

Registration No. 333-

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-8

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

XOMA Ltd.

(Exact name of registrant as specified in its charter)

Bermuda  
(State or other jurisdiction of incorporation or organization)

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

2910 Seventh Street  
Berkeley, California 94710  
(Address of Principal Executive Offices)

XOMA LTD. 1981 SHARE OPTION PLAN  
XOMA LTD. RESTRICTED SHARE PLAN  
XOMA LTD. MANAGEMENT INCENTIVE COMPENSATION PLAN  
XOMA LTD. 1992 DIRECTORS SHARE OPTION PLAN  
XOMA LTD. 2002 DIRECTOR SHARE OPTION PLAN  
XOMA LTD. 1998 EMPLOYEE SHARE PURCHASE PLAN  
(Full title of the plan)

Christopher J. Margolin, Esq.  
XOMA Ltd.  
2910 Seventh Street  
Berkeley, California 94710  
(Name and address of agent for service)  
(510) 204-7200  
(Telephone number, including area code, of agent for service)

Copy to:  
Geoffrey E. Liebmann, Esq.  
Cahill Gordon & Reindel LLP  
80 Pine Street  
New York, NY 10005

<TABLE>  
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CALCULATION OF REGISTRATION FEE

Title of Securities to be Registered (2)	Amount to be Registered (1)	Proposed Maximum Offering Price Per Share (2)	Proposed Maximum Aggregate Offering Price (2)	Amount of Registration Fee
Common Shares, par value <S> US\$.0005 per share (1981 Share Option Plan, Restricted Share Plan and Management Incentive Compensation Plan)	<C> 10,250,000 shares	<C> \$9.125	<C> \$93,531,250	<C> \$7,566.68
Common Shares, par value US\$.0005 per share				

(1992 Directors Share Option Plan)	300,000 shares	\$9.125	\$2,737,500	\$221.46
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Common Shares, par value US\$.0005 per share (2002 Director Share Option Plan)	15,000 shares	\$9.125	\$136,875	\$11.07
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Common Shares, par value US\$.0005 per share (1998 Employee Share Purchase Plan)	1,000,000 shares	\$9.125	\$9,125,000	\$738.21
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</TABLE>

- (1) Subject to adjustment to prevent dilution resulting from share subdivisions, bonus issues or similar transactions.
- (2) Estimated solely for purposes of calculating the registration fee. Pursuant to Rules 457(c) and 457(h) under the Securities Act of 1933, as amended, the registration fee has been calculated based on the average of the high and low sale prices reported for the Common Shares of XOMA Ltd. on August 27, 2003, which was US\$9.125 per share, as reported on The Nasdaq Stock Market

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This Registration Statement on Form S-8 registers additional securities of the same class as other securities for which registration statements filed on Form S-8 relating to the XOMA Ltd. 1981 Share Option Plan, XOMA Ltd. Restricted Share Plan and XOMA Ltd. 1998 Employee Share Purchase Plan are effective. Accordingly, pursuant to General Instruction E of Form S-8, the Registration Statements on Form S-8 (File No. 333-39155 and 333-66171) filed with the Securities and Exchange Commission on February 26, 1991 and October 27, 1998, respectively, are incorporated herein by reference.

#### EXPLANATORY NOTE

All of the common shares of XOMA Ltd. registered hereby for issuance in connection with the 1981 Share Option Plan, the Restricted Share Plan, the 1992 Directors Share Option Plan and the 1998 Employee Share Purchase Plan have all been previously approved for issuance pursuant to such plans by the shareholders of XOMA Ltd. at various times in the past, including most recently at its 2003 Annual General Meeting held on May 21, 2003. The common shares registered hereby for issuance in connection with the Management Incentive Compensation Plan may only be issued pursuant to the Restricted Share Plan. This Form S-8 does not reflect any increase in the number of shares issuable pursuant to any of the plans referred to in this paragraph above the numbers previously approved by shareholders.

#### PART I

##### INFORMATION REQUIRED IN SECTION 10(a) PROSPECTUS

ITEM 1. PLAN INFORMATION.\*

ITEM 2. REGISTRANT INFORMATION AND EMPLOYEE PLAN ANNUAL INFORMATION.\*

- \* As permitted by Rule 428 under the Securities Act of 1933, as amended (the "Securities Act"), this Registration Statement omits the information specified in Part I of Form S-8. The documents containing the information specified in Part I will be delivered to the participants in the plans covered by this Registration Statement as required by Rule 428(b). Such documents are not being filed with the Securities and Exchange Commission (the "Commission") as part of this Registration Statement or as prospectuses or prospectus supplements pursuant to Rule 424(b) under the Securities Act.

#### PART II

INFORMATION REQUIRED  
IN THE REGISTRATION STATEMENT

ITEM 3. INCORPORATION OF DOCUMENTS BY REFERENCE.

The following documents have been filed by XOMA Ltd. ("XOMA" or the "Company") with the Commission pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and are hereby incorporated by reference:

- (1) annual report on Form 10-K for the fiscal year ended December 31, 2002 (file no. 0-14710);
- (2) quarterly reports on Form 10-Q for the quarterly periods ended March 31, 2003 and June 30, 2003 (file no. 0-14710);
- (3) current report on Form 8-K filed April 11, 2003, as amended on Form 8-K/A filed April 18, 2003 (file no. 0-14710);
- (4) current report on Form 8-K/A filed May 21, 2003 (file no. 0-14710);
- (5) current report on Form 8-K filed June 30, 2003 (file no. 0-14710); and
- (6) the description of share capital in the registration statement on Form 8-A filed April 1, 2003 under Section 12 of the Exchange Act, including any amendment or report for the purpose of updating such description (file no. 0-14710).

All documents filed by XOMA with the Commission pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this Registration Statement and prior to the termination of the offering of the Common Shares offered hereby shall be deemed to be incorporated by reference herein and to be a part hereof from the date any such document is filed.

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Any statements contained in a document incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Registration Statement to the extent that a statement contained in this Registration Statement or in any other subsequently filed document which also is incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed to constitute a part of this Registration Statement except as so modified or superseded.

ITEM 4. DESCRIPTION OF SECURITIES.

The description of the Registrant's Common Shares to be offered pursuant to this Registration Statement has been incorporated by reference into this Registration Statement as described in Item 3 of this Part II.

ITEM 5. INTERESTS OF NAMED EXPERTS AND COUNSEL.

Not applicable.

ITEM 6. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Under Bermuda law, a company is permitted to indemnify any officer or director, out of the funds of the company, against (i) any liability incurred by him or her in defending any proceedings, whether civil or criminal, in which judgment is given in his or her favor, or in which he or she is acquitted, or in connection with any application under relevant Bermuda legislation in which relief from liability is granted to him or her by the court and (ii) any loss or liability resulting from negligence, default, breach of duty or breach of trust, save for his or her fraud or dishonesty.

The bye-laws of XOMA provide for the indemnity by XOMA of the officers, directors and employees of XOMA to the fullest extent permitted by law.

Expenses (including attorneys' fees) incurred by an officer or director of XOMA in defending any civil, criminal, administrative or investigative action, suit or proceeding shall be paid by XOMA in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by XOMA pursuant to the Companies Act 1981 of Bermuda.

An officer or director of XOMA shall not be personally liable to XOMA or its shareholders for monetary damages for any breach of fiduciary duty as a director or officer, except to the extent that such limitation is prohibited by the Companies Act 1981 of Bermuda.

The indemnification and advancement of expenses and the limitation of liability provided by the bye-laws shall not be deemed exclusive of any other rights which any officer, director or employee, as such, may have or hereafter

acquire under the Companies Act 1981 of Bermuda, any other provision of the bye-laws, or any agreement or otherwise. Any repeal or modification of the aforementioned provisions of the bye-laws shall not adversely affect any right or protection existing at the time of such repeal or modification.

ITEM 7. EXEMPTION FROM REGISTRATION CLAIMED.

Not applicable.

ITEM 8. EXHIBITS.

See Exhibit Index.

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ITEM 9. UNDERTAKINGS.

The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in the volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to rule 424(b) if, in the aggregate, the changes and volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement.

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

Provided, however, that paragraphs (1)(i) and (1)(ii) do not apply if the information required to be included in the post-effective amendment by those paragraphs is contained in periodic reports filed by the registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit's plan's annual report pursuant to section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered herein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the

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securities being registered, the registrant will, unless in the opinion of counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

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#### SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-8 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Berkeley, State of California, on July 31, 2003.

XOMA LTD.

By: /s/ John L. Castello

-----  
Name: John L. Castello  
Title: Chairman of the Board, President  
and Chief Executive Officer

#### POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints John L. Castello and Christopher J. Margolin, and each of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) and supplements to this registration statement, and to file the same, with the SEC and the Bermuda Registrar of Companies, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed below by the following persons in the capacities and on the dates indicated.

