new licensing agreements or collaborations entered into by XOMA, the likelihood of which cannot be assured or predicted; and 2) any decisions XOMA and its collaborators may make regarding whether products in development should continue into later stages of development, which are generally more costly.

As of June 30, 2003, XOMA held $29.5 million in cash, cash equivalents and short-term investments, and restricted cash compared with $38.2 million at December 31, 2002. The Company estimates that it has sufficient cash resources, together with sources of funding available to it, to meet its currently anticipated operational needs through at least the end of 2004.

"While we continue to focus considerable attention on potential Raptiva(TM) approval and launch in moderate-to-severe psoriasis, we are also making progress in moving other programs in our pipeline forward," said John L. Castello, XOMA's chairman, president, and chief executive officer. "We have now completed enrollment in a study testing Raptiva(TM) in psoriatic arthritis, we have initiated a healthy volunteer Phase I study of MLN2201, and we are working towards moving both CAB-2 and XMP.629, our acne compound, into the clinic later this year."

"In the first half of this year, XOMA's financial results were in line with our expectations and we gained greater flexibility going forward by amending both our Genentech and Millennium financing arrangements," said Peter B. Davis, XOMA's vice president finance and chief financial officer. "Our agreement with Baxter to regain our NEUPREX(R) rights will provide us with a cash infusion of $10 million, and we will continue to pursue options to further strengthen our financial position."

XOMA also intends to file a registration statement with the SEC to increase the common shares available to be issued under its current "shelf" registration, which was filed in November 2000, by an additional 13 million shares. This brings the total number of common shares available to be issued under the "shelf" registration to 20 million. Once this registration statement becomes effective, the Company will be able to issue these shares from time to time in response to market conditions or other circumstances. This media release does not constitute an offer to sell or the solicitation of offers to purchase any securities.

Product Collaboration Highlights

Raptiva(TM) (Efalizumab) with Genentech, Inc.: In July 2003, Genentech and XOMA announced that on September 9, 2003, the U.S. Food and Drug Administration`s Dermatologic and Ophthalmic Drugs Advisory Committee (DODAC) is scheduled to review the companies' Biologic License Application (BLA) for Raptiva(TM) for the treatment of moderate-to-severe plaque psoriasis in adults.

In July 2003, several dermatologist investigators presented new data at the American Association of Dermatologists Summer meeting in Chicago, highlighting positive results that further support the sustained and potentially increased clinical benefit of continuous use of Raptiva(TM) in the treatment of moderate-to-severe plaque psoriasis.

Twenty-four week data evaluating efficacy from an open label, extended treatment arm following 12-weeks of treatment in a randomized, double-blind, placebo-controlled Phase III study showed 44 percent (161/368) of patients treated continuously with 1 mg/kg of Raptiva(TM) for up to 24 weeks achieved a 75 percent or greater improvement in Psoriasis Area and Severity Index (PASI) scores (PASI 75).

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Additionally, data taken after 21 months (84 weeks) from a separate open-label study evaluating the long-term safety and tolerability of continuous Raptiva(TM) was presented. In this study, patients received 2 mg/kg of Raptiva(TM) weekly for an initial 12 weeks and subsequently received a once weekly dose of 1mg/kg of Raptiva(TM) starting at week 13. For each successive three-month period of treatment, dropouts during that period were analyzed using their last available PASI assessment, but were excluded from subsequent cohorts. Among the 194 patients who remained in the trial through Week 84, 67 percent (130/194) of patients achieved PASI 75 and 34 percent of patients (66/194) achieved PASI 90.

The safety of Raptiva(TM) for long term use was also supported in the 21 month open label trial. During continuous therapy, the incidence of adverse events decreased from 57% (Weeks 13-24) to 47.9% (Weeks 73-84). Data from more than 2,700 patients have been included in the Raptiva(TM) BLA, creating the largest existing database of patients treated with a targeted biologic therapy for psoriasis.

In April 2003, XOMA announced an expansion of the Genentech collaboration including terms relating to participation by Genentech, XOMA, and Genentech's licensees outside the U.S. in the development of all indications for Raptiva(TM). The amended agreements also address Genentech's ongoing financing of XOMA's share of development and commercialization costs, providing XOMA with

increased financing resources during preparations for a possible market launch as well as greater flexibility in repayment terms.