<TABLE>  
<CAPTION>

Signature - - - - -	Title -----	Date ----
<S>	<C>	<C>
/s/ John L. Castello ----- John L. Castello	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)	July 31, 2003
/s/ Patrick J. Scannon ----- Patrick J. Scannon M.D., Ph.D.	Senior Vice President and Chief Scientific and Medical Officer and Director	July 31, 2003
/s/ Peter B. Davis ----- Peter B. Davis	Vice President, Finance and Chief Financial Officer (Principal Financial and Accounting Officer)	July 31, 2003
/s/ James G. Andress ----- James G. Andress	Director	July 31, 2003
/s/ William K. Bowes, Jr. ----- William K. Bowes, Jr.	Director	July 31, 2003
/s/ Arthur Kornberg ----- Arthur Kornberg M.D.	Director	July 31, 2003
/s/ Steven C. Mendell	Director	July 31, 2003

----- Steven C. Mendell /s/ W. Denman Van Ness -----	Director	July 31, 2003
W. Denman Van Ness /s/ Patrick J. Zenner -----	Director	July 31, 2003
Patrick J. Zenner </TABLE>		

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EXHIBIT INDEX

Exhibit Number	Exhibit
3.1	Memorandum of Continuance of XOMA Ltd. (Exhibit 3.4) (1)
3.2	Bye-Laws of XOMA Ltd. as amended (Exhibit 3.2) (2)
4.1	Shareholder Rights Agreement dated as of February 26, 2003 by and between XOMA and Mellon Investor Services LLC as Rights Agent (Exhibit 4.1) (2)
4.2	Form of Resolution Regarding Preferences and Rights of Series A Preference Shares (Exhibit 4.2) (2)
4.3	Form of Resolution Regarding Preferences and Rights of Series B Preference Shares (Exhibit 3) (3)
4.4	Form of Common Stock Purchase Warrant (Incyte Warrants) (Exhibit 2) (4)
4.5	Form of Common Share Purchase Warrant (January and March 1999 Warrants) (Exhibit 5) (5)
4.6	Form of Common Share Purchase Warrant (July 1999 Warrants) (Exhibit 4) (6)
4.7	Form of Common Share Purchase Warrant (2000 Warrants) (Exhibit 4) (7)
5.1	Opinion of Conyers Dill & Pearman
10.1	1981 Share Option Plan as amended and restated
10.2	Form of Share Option Agreement for 1981 Share Option Plan
10.3	Restricted Share Plan as amended and restated
10.4	Form of Share Option Agreement for Restricted Share Plan
10.5	Form of Restricted Share Purchase Agreement for Restricted Share Plan
10.6	Management Incentive Compensation Plan as amended and restated
10.7	1992 Directors Share Option Plan as amended and restated
10.8	Form of Share Option Agreement for 1992 Directors Share Option Plan (initial grants)
10.9	Form of Share Option Agreement for 1992 Directors Share Option Plan (subsequent)
10.10	2002 Director Share Option Plan

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10.11	1998 Employee Share Purchase Plan as amended and restated
23.1	Consent of Ernst & Young LLP, independent auditors
23.2	Consent of Conyers Dill & Pearman (included in Exhibit 5.1).
24.1	Power of Attorney (included on signature page to Registration Statement).
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(1)	Incorporated by reference to the referenced exhibit to XOMA's Registration Statement on Form S-4 filed November 27, 1998, as amended (File No. 333-68045).

- (2) Incorporated by reference to the referenced exhibit to XOMA's Annual Report on Form 10-K for the fiscal year end December 31, 2002 (File No. 0-14710).
- (3) Incorporated by reference to the referenced exhibit to XOMA's Current Report on Form 8-K/A filed April 18, 2003 (File No. 0-14710).
- (4) Incorporated by reference to the referenced exhibit to XOMA's Current Report on Form 8-K filed July 16, 1998 (File No. 0-14710).
- (5) Incorporated by reference to the referenced exhibit to XOMA's Current Report on Form 8-K filed January 29, 1999, as amended (File No. 0-14710).
- (6) Incorporated by reference to the referenced exhibit to XOMA's Current Report on Form 8-K filed July 26, 1999 (File No. 0-14710).
- (7) Incorporated by reference to the referenced exhibit to XOMA's Current Report on Form 8-K filed February 14, 2000 (File No. 0-14710).

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Exhibit 5.1

[LETTERHEAD OF CONYERS DILL & PEARMAN]

28 August 2003

XOMA Ltd.  
2910 Seventh Street  
Berkeley, California 94710  
U.S.A.

Dear Sirs

XOMA Ltd. (the "Company")

We have acted as special legal counsel in Bermuda to the Company in connection with a registration statement on form S-8 filed with the Securities and Exchange Commission (the "Commission") on 28 August 2003 (the "Registration Statement", which term does not include any other document or agreement whether or not specifically referred to therein or attached as an exhibit or schedule thereto) relating to the registration under the United States Securities Act of 1933, as amended, (the "Securities Act") of 11,565,000 additional common shares, par value US\$0.0005 per share of the Company (the "Common Shares"), issuable pursuant to the Company's 1998 Employee Share Purchase Plan (amended and restated through 30 June 2000 and further amended as of 29 May 2002), 1981 Share Option Plan (as amended and restated through 21 May 2003), Restricted Share Plan (as amended and restated through 21 May 2003), 1992 Directors Share Option Plan (as amended and restated through 31 December 1998), Management Incentive Compensation Plan (as amended and restated through 20 February 2002) and 2002 Director Share Option Plan (collectively, the "Plans", which term does not include any other document or agreement whether or not specifically referred to therein or attached as an exhibit or schedule thereto).

For the purposes of giving this opinion, we have examined copies of the Registration Statement and the Plans. We have also reviewed the memorandum of continuance and the bye-laws of the Company, each certified by the Assistant Secretary of the Company on 26 August 2003, copies of minutes of meetings of the members of the Company held on 31 January 2000, 30 May 2001, 29 May 2002 and 21 May 2003 and resolutions passed at meetings of the board of directors of the Company held on 24 February 1999, 26 July 2000, 20 February 2002, 31 July 2002, 26 February 2003 and 31 July 2003, each certified by the Assistant Secretary of the Company on 26 August 2003 (together, the "Minutes") and such other documents and made such enquires as to questions of law as we have deemed necessary in order to render the opinion set forth below.

We have assumed (a) the genuineness and authenticity of all signatures and the conformity to the originals of all copies (whether or not certified) of all documents examined by us and the authenticity and completeness of the originals from which such copies were taken, (b) that where a document has been examined by us in draft form, it will be or has been executed and/or filed in the form of that draft, and where a number of drafts of a document have been examined by us all changes thereto have been marked or otherwise drawn to our attention, (c) that there is no provision of the law of any jurisdiction, other than Bermuda, which would have any implication in relation to the opinions expressed herein, (d) the accuracy and completeness of all factual representations made in the Registration Statement and other documents reviewed by us, (e) that the resolutions in the Minutes remain in full force and effect and have not been rescinded or amended, (f) that, upon the issue of any common shares,

the Company will receive consideration (other than in the form of a promissory note) equal to at least the par value thereof.

We have made no investigation of and express no opinion in relation to the laws of any jurisdiction other than Bermuda. This opinion is to be governed by and construed in accordance with the laws of Bermuda and is limited to and is given on the basis of the current law and practice in Bermuda.

On the basis of, and subject to, the foregoing, we are of the opinion that, when issued and paid for in accordance with the terms of the Plans, the Common Shares will be validly issued, fully paid and non-assessable (which term means when used herein that no further sums are required to be paid by the holders thereof in connection with the issue of such shares).

We consent to the filing of this opinion as an exhibit to the Registration Statement. In giving such consent, we do not hereby admit that we are in the category of persons whose consent is required under Section 7 of the Securities Act or the Rules and Regulations of the Commission promulgated thereunder.

Yours faithfully,

CONYERS DILL & PEARMAN



XOMA LTD.  
1981 SHARE OPTION PLAN

(As Amended and Restated Through  
May 30, 2001)

1. PURPOSE OF THE PLAN

The 1981 Share Option Plan ("Plan") is intended to promote the interests of XOMA Ltd. (the "Company") by providing (i) those key employees of the Company and its subsidiaries who are primarily responsible for the management, growth and financial success of the Company or its subsidiaries and (ii) those consultants who provide valuable services to the Company or its subsidiaries, with the opportunity to acquire a proprietary interest, or increase their proprietary interest, in the Company and thereby encourage such individuals to remain in the employ or service of the Company or its subsidiaries.

2. ADMINISTRATION OF THE PLAN

(a) The Plan shall be administered by the Company's Board of Directors (the "Board"). The Board, however, may at any time appoint a committee ("Committee") of two (2) or more "non-employee directors" (within the meaning of Rule 16b-3(b)(3) of the Securities and Exchange Commission as amended October 30, 1996 or any successor provision thereto) to administer one or more provisions of the Plan, including the option grant, option surrender and option acceleration provisions, or to provide recommendations to the Board with respect to the Board's administration of those provisions. It is also intended that the non-employee directors shall also be "outside directors" (within the meaning of Section 162(m) of the Internal Revenue Code). However, the mere fact that a Committee member shall fail to qualify as a non-employee director or an outside director shall not invalidate any options granted by the Committee which are otherwise validly made under the Plan. Members of the Committee shall serve for such period of time as the Board may determine and shall be subject to removal by the Board at any time.

(b) The Plan Administrator (either the Board or the Committee, to the extent the Committee has been delegated responsibility for the administration of the Plan) shall have full power and authority (subject to the provisions of the Plan) to establish such rules and regulations as it may deem appropriate for the proper administration of the Plan and to make such determinations under, and issue such interpretations of, the Plan and any outstanding option as it may deem necessary or advisable. Decisions of the Plan Administrator shall be final and binding on all parties who have an interest in the Plan or any outstanding option.

3. ELIGIBILITY FOR OPTION GRANTS

(a) Key employees (including officers and directors) of the Company (or its subsidiaries) and consultants (other than non-employee directors) who provide valuable services

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to the Company (or its subsidiaries) are eligible to receive options under the Plan. Directors who are not employees of the Company (or its subsidiaries) are not eligible to receive such options or to participate otherwise in the Plan.

(b) The Committee, or the Board if no Committee is appointed pursuant to subsection 2(a), shall have full authority to determine the number of shares to be covered by each option grant, the time or times at which each granted option is to become exercisable, the maximum term for which the option may remain outstanding and whether the granted option is to be an incentive share option ("Incentive Option") which satisfies the requirements of Section 422A of the Internal Revenue Code or a non-statutory option not intended to meet such requirements.

(c) For the purposes of the Plan, each corporation (other than the Company) in an unbroken chain of corporations beginning with the Company will be considered to be a subsidiary of the Company, provided each such corporation other than the last corporation in the unbroken chain owns, at the time of determination, stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

4. SHARES SUBJECT TO THE PLAN

(a) The shares issuable under the Plan shall be shares of the Company's authorized but unissued common shares ("Common Share(s)"). The maximum number of shares issuable over the term of the Plan shall not exceed 8,650,000 shares, subject to adjustment as provided in Section 4(c). The maximum number of Common Shares authorized for issuance under the Plan shall, however, be reduced, on a one-for-one basis, for each Common Share issued under the Company's Restricted Share Plan (the "Share Plan").

For any one individual, the number of shares for which options or share appreciation rights may be granted under the Plan, beginning October 30, 1996 and ending at the expiration of the term of the Plan, may not exceed 1,000,000.

(b) Should an option be terminated for any reason prior to exercise or surrender in full, the shares subject to the portion of the option not so exercised or surrendered shall be available for subsequent option grant under the Plan or for subsequent option grant or share issuance under the Share Plan. Shares subject to an option (or portion of an option) surrendered in accordance with Section 7 of the Plan and shares repurchased by the Company pursuant to its repurchase rights under the Plan shall not be available for subsequent reissue under either this Plan or the Share Plan.

(c) If any change is made to the Common Shares issuable under the Plan by reason of any share dividend, share split, combination of shares, recapitalization, or other change affecting the outstanding Common Shares as a class without receipt of consideration, then appropriate adjustments will be made to (i) the maximum number of shares issuable under the Plan and (ii) the number and/or class of shares and the option price per Common Share subject to each

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outstanding option in order to prevent the dilution or enlargement of benefits thereunder. The adjustments determined by the Plan Administrator will be final, binding and conclusive.

(d) Common Shares issuable upon exercise of an option granted under the Plan may be subject to such restrictions on transfer, repurchase rights or other restrictions as are determined by the Plan Administrator.

#### 5. TERMS AND CONDITIONS OF OPTIONS

Each option granted under the Plan shall be evidenced by a share option agreement that complies with (or incorporates) each of the terms and conditions of this Section 5 and identifies such option as either an Incentive Option or non-statutory option. Individuals who are not employees of the Company or its subsidiaries may only be granted non-statutory options. Each instrument evidencing an Incentive Option shall, in addition, comply with the applicable provisions of Section 6.

##### (a) Option Price.

(1) Subject to the provisions of subsection (a)(2) below, the option price per share will be fixed by the Plan Administrator but in no event shall it be less than one hundred percent (100%) of the fair market value per Common Share on the date of the option grant.

(2) If the individual to whom an Incentive Option or a non-statutory option is granted is at such time the owner of shares (as determined under Section 425(d) of the Internal Revenue Code) possessing 10% or more of the total combined voting power of all classes of shares of the Company or any one of its subsidiary corporations (such person to be herein referred to as a "10% Shareholder"), then the option price per share shall not be less than one hundred ten percent (110%) of the fair market value per Common Share on the grant date.

(3) The option price shall become immediately due upon exercise of the option and, subject to the provisions of Section 10, shall be payable in one of the following alternative forms specified below (as determined by the Plan Administrator and set forth in the instrument evidencing the grant):

(A) Full payment in cash or cash equivalents; or

(B) Full payment in Common Shares valued at fair market value on the Exercise Date (as such term is defined below) in an amount equal to the option price; or

(C) Full payment in a combination of Common Shares valued at fair market value on the Exercise Date and cash or cash equivalents, equal in the aggregate to the option price; or

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(D) Payment effected through a broker-dealer sale and remittance procedure pursuant to which the optionee (I) shall provide irrevocable written instructions to the designated broker-dealer to effect the immediate sale of the purchased shares and remit to the Company, out of the sale proceeds, an amount equal to the aggregate option price payable for the purchased shares plus all applicable Federal and State income and employment taxes required to be withheld by the Company by reason of such

purchase and (II) shall provide written directives to the Company to deliver the certificates for the purchased shares directly to such broker-dealer.

For purposes of this subsection (a) (3), the Exercise Date is the date on which written notice of the exercise of the option is given to the Company. Except to the extent the sale and remittance procedure of clause (D) above is utilized, payment of the option price for the purchased shares shall accompany such notice.

(4) For purposes of subsections (1), (2) and (3) above (and for all other valuation purposes under the Plan), the fair market value per Common Share shall be determined in accordance with the following provisions:

(A) If the Common Shares are not at the time listed or admitted to trading on any stock exchange but is traded in the over-the-counter market, the fair market value shall be the closing selling price per Common Share on the date in question, as such price is reported by the National Association of Securities Dealers through its Nasdaq National Market or any successor system. If there is no reported closing selling price for Common Shares on the date in question, then the closing selling price on the last preceding date for which such quotation exists shall be determinative of fair market value.

(B) If the Common Shares are at the time listed or admitted to trading on any stock exchange, then the fair market value shall be the closing selling price per Common Share on the date in question on the stock exchange determined by the Plan Administrator to be the primary market for the Common Shares, as such price is officially quoted on such exchange. If there is no reported sale of Common Shares on such exchange on the date in question, then the fair market value shall be the closing selling price on the exchange on the last preceding date for which such quotation exists.

(C) If the Common Shares are at the time neither listed nor admitted to trading on any stock exchange nor traded in the over-the-counter market (or if the Plan Administrator determines that the value as determined pursuant to subsection (A) or (B) above does not reflect fair market value), then the Plan Administrator shall determine fair market value after taking into account such factors as it deems appropriate, including one or more independent professional appraisals.

(b) Term and Exercise of Options; Transferability. Each option granted under the Plan shall be exercisable at such time or times and during such period as is determined by the

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Plan Administrator and set forth in the share option agreement evidencing such option; provided, however, that no option granted under the Plan shall have a term in excess of ten (10) years from its date of grant.

Options (other than Incentive Options) may in the discretion of the Plan Administrator, be granted on terms which permit their transfer or assignment to the spouse of the optionee or a descendent of the optionee (any such spouse or descendent, an "Immediate Family Member") or a corporation, partnership, limited liability company or trust so long as all of the shareholders, partners, members or beneficiaries thereof, as the case may be, are either the optionee or an Immediate Family Member of the optionee, provided that (i) there may be no consideration for any such transfer, (ii) the share option agreement pursuant to which such options are granted must expressly provide for transferability in a manner consistent with the foregoing, and (iii) subsequent transfers of transferred options will be prohibited other than by will or the laws of descent and distribution. Following transfer, any such options will continue to be subject to the same terms and conditions as were applicable immediately prior to transfer, provided that for purposes of the option agreement the term "optionee" will refer to the transferee. The events of termination of employment will continue to be applied with respect to the original optionee, following which the options will be exercisable by the transferee only to the extent, and for the periods specified, in the option agreement. With respect to Incentive Options, the option shall be exercisable during the lifetime of the optionee only by the optionee and shall not be assignable or transferable by the optionee otherwise than by will or by the laws of descent and distribution.

(c) Investment Purpose. If necessary or advisable to comply with applicable federal or state securities laws, any option granted under the Plan may be granted on the condition that the optionee agree that the Common Shares purchased thereunder are for investment purposes only and not for resale or distribution and that such shares shall be disposed of only in accordance with such laws. As a condition to issuance of any shares purchased upon the exercise of any option granted pursuant to the Plan, the optionee, his executor, administrator, heir, legatee or transferee (as the case may be) receiving such shares may be required to deliver to the Company an instrument, in form and substance satisfactory to the Company and its counsel, implementing such

agreement. Any such condition may be eliminated by the Plan Administrator if the Plan Administrator determines it is no longer necessary or advisable.

(d) Effect of Termination of Employment.

(1) Should an optionee cease to be an employee of the Company for any reason (including death or permanent disability as defined in Section 22(e) (3) of the Internal Revenue Code) while the holder of one or more outstanding options granted to such optionee under the Plan, then such option or options shall not remain exercisable (except as otherwise specifically authorized under Section 11) for more than a twelve (12) month period (or such shorter period as is determined by the Plan Administrator and set forth in the option agreement) following the date of such cessation of employee status, and each such option shall, during such twelve (12) month or shorter period, be exercisable only to the extent of the number of shares (if

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any) for which the option is exercisable on the date of such cessation of employee status. Under no circumstances, however, shall any such option be exercisable after the specified expiration date of the option term. Upon the expiration of such twelve (12) month or shorter period or (if earlier) upon the expiration of the option term, the option shall terminate and cease to be exercisable.

(2) Any option granted to an optionee under the Plan and exercisable in whole or in part on the date of the optionee's death may be subsequently exercised, but only to the extent of the number of shares (if any) for which the option is exercisable on the date of the optionee's cessation of employee status, by the personal representative of the optionee's estate or by the person or persons to whom the option is transferred pursuant to subsection (b) above, provided and only if such exercise occurs prior to the earlier of (i) the first anniversary of the date of the optionee's death or (ii) the specified expiration date of the option term. Upon the occurrence of the earlier event, the option shall terminate and cease to be exercisable.