Serono S.A., Genentech's marketing partner outside the U.S. and Japan, announced in February 2003 that it had submitted a Marketing Authorization Application (MAA) to the European Agency for the Evaluation of Medicinal Products (EMEA) for European Union Approval of Raptiva(TM) in psoriasis. It has also submitted Raptiva(TM) data for marketing approval in Australia, Canada and Switzerland.

Genentech has projected a single cycle (~10-month) regulatory review period for Raptiva(TM) in the U.S. with FDA action expected in late 2003.

In January 2003, Genentech and XOMA announced the initiation of a Phase II study evaluating Raptiva(TM) in patients with psoriatic arthritis and enrollment has been completed. Genentech and XOMA continue to assess additional indications for Raptiva(TM).

MLN2201 and CAB-2 with Millennium Pharmaceuticals, Inc.: These two products are currently under development as part of an ongoing collaboration with Millennium (Nasdaq: MLNM).

In June 2003, XOMA announced initiation of a Phase I clinical trial of MLN2201 (formerly known as MLN01), a humanized monoclonal antibody being developed for conditions related to inflammation of the heart and blood vessels. This open-label, dose-escalating study will evaluate the safety, tolerability, pharmacokinetics and pharmacodynamics of MLN2201 in healthy volunteers, who will each receive a single intravenous infusion, followed by monitoring and evaluation.

CAB-2 continues in preclinical testing, and if successful, the Company is targeting the initiation of clinical testing later this year.

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In May 2003, XOMA announced the amendment of certain terms of its investment agreement with Millennium. Under the original investment agreement signed in 2001, Millennium committed to purchase, at XOMA's option, up to $50 million worth of common shares over a three year-period, through a combination of convertible debt and equity at prevailing market prices. Key new elements of the revised payment and investment agreement include an extension of the maturity date of a $5.0 million outstanding convertible note from May 2003 to February 2004, and a re-scheduling of XOMA's decision points on whether to sell the remaining common shares from three option dates through May 2004, to six option dates through February 2005. In June 2003, XOMA exercised an option to sell 608,766 shares to Millennium for $4.0 million or $6.57 per share, leaving an additional $33.5 million available to XOMA under this arrangement, excluding the convertible debt.

NEUPREX(R) with Baxter Healthcare Corporation: NEUPREX(R) is an injectable formulation of rBPI-21, a genetically engineered fragment of human bactericidal/permeability-increasing protein (BPI). In July 2003, XOMA announced the termination of its license and supply agreements with Baxter Healthcare Corporation for this product. In return for a release from its obligations under the agreements, Baxter has agreed to a one time $10 million payment to XOMA to be made no later than January 2004. Until such payment is made, Baxter is committed to reimburse XOMA for a portion of certain development expenses which may be incurred.

XOMA had previously disclosed that it and Baxter were seeking an additional pharmaceutical company partner to support the companies' efforts in developing NEUPREX(R) for systemic anti-infective and anti-endotoxin indications. Going forward, Baxter will have no involvement with the product. XOMA is evaluating future options for developing the product in multiple indications, including seeking a pharmaceutical partner.

ONYX-015 with Onyx Pharmaceuticals, Inc.: In June 2003, Onyx announced that it is discontinuing its therapeutic virus program, which includes the ONYX-015 product - a therapeutic, modified adenovirus genetically engineered to destroy cancer cells. Onyx has also notified XOMA of its intent to terminate the related

process development and manufacturing agreement, which involves termination payments and is effective 120 days from the date of notification. Onyx is obligated to pay $0.5 million as a facility fee plus $1.0 million as a termination fee by the end of the 120-day notification period.

Additional Ongoing Development Programs

ING-1: ING-1 is a recombinant monoclonal antibody that binds with high affinity to an antigen expressed on epithelial cell cancers (breast, colorectal, prostate and others) and is designed to destroy cancer cells by recruiting a patient's own immune system. Two Phase I studies have been completed testing an intravenous formulation of ING-1, and a third is in progress to evaluate the safety, subcutaneous administration and other features of ING-1 and to document any observed anti-tumor activity. XOMA's plans for further internal development and/or outlicensing will be determined based on the results of these studies.