(3) If (i) the optionee's status as an employee is terminated for cause (including, but not limited to, any act of dishonesty, willful misconduct, fraud or embezzlement or any unauthorized disclosure or use of confidential information or trade secrets) or (ii) the optionee makes or attempts to make any unauthorized use or disclosure of confidential information or trade secrets of the Company or its subsidiaries, then upon the occurrence of any such event all outstanding options granted the optionee under the Plan shall immediately terminate and cease to be exercisable.

(4) Notwithstanding subsections (1), (2) and (3) above, the Plan Administrator shall have the discretion to establish as a provision applicable to the exercise of one or more options granted under the Plan that during the period of exercisability following cessation of employee status (as provided in such subsections), the option may be exercised not only with respect to the number of shares for which it is exercisable at the time of the optionee's cessation of employee status but also with respect to one or more installments of purchasable shares for which the option otherwise would have become exercisable had such cessation of employee status not occurred.

(5) For purposes of the foregoing provisions of this Section 5(d), the optionee shall be deemed to be an employee of the Company for so long as the optionee remains in the employ of the Company or one or more of its subsidiaries.

(6) If the option is granted to a consultant or other independent contractor, then the instrument evidencing the granted option shall include provisions comparable to subsections 5(d) (1), 5(d) (2) and 5(d) (3) above, and may include provisions comparable to subsection 5(d) (4) above, with respect to the optionee's termination of service with the Company or its subsidiaries.

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(e) Shareholder Rights. An option holder shall have no shareholder rights with respect to any shares covered by the option until such option holder has exercised the option, paid the option price and been issued the purchased shares.

(f) Repurchase Rights. The Common Shares acquired upon the exercise of options granted under the Plan may be subject to one or more repurchase rights of the Company in accordance with the following provisions:

(1) The Plan Administrator may in its discretion determine that it shall be a term and condition of one or more options granted under the Plan that the Company (or its assigns) shall have the right, exercisable upon the optionee's cessation of employee status or service, to repurchase at the original option

price any or all unvested Common Shares at the time held by such individual under the Plan. Any such repurchase right shall be exercisable by the Company (or its assigns) upon such terms and conditions (including the establishment of the appropriate vesting schedule and other provisions for the expiration of such right in one or more installments) as the Plan Administrator may specify in the instrument evidencing such right.

(2) The Plan Administrator shall also have full power and authority to provide for the automatic termination of the Company's outstanding repurchase rights, in whole and in part, and thereby accelerate the vesting of any or all purchased shares, upon the occurrence of any Corporate Transaction specified in Section 8.

#### 6. SPECIAL LIMITATIONS ON INCENTIVE OPTIONS

The terms and conditions specified below shall be applicable to all Incentive Options granted under the Plan. Options which are specifically designated as "non-statutory" options when issued under the Plan shall not be subject to such terms and conditions:

(a) Dollar Limitations on Incentive Options Granted After December 31, 1986. The aggregate fair market value (determined as of the respective date or dates of grant) of the Common Shares for which one or more options granted after December 31, 1986 to any employee under the Plan (or any other option plan of the Company or its parent or subsidiaries) may for the first time become exercisable as incentive share options under the Federal tax laws during any one post-1986 calendar year shall not exceed the sum of One Hundred Thousand Dollars (\$100,000). To the extent the employee holds two or more such post-1986 options which become exercisable for the first time in the same calendar year, the foregoing limitation on the exercisability thereof as incentive share options under the Federal tax laws shall be applied on the basis of the order in which such options are granted.

(b) 10% Shareholder. If the individual to whom the Incentive Option is granted is a 10% Shareholder (as defined in Section 5(a)(2) above), then the option shall not have a term in excess of five (5) years from such grant date.

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Except as modified by the preceding provision of this Section 6, all the provisions of the Plan shall be applicable to the Incentive Options granted hereunder.

#### 7. SHARE APPRECIATION RIGHTS

(a) One or more option holders may, upon such terms and conditions as the Plan Administrator may establish at the time of the option grant or at any time thereafter, be granted the right to surrender all or part of an unexercised option in exchange for a distribution from the Company in an amount equal to the excess of (i) the fair market value (at date of surrender) of the number of shares in which the optionee is at the time vested under the surrendered option or portion thereof over (ii) the aggregate option price payable for such vested shares. No surrender of an option, however, shall be effective unless it is approved by the Plan Administrator. If the surrender is so approved, then the distribution to which the option holder shall accordingly become entitled under this Section 7 may be made in Common Shares valued at fair market value at date of surrender, in cash, or partly in shares and partly in cash, as the Plan Administrator shall in its sole discretion deem appropriate.

(b) If the surrender of an option is rejected by the Plan Administrator, then the option holder shall retain whatever rights the option holder had under the surrendered option (or surrendered portion thereof) on the date of surrender and may exercise such rights at any time prior to the later of (i) the expiration of the 5 business-day period following receipt of the rejection notice or (ii) the last day on which the option is otherwise exercisable in accordance with the terms of the instrument evidencing such option, but in no event may such rights be exercised at any time after ten (10) years (or five (5) years in the case of a 10% Shareholder) after the date of the option grant.

(c) Notwithstanding the foregoing provisions of this Section 7, should twenty-five percent (25%) or more of the Company's outstanding voting shares be acquired pursuant to a tender or exchange offer (i) which is made by a person or group of related persons other than the Company or a person that directly or indirectly controls, is controlled by or is under common control with the Company and (ii) which the Board does not recommend the Company's shareholders to accept, then each officer or director who is at the time subject to the short-swing profit restrictions of the Federal securities laws shall have the right (exercisable for a period not to exceed thirty (30) days) to surrender any or all options held by such individual under the Plan, to the extent such options are at the time exercisable for vested shares, and receive in exchange therefor an appreciation distribution from the Company calculated in accordance with Section 7(a). The approval of the Plan Administrator shall not be required for such surrender, and the distribution to which such individual shall become

entitled upon such surrender shall be made entirely in cash.

#### 8. SALE, MERGER, REORGANIZATION, ETC.

(a) In the event of one or more of the following transactions ("Corporate Transaction"):

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(i) a merger, amalgamation or acquisition in which the Company is not the surviving or continuing entity, except for a transaction the principal purpose of which is to change the jurisdiction of the Company's incorporation;

(ii) the sale, transfer or other disposition of all or substantially all of the assets of the Corporation; or

(iii) any other business combination in which fifty percent (50%) or more of the Corporation's outstanding voting shares is transferred to different holders in a single transaction or a series of related transactions,

then each option at the time outstanding under the Plan and not then otherwise fully exercisable shall, immediately prior to the specified effective date for the Corporate Transaction, become fully exercisable for up to the total number of Common Shares purchasable under such option and may be exercised for all or any portion of the shares for which the option is so accelerated. However, an outstanding option shall not be so accelerated if and to the extent: (i) such option is in connection with the Corporate Transaction either to be assumed by the successor corporation or parent thereof or to be replaced with comparable options to purchase capital stock of the successor corporation or parent thereof, such comparability to be determined by the Plan Administrator, or (ii) the acceleration of such option would, when added to the present value of certain other payments in the nature of compensation which become due and payable to such optionee in connection with the Corporate Transaction, result in the payment to such individual of an excess parachute payment under Section 280G(b) of the Internal Revenue Code. The existence of any such excess parachute payment shall be determined by the Plan Administrator in the exercise of its reasonable business judgment and on the basis of independent tax counsel provided the Company.

(b) Upon the consummation of the Corporate Transaction, all outstanding options under the Plan shall, to the extent not previously exercised or assumed by the successor corporation or its parent company, terminate and cease to be exercisable.

(c) If the Company is the surviving or continuing entity in any Corporate Transaction or the outstanding options under the Plan are to be assumed in connection with such Corporate Transaction, then each such continuing or assumed option shall be appropriately adjusted immediately after such Corporate Transaction to apply and pertain to the number and class of securities which would have been issuable to the optionee in consummation of the Corporate Transaction, had such option been exercised immediately prior to the effective date of such Corporate Transaction. Appropriate adjustments shall also be made to the option price payable per share, provided the aggregate option price shall remain the same. In addition, the class and number of securities available for issuance under the Plan following the consummation of such Corporate Transaction shall be appropriately adjusted.

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(d) In connection with any Corporate Transaction, the exercisability as an incentive share option under the Federal tax laws of any accelerated post-1986 option shall be subject to the applicable dollar limitation of Section 6(b)(1).

(e) The grant of options under the Plan shall not affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, amalgamate, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

#### 9. [RESERVED]

#### 10. LOANS OR GUARANTEE OF LOANS

The Plan Administrator may, in its discretion, assist any optionee who is a current or former employee of the Company (including an optionee who is an officer or director of the Company) in the exercise of one or more options granted to such optionee under the Plan, including the satisfaction of any Federal and State income and employment tax obligations arising therefrom, by

(i) authorizing the extension of a loan from the Company to such optionee, (ii) permitting the optionee to pay the option price for the purchased Common Shares in installments over a period of years, or (iii) authorizing a guarantee by the Company of a third-party loan to the optionee. The terms of any loan, installment method of payment or guarantee (including the interest rate and terms of repayment) shall be upon such terms as the Plan Administrator specifies in the share option agreement. Such loans, installment payments and guarantees may be granted with or without security or collateral, but the maximum credit available to the optionee may not exceed (A) the aggregate option price for the purchased shares (less their par value, which must in all events be paid in cash) plus (B) any Federal and State income and employment tax liability incurred by the optionee in connection with such exercise.