XMP.629 compound for acne: XOMA is currently evaluating a topical anti-bacterial formulation of a BPI-derived compound as a possible treatment for acne. Propionibacterium acnes, a microbe commonly found on human skin, is associated with inflammatory lesions in acne patients. The emergence of strains resistant to current antibiotics used to treat acne has encouraged XOMA researchers to review the anti-P. acnes properties of the compound for this dermatological indication. The Company plans to initiate clinical testing in the second half of 2003, pending positive results of toxicology testing in progress.

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BPI-derived compounds for retinal disorders: Results of in vitro and in vivo studies conducted by Joslin Diabetes Center at Harvard University showed that certain BPI-derived compounds inhibit abnormal growth of blood vessels (angiogenesis) in the retina while sparing key retinal cells (pericytes). These data suggest that those compounds may have potential for treating eye diseases such as diabetic retinopathy or macular degeneration, leading causes of adult blindness, as well as other retinal diseases. XOMA is continuing its research collaboration with Joslin.

XOMA Enabling Technologies & License Agreements

In July and August 2003, XOMA entered into licensing arrangements with two companies, Crucell Holland B.V. and Xerion Pharmaceuticals AG, related to antibody phage display. Under the agreements, each company receives a license to use XOMA's antibody expression technology and XOMA will receive license and royalty payments.

***

XOMA has scheduled an investor conference call regarding this announcement, today, August 13, 2003 beginning at 4:00 PM EST (1:00 P.M. PST). Investors are invited to listen to the conference call by phone or via XOMA's website, HTTP://WWW.XOMA.COM/. The domestic dial-in number (U.S./Canada) for the live call is 1-877-356-2902 and the conference ID number is 1427242. The international dial-in number is 1-706-643-3700 and uses the same dial-in conference I.D. number. To listen to the call via the Internet, go to XOMA's website a few minutes before the start of the call to register, download, and install any necessary audio software.

The audio replay of the call will be available beginning two hours following the conclusion of the webcast through 6:00 p.m. EST (3:00 p.m. PST) on August 20, 2003. Access numbers for the replay are 1-800-642-1687 (U.S./Canada) or 1-706-645-9291(International); Conference I.D. 1427242.

About XOMA

XOMA develops and manufactures antibody and other protein-based biopharmaceuticals for disease targets that include cancer, immunological and inflammatory disorders, and infectious diseases. XOMA's programs include collaborations with Genentech, Inc. on the Raptiva(TM) antibody for psoriasis (BLA submission), psoriatic arthritis (Phase II) and other indications and with Millennium Pharmaceuticals, Inc. on CAB-2 and MLN2201 for certain vascular inflammation indications (preclinical and Phase I, respectively). Earlier stage development programs focus on antibodies and other compounds developed by XOMA for the treatment of cancer and infections. For more information about XOMA's pipeline and activities, please visit XOMA's website at HTTP://WWW.XOMA.COM/.

Certain statements contained herein related to the relative size of the Company's loss for 2003, the sufficiency of its cash resources, the DODAC review, and the BLA review time frame, as well as other statements related to the progress and timing of product development, present or future licensing or collaborative arrangements and the Company's intentions with respect to issuances of its securities, or that otherwise relate to future periods, are

forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements are based on assumptions that may not prove accurate. Actual results could differ materially from those anticipated due to certain risks inherent in the biotechnology industry and for companies engaged in the development of new products in a regulated market. Among other things, the actual loss for 2003 could be higher depending on revenues from licensees and collaborators, the size and timing of expenditures and whether there are unanticipated expenditures; the sufficiency of cash resources could be shortened if expenditures are made earlier or in larger amounts than anticipated or are unanticipated or if funds are not available on acceptable terms; regulatory approval could be delayed or denied based on safety or efficacy issues relating to the products being tested; action, inaction or delays by the FDA, European regulators and or their advisory bodies; or analysis and interpretation by, or submission to, these entities and others of scientific data.

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These and other risks, including those related to the results of pre-clinical testing, the design and progress of clinical trials, changes in the status of the existing collaborative relationships, availability of additional licensing or collaboration opportunities, the timing or results of pending and future clinical trials, the ability of collaborators and other partners to meet their obligations, market demand for products, actions by the U.S. Food and Drug Administration, the U.S. Patent and Trademark Office or the U.S. Securities and Exchange Commission, scale up and marketing capabilities, competition, international operations, share price volatility, the availability of financing needs and opportunities, uncertainties regarding the status of biotechnology patents, uncertainties as to the cost of protecting intellectual property and risks associated with XOMA's status as a Bermuda company, are described in more detail in the Company's most recent annual report on Form 10K and in other SEC filings.