#### 11. EXTENSION PERIODS

The Plan Administrator shall have full power and authority, exercisable in its sole discretion, to extend, either at the time the option is granted or at any time while the option remains outstanding, the period of time for which the option is to remain exercisable following the optionee's termination of employee status from the twelve (12) month or shorter period set forth in the option agreement to such greater period of time as the Plan Administrator shall deem appropriate; provided, however, that in no event shall such option be exercisable after the specified expiration date of the option term.

#### 12. AMENDMENT OF THE PLAN AND OPTIONS

(a) The Board has complete and exclusive power and authority to amend or modify the Plan in any or all respects whatsoever; provided, however, that, except to the extent necessary to qualify any or all options under the Plan as Incentive Options, no such amendment or modification may adversely affect rights and obligations of an option holder with respect to

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options at the time outstanding under the Plan unless the option holder consents to such amendment. In addition, the Board may not, without the approval of the Company's shareholders, amend the Plan to (i) materially increase the maximum number of shares issuable under the Plan (except for permissible adjustments under Section 4(c)), (ii) materially increase the benefits accruing to individuals who participate in the Plan, or (iii) materially modify the class of individuals eligible to receive options thereunder.

(b) Options may be granted under the Plan to purchase Common Shares in excess of the number of shares then available for issuance under the Plan, provided (i) an amendment to increase the maximum number of shares issuable under the Plan is adopted by the Board prior to the initial grant of any such option and is thereafter submitted to the Company's shareholders for approval and (ii) each option so granted is not to become exercisable, in whole or in part, at any time prior to the obtaining of such shareholder approval.

#### 13. EFFECTIVE DATE AND TERM OF PLAN

(a) The Plan was initially adopted by the Board on November 15, 1981 and approved by the shareholders on May 10, 1982. The Plan was restated and amended by the Board on April 3, 1987, and such restatement was approved by the Company's shareholders on May 13, 1987. Amendments to the restated Plan were adopted by the Board on September 20, 1988, December 16, 1988 and February 21, 1989 to increase the number of shares issuable under the Plan. Such amendments were approved by the Company's shareholders on May 19, 1989. The Plan was further amended and restated on March 21, 1990 and approved in 1991 to increase the number of shares issuable under the Plan and to extend the term of the Plan to March 21, 2000. The Plan was further restated and approved in 1992 to increase the number of shares issuable under the Plan, and again in 1996 to further increase the number of shares issuable under the Plan. The restatement of the Plan was adopted by the Board on October 30, 1996 and was approved by the Company's shareholders at the 1997 Annual Meeting. Further amendments to the amended and restated Plan to increase the number of shares issuable under the Plan were adopted by the Board on February 25, 1998 and approved by the shareholders at the 1998 Annual Meeting. The Plan was further amended to reflect the change of domicile from Delaware to Bermuda and the new restatement of the Plan was adopted by the Board on February 24, 1999. Amendments to the Plan were adopted by the Board and approved by the Company's shareholders on May 30, 2001 to increase the number of shares issuable under the Plan and to extend the term of the Plan to November 15, 2001.

(b) The provisions of this restated and amended Plan shall apply only to options granted under the Plan from and after May 30, 2001. All options issued and outstanding under the Plan immediately prior to May 30, 2001 shall continue to be governed by the terms and conditions of the Plan (and the respective instruments evidencing each such option) as in effect on the date each such option was previously granted, and nothing in this restatement shall be deemed to affect or otherwise modify the rights or obligations of the holders of such options with respect to the acquisition of Common Shares thereunder.

(c) Unless sooner terminated in accordance with Section 8, the Plan will terminate upon the earlier of (i) November 15, 2011 or (ii) the date on which all shares available for issuance under the Plan have been issued or cancelled pursuant to the exercise or surrender of options granted hereunder. If the date of termination is determined under clause (i) above, then options outstanding on such date shall not be affected by the termination of the Plan and will thereafter continue to have force and effect in accordance with the provisions of the share option agreements evidencing such options.

#### 14. USE OF PROCEEDS

Any cash proceeds received by the Company from the sale of shares pursuant to options granted under the Plan shall be used for general corporate purposes.

#### 15. WITHHOLDING

The Company's obligation to deliver shares upon the exercise of any option or the surrender of any option granted under the Plan is subject to the option holder's satisfaction of all applicable Federal, State and local income and employment tax withholding requirements.

#### 16. SPECIAL TAX WITHHOLDING ELECTION

(a) The Plan Administrator may, in its discretion and in accordance with the provisions of this Section 16 and such supplemental rules as the Plan Administrator may from time to time adopt, provide any or all holders of non-statutory options under the Plan with the election to have the Company withhold, from the shares purchased under each non-statutory option, one or more Common Shares having an aggregate fair market value equal to the designated percentage (any multiple of 5% up to 100% as specified by the optionee) of the Federal and State tax liability incurred in connection with the exercise of such non-statutory option. In addition, should the optionee deliver shares acquired under the Share Plan in payment of the option price for one or more options exercised under the Plan and the Company cancel its first refusal rights with respect to the delivered shares, the shares withholding election may extend to the optionee's entire tax obligation with respect to both the taxable gain on the purchased shares and the compensation income recognized upon the cancellation of the Company's first refusal rights with respect to the delivered shares.

(b) Any such withholding election made by a holder of a non-statutory option under the Plan shall be subject to the following terms and conditions:

(i) The election must be made on or before the date the amount of the Federal and State withholding tax liability incurred in connection with the exercise of such non-statutory option is determined (the "Tax Determination Date").

(ii) The election shall be irrevocable.

(iii) The election shall be subject to the approval of the Plan Administrator, and no Common Shares shall be accepted in satisfaction of the withholding taxes incurred in connection with the exercise of such option except to the extent the election is approved by the Plan Administrator.

(iv) The Common Shares to be withheld pursuant to the election shall be valued on the Tax Determination Date in accordance with the valuation procedures in effect under Section 5(a)(4).

(v) In no event may the optionee's requested withholding exceed the dollar amount of the Federal and State income tax liability incurred as a result of the exercise of the non-statutory option.

(c) In lieu of the direct withholding provisions of subparagraph (a) above, one or more optionees may also be granted the election to deliver pre-existing Common Shares to the Company in satisfaction of the entire Federal and State tax liability incurred in connection with the exercise of his/her non-statutory shares option and delivery of any Common Shares in payment of the option price. The delivered shares shall be valued on the Tax Determination Date in accordance with the valuation procedures in effect under Section 5(a)(4).

#### 17. REGULATORY APPROVALS

The implementation of the Plan, the granting of any option under the Plan,



and the issuance of Common Shares upon the exercise or surrender of any such option is subject to the Company's procurement of all approvals and permits required by regulatory authorities having jurisdiction over the Plan, the options granted under it, and the Common Shares issued pursuant to it.

XOMA LTD.  
RESTRICTED SHARE PLAN

(As Restated And Amended Through May 21, 2003)

ARTICLE I

GENERAL

1. PURPOSE OF THE PLAN

This Restricted Share Plan ("Plan") is intended to promote the interests of XOMA Ltd. (the "Company") by providing (i) those key employees of the Company and its subsidiaries who are primarily responsible for the management, growth and financial success of the Company or its subsidiaries and (ii) those consultants who provide valuable services to the Company or its subsidiaries, with the opportunity to acquire a proprietary interest, or increase their proprietary interest, in the Company and thereby to encourage such individuals to remain in the employ or service of the Company or its subsidiaries.

2. STRUCTURE OF THE PLAN

(a) The Plan shall be divided into two separate components: the Option Grant Program specified in Article II and the Share Issuance Program specified in Article III. Under the Option Grant Program, eligible individuals may be granted options to purchase Common Shares of the Company at a discount of up to 15% of the fair market value of such shares on the grant date.

(b) The Share Issuance Program shall allow eligible individuals to acquire Common Shares of the Company either through direct purchases or upon the exercise of option grants. Such shares may be purchased at a discount of up to 15% of their fair market value on the issue date (for direct issuances) or 15% of such fair market value on the option grant date (for shares acquired upon the exercise of granted options). The purchased shares may be issued as fully-vested shares or as shares which are to vest over time. Issuances may be effected either through direct purchases or upon the exercise of option grants. Any or all of the issued shares may be subject to a permanent right of first refusal binding all holders of the shares to offer such shares for sale to the Company at a formula price prior to any sale or other disposition to a third party. The fair market value of shares subject to such first refusal rights shall be appropriately discounted to reflect this non-lapse restriction.

(c) The provisions of Articles I and IV of the Plan shall apply to both the Option Grant Program and the Share Issuance Program and shall accordingly govern the interests of all individuals in the Plan.

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(d) For all purposes of the Plan, the following definitions shall be in effect:

(i) An individual shall be deemed to be in the Service of the Company for so long as he remains an employee of the Company or renders periodic services to the Company or its subsidiaries as a consultant, advisor or other independent service provider.

(ii) An individual shall be deemed to be an employee of the Company for so long as he continues in the active employ of the Company or one or more of its subsidiary corporations.

(iii) The term "subsidiary" shall mean any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company, provided each of the corporations in the chain (other than the last corporation) owns shares possessing 50% or more of the total combined voting power of all classes of stock of one of the other corporations in such chain.

3. ADMINISTRATION OF THE PLAN

(a) The Plan shall be administered by the Company's Board of Directors (the "Board"). The Board, however, may at any time appoint a committee ("Committee") of two (2) or more "non-employee directors" (within the meaning of Rule 16b-3 (b) (3) of the Securities and Exchange Commission as amended in 1996 or any successor provision thereto) to administer one or more provisions of the Plan, including the Option Grant provisions of Article II or the Share Issuance provisions of Article III, or to provide recommendations to the Board with respect to the Board's administration of those provisions. It is also intended that the non-employee directors shall also be "outside directors" (within the meaning of Section 162(m) of the Internal Revenue Code). However, the mere fact

that a Committee member shall fail to qualify as a non-employee director or an outside director shall not invalidate any options or shares granted by the Committee which are otherwise validly made under the Plan. Members of the Committee shall serve for such period of time as the Board may determine and shall be subject to removal by the Board at any time.

(b) The Plan Administrator (either the Board or the Committee, to the extent the Committee has been delegated responsibility for the administration of the Plan) shall have full power and authority (subject to the provisions of the Plan) to establish such rules and regulations as it may deem appropriate for the proper administration of the Plan and to make such determinations under, and issue such interpretations of, the Plan and any outstanding option grants or share issuances as it may deem necessary or advisable. Decisions of the Plan Administrator shall be final and binding on all parties who have an interest in the Plan or any outstanding option grant or share issuance.

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#### 4. OPTION GRANTS AND SHARE ISSUANCES

(a) Key employees (including officers and directors) of the Company (or its subsidiaries) and consultants (other than the non-employee directors) who provide valuable services to the Company (or its subsidiaries) shall be eligible to receive share issuances under the Share Issuance Program ("Participant") and/or option grants pursuant to the Option Grant Program ("Optionee"). Directors who are not employees of the Company shall not be eligible to receive such share issuances or option grants or to participate otherwise in the Plan.

(b) The Committee, or the Board if no Committee is appointed pursuant to Section 3, shall have full authority to determine, (I) with respect to the option grants made under the Plan, the number of shares to be covered by each grant, the time or times at which each granted option is to become exercisable and the maximum term for which the option may remain outstanding and (II) with respect to share issuances under the Share Issuance Program, the number of shares to be issued to each Participant, the vesting schedule (if any) to be applicable to the issued shares, the consideration to be paid by the individual for such shares and the appropriate formula price to be in effect for the Company's first refusal rights.

(c) All options granted pursuant to the Plan shall be deemed to have been granted on the date of authorization by the Plan Administrator or at any later date specified by the Plan Administrator at the time of such authorization. Any individual may hold more than one outstanding option under the Plan.

(d) The Plan Administrator shall have the absolute discretion either to grant non-qualified options in accordance with Article II of the Plan or to effect direct share issuances in accordance with Article III of the Plan.

#### 5. SHARES SUBJECT TO THE PLAN

(a) The shares issuable under the Plan shall be shares of the Company's authorized but unissued common shares ("Common Shares"). The maximum number of shares issuable over the term of the Plan shall not exceed 1,500,000 shares, subject to adjustment as provided in Section 5(c) of this Article I. In no event, however, shall more than 11,150,000 shares (subject to adjustment under Section 5(c) of this Article I) be issued in the aggregate over the term of this Plan and the Company's 1981 Share Option Plan ("1981 Plan").

For any one individual, the number of shares for which options or share appreciation rights may be granted under the Option Grant Program beginning on October 30, 1996 and ending at the expiration of the term of the Plan may not exceed 1,000,000.

(b) Should an option under the Plan be terminated for any reason prior to exercise or surrender in full, the shares subject to the portion of the option not so exercised or

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surrendered shall be available for subsequent option grant or share issuance under the Plan or for subsequent option grant under the 1981 Plan. Shares subject to an option (or portion of an option) surrendered under the Plan in connection with a Control Acquisition (as defined in Article II, Section 2(d)) shall not be available for subsequent option grant or share issuance under the Plan or for subsequent option grant under the 1981 Plan. Shares issued under the Share Issuance Program (whether as vested or unvested shares) which are repurchased by the Company shall not be available for subsequent reissuance under this Plan or the 1981 Plan.

(c) If any change is made to the Common Shares issuable under the Plan by reason of any bonus issue, share subdivision, share consolidation, recapitalization or other change affecting the outstanding Common Shares as a

class without receipt of consideration, then appropriate adjustments shall be made to (i) the number of shares issuable under the Plan, (ii) the number of shares issuable in the aggregate under this Plan and the 1981 Plan and (iii) the number and/or class of shares and the option price per Common Share subject to each outstanding option in order to prevent the dilution or enlargement of benefits thereunder. The adjustments determined by the Plan Administrator shall be final, binding and conclusive.

(d) Common Shares issuable under the Plan, whether under the Option Grant Program or the Share Issuance Program, may be subject to such restrictions on transfer, repurchase rights or other restrictions as are determined by the Plan Administrator.

## ARTICLE II

### OPTION GRANT PROGRAM

#### 1. TERMS AND CONDITIONS OF OPTIONS

Each option granted under the Plan shall be a non-qualified option and shall be evidenced by a share option agreement that complies with (or incorporates) each of the terms and conditions of this Article II.

##### (a) Option Price.

(1) Subject to the provisions of Section (a)(2) below, the option price per share shall be fixed by the Plan Administrator, but in no event shall it be less than eighty-five percent (85%) of the fair market value per Common Share on the date of the option grant.

(2) If the individual to whom the option is granted is at such time the owner of shares (as determined under Section 425(d) of the Internal Revenue Code) possessing 10% or more of the total combined voting power of all classes of shares of the Company or any one of its subsidiary corporations ("10% Shareholder"), then the option price per

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share shall not be less than one hundred ten percent (110%) of the fair market value per Common Share on the grant date.

(3) The option price shall become immediately due upon exercise of the option and, subject to the provisions of Article IV, Section 2, shall be payable in one of the following alternative forms specified below (as determined by the Plan Administrator and set forth in the instrument evidencing the grant):

(A) Full payment in cash or cash equivalents; or

(B) Full payment in Common Shares valued at fair market value on the Exercise Date (as such term is defined below) equal to the option price; or

(C) Full payment in a combination of Common Shares valued at fair market value on the Exercise Date and cash or cash equivalents, equal in the aggregate to the option price; or

(D) Payment effected through a broker-dealer sale and remittance procedure pursuant to which the Optionee (I) shall provide irrevocable written instructions to the designated broker-dealer to effect the immediate sale of the purchased shares and remit to the Company, out of the sale proceeds, an amount equal to the aggregate option price payable for the purchased shares plus all applicable Federal and State income and employment taxes required to be withheld by the Company by reason of such purchase and (II) shall provide written directives to the Company to deliver the certificates for the purchased shares directly to such broker-dealer.

For purposes of this subsection (a)(3), the Exercise Date is the date on which written notice of the exercise of the option is given to the Company. Except to the extent the sale and remittance procedure of clause (D) above is utilized, payment of the option price for the purchased shares shall accompany such notice.

(4) For purposes of subsections (1), (2) and (3) above (and for all other valuation purposes under the Plan), the fair market value per Common Share shall be determined in accordance with the following provisions:

(A) If the Common Shares are not at the time listed or admitted to trading on any stock exchange but is traded in the over-the-counter market, the fair market value shall be the closing selling price per Common Share on the date in question, as such price is reported by the National Association of Securities Dealers through its Nasdaq National

Market or any successor system. If there is no reported closing selling price for the Common Shares on the date in question, then the closing selling price on the last preceding date for which such quotation exists shall be determinative of fair market value.

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(B) If the Common Shares are at the time listed or admitted to trading on any stock exchange, then the fair market value shall be the closing selling price per Common Share on the date in question on the stock exchange determined by the Plan Administrator to be the primary market for the Common Shares, as such price is officially quoted on such exchange. If there is no reported sale of Common Shares on such exchange on the date in question, then the fair market value shall be the closing selling price on the exchange on the last preceding date for which such quotation exists.

(C) If the Common Shares are at the time neither listed nor admitted to trading on any stock exchange nor traded in the over-the-counter market (or if the Plan Administrator determines that the value as determined pursuant to subsection (A) or (B) above does not reflect fair market value), then the Plan Administrator shall determine fair market value after taking into account such factors as it deems appropriate, including one or more independent professional appraisals.

(b) Term and Exercise of Options; Transferability. Each option granted under the Plan shall be exercisable at such time or times and during such period as is determined by the Plan Administrator and set forth in the share option agreement evidencing such option; provided, however, that no option granted under the Plan shall have a term in excess of ten (10) years from the grant date.

Options may, in the discretion of the Plan Administrator, be granted on terms which permit their transfer or assignment to the spouse of the Optionee or a descendant of the Optionee (any such spouse or descendant, an "Immediate Family Member") or a corporation, partnership, limited liability company or trust so long as all of the shareholders, partners, members or beneficiaries thereof, as the case may be, are either the Optionee or an Immediate Family Member of the Optionee, provided that (i) there may be no consideration for any such transfer, (ii) the share option agreement pursuant to which such options are granted must expressly provide for transferability in a manner consistent with the foregoing and (iii) subsequent transfers of transferred options will be prohibited other than by will or the laws of descent and distribution. Following transfer, any such options will continue to be subject to the same terms and conditions as were applicable immediately prior to transfer, provided that for purposes of the option agreement the term "Optionee" will refer to the transferee. The events of termination of employment will continue to be applied with respect to the original Optionee, following which the options will be exercisable by the transferee only to the extent, and for the periods specified, in the option agreement.

(c) Effect of Termination of Employment.

(1) Termination Generally. Should an Optionee cease to be an employee of the Company while the holder of one or more outstanding options granted to such Optionee under the Plan for any reason other than as provided under subsections (2), (3) or (4)

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below, then such option or options shall not remain exercisable for more than a twelve (12) month period (or such shorter period as is determined by the Plan Administrator and set forth in the option agreement) following the date of such cessation of employee status, and each such option shall, during such twelve (12) month or shorter period, be exercisable only to the extent of the number of shares (if any) for which the option is exercisable on the date of such cessation of employee status. Under no circumstances, however, shall any such option be exercisable after the specified expiration date of the option term. Upon the expiration of such twelve (12) month or shorter period or (if earlier) upon the expiration of the option term, the option shall terminate and cease to be exercisable.