Condensed Financial Statements Follow

XOMA Ltd.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	June 30, 2003	December 31, 2002
ASSETS	(Unaudited)	(Note 1)
Current assets:		
Cash and cash equivalents	$ 26,946	$ 36,262
Short-term investments	2,592	391
Restricted cash	-	1,500
Receivables	484	8,656
Related party receivables - current	100	206
Inventory	1,306	1,306
Prepaid expenses and other	1,044	449
Total current assets	32,472	48,770
Property and equipment, net	22,699	22,650
Related party receivables - long-term	108	190
Deposits and other	159	172
Total assets	$ 55,438	$ 71,782

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LIABILITIES AND SHAREHOLDERS' EQUITY (Net Capital Deficiency)		
Current liabilities:		
<S>	<C>	<C>
Accounts payable	$ 2,961	$ 3,201
Accrued liabilities	5,379	7,096
Short-term loan	-	763
Capital lease obligations - current	542	667
Deferred revenue - current	1,650	1,729
Convertible subordinated note - current	5,214	5,146

Total current liabilities	15,746	18,602
Capital lease obligations - long-term	497	729
Deferred revenue - long-term	30	800
Note payable long-term	5,260	-
Convertible subordinated note - long-term	69,617	63,016
Total liabilities	91,150	83,147
Shareholders' equity (Net capital deficiency):		
Common shares	36	36
Additional paid-in capital	534,054	529,354
Accumulated comprehensive income	228	121
Accumulated deficit	(570,030)	(540,876)
Total shareholders' equity (Net capital deficiency)	(35,712)	(11,365)
Total liabilities and shareholders' equity	$55,438	$ 71,782

</TABLE>

Note 1 - Amounts derived from the Company's audited financial statements appearing in the Annual Report on Form 10-K for the year ended December 31, 2002 as filed with the Securities and Exchange Commission.

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XOMA Ltd.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, in thousands except per share amounts)

<TABLE>
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	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
Revenues:				
<S>	<C>	<C>	<C>	<C>
License and collaborative fees	$ 920	$ 1,340	$ 2,075	$ 7,653
Contract and other revenue	1,441	3,384	3,450	6,293
Total revenues	2,361	4,724	5,525	13,946
Operating costs and expenses:				
Research and development	13,502	10,759	25,484	20,694
Marketing, general and administrative	4,698	3,849	8,603	8,698
Total operating costs and expenses	18,200	14,608	34,087	29,392
Loss from operations	(15,839)	(9,884)	(28,562)	(15,446)
Other income (expense):				
Investment and other income	268	232	383	504
Interest expense	(489)	(493)	(975)	(1,142)
Net loss	$ (16,060)	$ (10,145)	$ (29,154)	$ (16,084)
Basic and diluted net loss per common share	$ (.22)	$ (.14)	$ (.41)	$ (.23)
Shares used in computing basic and diluted net loss per common share	72,023	70,309	71,937	70,269

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Exhibit 31.1

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

I, John L. Castello, certify that:

1. I have reviewed this quarterly report on Form 10-Q of XOMA Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 13, 2003

/s/ John L. Castello

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

Exhibit 31.2

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

I, Peter B. Davis, certify that:

1. I have reviewed this quarterly report on Form 10-Q of XOMA Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 13, 2003

/s/ Peter B. Davis

Peter B. Davis
Vice President, Finance and Chief Financial Officer

Exhibit 32.1

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chapter 63, Title 18 U.S.C. Section 1350(a) and (b)), the undersigned hereby certifies in his capacity as an officer of XOMA Ltd. (the "Company") that the Quarterly Report of the Company on Form 10-Q for the period ended June 30, 2003 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended, and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company at the end of and for the periods covered by such Report.

Date: August 13, 2003 /s/ John L. Castello

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

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

Exhibit 32.2

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chapter 63, Title 18 U.S.C. Section 1350(a) and (b)), the undersigned hereby certifies in his capacity as an officer of XOMA Ltd. (the "Company") that the Quarterly Report of the Company on Form 10-Q for the period ended June 30, 2003 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended, and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company at the end of and for the periods covered by such Report.

Date: August 13, 2003 /s/ Peter B. Davis

Peter B. Davis
Vice President, Finance and Chief Financial Officer

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