(2) Termination on Death. Effective for options granted on or after February 25, 2003, should an Optionee cease to be an employee of the Company while the holder of one or more outstanding options under the Plan by reason of death, then such option or options shall become fully exercisable on the date of death even if such options were not fully exercisable prior to death, and shall remain exercisable for a twelve (12) month period following the date of death. Under no circumstances, however, shall any such option be exercisable after the specified expiration date of the option term. Upon the expiration of such twelve (12) month period or (if earlier) upon the expiration of the option term, the

option shall terminate and cease to be exercisable. In the case of any option granted to an Optionee under the Plan and exercisable following the Optionee's death, such options shall be exercisable by the personal representative of the Optionee's estate or by the person or persons to whom the option is transferred pursuant to subsection (b) above, provided such exercise occurs prior to the earlier of (i) the expiration of a twelve (12) month period following the date of the Optionee's death or (ii) the specified expiration date of the option term.

(3) Termination on Retirement. Effective for options granted on or after February 25, 2003 should an Optionee cease to be an employee of the Company while the holder of one or more outstanding options under the Plan by reason of retirement at or after age fifty-five (55) and where the optionee's age plus years of full-time employment with the Company exceed seventy (70) ("Retirement"), then such option or options shall become fully exercisable as of the date of Retirement (even if such options were not fully exercisable prior to Retirement) as if the optionee continued in employment and shall remain exercisable for a twelve (12) month period following the date of Retirement.

Under no circumstances, however, shall any such option be exercisable after the specified expiration date of the option term. Upon the expiration of such twelve (12) month or shorter period or (if earlier) upon the expiration of the option term, the option shall terminate and cease to be exercisable.

(4) Termination for Cause or Unauthorized Disclosure. If (i) the Optionee's status as an employee is terminated for cause (including, but not limited to, any act of dishonesty, willful misconduct, fraud or embezzlement or any unauthorized disclosure or

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use of confidential information or trade secrets) or (ii) the Optionee makes or attempts to make any unauthorized use or disclosure of confidential information or trade secrets of the Company or its subsidiaries, then upon the occurrence of any such event all outstanding options granted the Optionee under the Plan shall immediately terminate and cease to be exercisable.

(5) Discretion to Accelerate Exercisability. Notwithstanding subsection (1) above, the Plan Administrator shall have the discretion to establish as a provision applicable to the exercise of one or more options granted under the Plan that during the period of exercisability following cessation of employee status (as provided in such subsections), the option may be exercised not only with respect to the number of shares for which it is exercisable at the time of the Optionee's cessation of employee status but also with respect to one or more installments of purchasable shares for which the option otherwise would have become exercisable had such cessation of employee status not occurred.

(6) Consultant. If the option is granted to a consultant or other independent contractor, then the instrument evidencing the granted option shall include provisions comparable to subsections (1), (2), (3) and (4) above, and may include provisions comparable to subsection (5) above, with respect to the Optionee's termination of Service.

(d) Repurchase Rights. The Common Shares acquired upon the exercise of options granted under the Plan may be subject to one or more repurchase rights of the Company in accordance with the following provisions:

(1) The Plan Administrator may in its discretion determine that it shall be a term and condition of one or more options granted under the Plan that the Company (or its assigns) shall have the right, exercisable upon the Optionee's cessation of Service, to repurchase at the original option price any or all unvested Common Shares at the time held by such individual under the Plan. Any such repurchase right shall be exercisable by the Company (or its assigns) upon such terms and conditions (including the establishment of the appropriate vesting schedule and other provisions for the expiration of such right in one or more installments) as the Plan Administrator may specify in the instrument evidencing such right.

(2) The Plan Administrator shall also have full power and authority to provide for the automatic termination of the Company's outstanding repurchase rights, in whole and in part, and thereby accelerate the vesting of any or all purchased shares, upon the occurrence of any Corporate Transaction specified in Article II, Section 3 below.

(e) Shareholder Rights. An Optionee shall have no shareholder rights with respect to any shares covered by the option until such Optionee has exercised the option, paid the option price and been issued the purchased shares.

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(a) One or more Optionees may, upon such terms and conditions as the Plan Administrator may establish at the time of the option grant or at any time thereafter, be granted the right to surrender all or part of an unexercised option in exchange for a distribution from the Company in an amount equal to the excess of (i) the fair market value (at date of surrender) of the number of shares in which the Optionee is at the time vested under the surrendered option or portion thereof over (ii) the aggregate option price payable for such vested shares. No surrender of an option, however, shall be effective unless it is approved by the Plan Administrator. If the surrender is so approved, then the distribution to which the option holder shall accordingly become entitled under this subsection 2(a) may be made in Common Shares valued at fair market value at date of surrender, in cash, or partly in shares and partly in cash, as the Plan Administrator shall in its sole discretion deem appropriate.

(b) If the surrender of an option is rejected by the Plan Administrator, then the option holder shall retain whatever rights the option holder had under the surrendered option (or surrendered portion thereof) on the date of surrender and may exercise such rights at any time prior to the later of (i) the expiration of the 5 business-day period following receipt of the rejection notice or (ii) the last day on which the option is otherwise exercisable in accordance with the terms of the instrument evidencing such option, but in no event may such rights be exercised at any time after ten (10) years (or five (5) years in the case of a 10% Shareholder) following the date of the option grant.

(c) Notwithstanding the foregoing provisions of this Section 2, should twenty-five percent (25%) or more of the Company's outstanding voting shares be acquired pursuant to a tender or exchange offer (I) which is made by a person or group of related persons other than the Company or a person that directly or indirectly controls, is controlled by or is under common control with the Company and (ii) which the Board does not recommend the Company's shareholders to accept (a "Control Acquisition"), then each officer or director who is subject to the short-swing profit restrictions of the Federal securities laws shall have the right (exercisable for a period not to exceed thirty (30) days) to surrender any or all options held by such individual under the Plan, to the extent such options are at the time exercisable for vested shares, and receive in exchange an appreciation distribution from the Company calculated in accordance with Section 2(a). The approval of the Plan Administrator shall not be required for such surrender, and the distribution to which such individual shall become entitled upon such surrender shall be made entirely in cash.

### 3. SALE, MERGER, REORGANIZATION, ETC.

(a) In the event of one or more of the following transactions ("Corporate Transaction"):

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(i) a merger, amalgamation or acquisition in which the Company is not the surviving or continuing entity, except for a transaction the principal purpose of which is to change the jurisdiction of incorporation;

(ii) the sale, transfer or other disposition of all or substantially all of the assets of the Company; or

(iii) any other business combination in which fifty percent (50%) or more of the Company's outstanding voting shares are transferred to different holders in a single transaction or a series of related transactions,

then each option at the time outstanding under the Plan and not then otherwise fully exercisable shall, immediately prior to the specified effective date for the Corporate Transaction, become fully exercisable for up to the total number of Common Shares purchasable under such option and may be exercised for all or any portion of the shares for which the option is so accelerated. However, an outstanding option shall not be so accelerated if and to the extent: (i) such option is in connection with the Corporate Transaction either to be assumed by the successor corporation (or affiliate thereof) or be replaced with a comparable option to purchase shares of capital stock of the successor corporation (or affiliate thereof), such comparability to be determined by the Plan Administrator, or (ii) the acceleration of such option would, when added to the present value of certain other payments in the nature of compensation which become due and payable to the Optionee in connection with the Corporate Transaction, result in the payment to such individual of an excess parachute payment under Section 280G(b) of the Internal Revenue Code. The existence of any such excess parachute payment shall be determined by the Plan Administrator in the exercise of its reasonable business judgment and on the basis of independent tax counsel provided the Company.

(b) Upon the consummation of the Corporate Transaction, all outstanding options under the Plan shall, to the extent not previously exercised or assumed by the successor corporation (or its affiliate), terminate and cease to be exercisable.

(c) If the Company is the surviving or continuing entity in any Corporate Transaction or the outstanding options under the Plan are to be assumed in connection with such Corporate Transaction, then each such continuing or assumed option shall be appropriately adjusted immediately after such Corporate Transaction to apply and pertain to the number and class of securities which would have been issuable to the Optionee in consummation of the Corporate Transaction, had such option been exercised immediately prior to the effective date of such Corporate Transaction. Appropriate adjustments shall also be made to the option price payable per share, provided the aggregate option price shall remain the same. In addition, the class and number of securities available for issuance under the Plan following the consummation of such Corporate Transaction shall be appropriately adjusted.

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(d) The grant of options under the Plan shall not affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, amalgamate, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

4. [RESERVED]

### ARTICLE III

#### SHARE ISSUANCE PROGRAM

##### 1. TERMS AND CONDITIONS OF SHARE ISSUANCES

Shares may be issued under the Share Issuance Program either through direct and immediate purchases or through the exercise of options granted under the Option Grant Program. The issued shares shall be evidenced by a Restricted Share Purchase Agreement ("Purchase Agreement") that complies with (or incorporates) each of the terms and conditions of this Article III.

###### (a) Share Price

(1) The purchase price per share shall be fixed by the Plan Administrator, but in no event shall it be less than eighty-five percent (85%) of the fair market value per Common Share on the date of issuance (or, if an option is utilized, on the grant date of such option). However, if the individual to whom the share issuance is made is at such time a 10% Shareholder (as defined in Article II, Section 1(a)(2)), then the purchase price per share shall not be less than one hundred ten percent (110%) of the fair market value per Common Share on the date of issuance (or, if an option is utilized, on the grant date of such option). Fair market value shall be determined in accordance with Article II, Section 1(a)(4); provided, however, if any shares issued under the Plan are subject to the permanent right of first refusal of the Company or its assigns under subsection 1(d) below, then the fair market value shall be appropriately adjusted to reflect the effect of such non-lapse restriction.

(2) Shares shall be issued under the Plan for such consideration as the Plan Administrator shall from time to time determine, provided that in no event shall shares be issued for consideration other than:

(A) cash or cash equivalents;

(B) Common Shares valued in accordance with Article II, Section 1(a)(4);

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(C) a promissory note of the Participant payable to the Company's order, which may be subject to cancellation by the Company in whole or in part upon such terms or conditions as the Plan Administrator shall specify; or

(D) payment effected through a broker-dealer sale and remittance procedure pursuant to which the Participant (I) shall provide irrevocable written instructions to the designated broker-dealer to effect the immediate sale of the purchased shares and remit to the Company, out of the sale proceeds, an amount equal to the aggregate purchase price payable for the purchased shares plus all applicable Federal and State income and employment taxes required to be withheld by the Company by reason of such purchase and (II) shall provide written directives to the Company to deliver the certificates for the purchased shares directly to such broker-dealer.

(b) Vesting Schedule



(1) The interest of a Participant in the Common Shares issued to him under the Plan may, in the absolute discretion of the Plan Administrator, be fully and immediately vested upon issuance or may vest in one or more installments in accordance with the vesting provisions of subsection (b)(4). Except as otherwise provided in subsection (b)(3), the Participant may not transfer any of the Common Shares in which he does not have a vested interest; accordingly, all unvested shares issued to him under the Plan shall bear the restrictive legend specified in subsection (c)(1), until such legend is removed in accordance with subsection (c)(2). The Participant, however, shall have all the rights of a shareholder with respect to the Common Shares issued to him hereunder, whether or not his interest in such shares is at the time vested. Accordingly, the Participant shall have the right to vote such shares and to receive any cash dividends or other distributions paid or made with respect to such shares. Any new, additional or different shares or other property (including money paid other than as a regular cash dividend) which the holder of unvested Common Shares may have the right to receive by reason of a bonus issue, share subdivision, share consolidation or reclassification of Common Shares or by reason of a merger, amalgamation, consolidation, reorganization or liquidation shall be issued to him, subject to (i) the same vesting requirements under subsection (b)(4) applicable to his unvested Common Shares and (ii) such escrow arrangements as the Plan Administrator shall deem appropriate.

(2) As used in this Article III, the term "transfer" shall include (without limitation) any sale, pledge, encumbrance, gift or other disposition of such shares. However, the Participant shall have the right to make a gift of one or more shares acquired under the Share Issuance Program, whether vested or unvested and whether or not subject to the subsection (d)(1) right of first refusal, to his spouse, parents or children or to a trust established for such spouse, parents or children, provided the donee of such shares delivers to the Company a written agreement to be bound by all the provisions of the Plan and other instruments executed by the Participant to evidence his prior acquisition of the gifted shares. Any

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gift made in accordance with the foregoing limitations shall not trigger the exercise of the Company's repurchase rights under subsection (b)(3) or the Company's first refusal rights under subsection (d)(1).

(3) In the event a Participant should, while his interest in the Common Shares remains unvested, (i) attempt to transfer (other than by way of a permissible gift under subsection (b)(2)) any of the unvested Common Shares or any interest therein or (ii) cease to remain in Service for any reason whatsoever, then the Company shall have the right to repurchase any or all of the unvested shares at a price equal to the lesser of (i) the original purchase price paid by the Participant or, if such shares are subject to the Company's permanent first refusal right under subsection (d)(1), (ii) the fair market value of such shares appropriately discounted to reflect the Company's right of first refusal, and the Participant shall thereafter have no further shareholder rights with respect to the repurchased shares.

(4) Any Common Shares issued under the Share Issuance Program which are not vested at the time of such issuance shall vest in one or more installments thereafter. The elements of the vesting schedule, namely the number of installments in which the shares are to vest, the interval or intervals (if any) which are to lapse between installments and the effect which death, disability or any other event designated by the Plan Administrator is to have upon the vesting schedule, shall be determined by the Plan Administrator and shall be specified in the Purchase Agreement executed by the Company and the Participant at the time of issuance of the unvested shares.

(5) The Plan Administrator may in its discretion elect not to exercise, in whole or in part, its repurchase rights with respect to any unvested Common Shares or other assets which would otherwise at the time be subject to repurchase pursuant to the provisions of subsection (b)(3). Such an election shall result in the immediate vesting of the Participant's interest in the Common Shares as to which the election applies.

#### (c) Share Legends

(1) Each certificate representing unvested Common Shares (or other securities) issued under the Plan shall bear a restrictive legend substantially as follows:

"The securities represented by this certificate are subject to repurchase by the Company pursuant to the provisions of the Restricted Share Purchase Agreement between the Company and the registered holder of the securities (or his predecessor in interest). Such agreement grants certain repurchase rights to the Company in the event the registered holder (or his predecessor in interest) terminates his employment or service with the Company. A copy of such agreement is on file at the principal office of the Company."

(2) As the interest of the Participant vests with respect to any shares acquired under the Share Issuance Program, the Company shall, upon the Participant's delivery of the share certificate representing such shares during the period or periods designated each year by the Plan Administrator, issue a new certificate for the vested shares without the restrictive legend of subsection (c)(1) and a second certificate for the balance of the shares with such legend. If the Company repurchases any unvested shares of the Participant pursuant to the provisions of subsection (b)(3), the Company shall at the time the repurchase is effected deliver a new certificate, without the restrictive legend of subsection (c)(1), representing the number of shares (if any) in which the Participant is vested and which are accordingly no longer subject to repurchase by the Company pursuant to the provisions of subsection (b)(3).

(d) Permanent Right of First Refusal

(1) Any and all shares issued under the Share Issuance Program may, in the discretion of the Plan Administrator, be subject to a permanent right of first refusal exercisable by the Company or its assigns. Should shares subject to such restriction be issued, then the Participant (and each successor in interest or transferee of the shares) must, prior to any subsequent sale or other transfer of the shares for value, first offer to sell the shares to the Company or its assigns at a price determined in accordance with the following formula:

$X = M - D$ , where

X is the price at which the Company or its assigns may repurchase the shares,

M is the fair market value of the shares on the date of repurchase, determined in accordance with the provisions of Article II, Section 1(a)(4), without regard to the Company's permanent right of first refusal, and

D is the appropriate price differential determined by the Plan Administrator in its sole discretion at the time the shares are issued and set forth in the written instrument evidencing such right.

(2) Each share certificate representing shares subject to the subsection (d)(1) right of first refusal shall be appropriately legended to disclose the perpetual existence of such right, and all transferees of the shares shall accordingly take the shares subject to the terms and provisions of the Company's permanent right of first refusal.

(3) The remaining terms and provisions of the permanent right of first refusal shall be determined by the Plan Administrator in its discretion and specified in the written instrument evidencing such right.

(4) The Plan Administrator may, at any time in its sole discretion, cancel (upon such terms and conditions as it deems appropriate) the Company's rights of first refusal with respect to one or more shares issued with such restrictions under the Share Issuance Program.

ARTICLE IV

MISCELLANEOUS

1. INVESTMENT PURPOSE

If necessary or advisable to comply with applicable Federal or State securities laws, any option granted, or shares issued, under the Plan may be granted or issued on the condition that the Optionee or Participant agrees that the Common Shares purchased thereunder are for investment purposes only and not for resale or distribution and that such shares shall be disposed of only in accordance with such laws. As a condition to issuance of any shares purchased upon the exercise of any option granted, or shares issued, pursuant to the Plan, the Optionee or Participant, or his executor, administrator, heir, legatee or transferee (as the case may be) receiving such shares may be required to deliver to the Company an instrument, in form and substance satisfactory to the Company and its counsel, implementing such agreement. Any such condition may be eliminated by the Plan Administrator if the Plan Administrator determines it is no longer necessary or advisable.

2. LOANS OR GUARANTEE OF LOANS

The Plan Administrator may, in its discretion, assist any Optionee or

Participant who is a current or former employee of the Company (including an Optionee or Participant who is an officer or director of the Company) in the exercise of one or more options granted to such Optionee under the Article II Option Grant Program or the purchase of one or more shares issued to such Participant under the Article III Share Issuance Program, including the satisfaction of any Federal and State income and employment tax obligations arising therefrom, by (i) authorizing the extension of a loan from the Company to such Optionee or Participant, (ii) permitting the Optionee or Participant to pay the option price or purchase price for the purchased Common Shares in installments over a period of years, or (iii) authorizing a guarantee by the Company of a third-party loan to the Optionee or Participant. The terms of any loan, installment method of payment or guarantee (including the interest rate and terms of repayment) shall be upon such terms as the Plan Administrator specifies in the share option agreement or restricted share purchase agreement. Such loans, installment payments

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and guarantees may be granted with or without security or collateral, but the maximum credit available to the Optionee or Participant may not exceed (A) the aggregate option price or purchase price for the shares (less their par value, which must in all events be paid in cash) plus (B) any Federal and State income and employment tax liability incurred by the Optionee or Participant in connection with such exercise or purchase.

### 3. AMENDMENT OF THE PLAN AND AWARDS

(a) The Board has complete and exclusive power and authority to amend or modify the Plan (or any component thereof) in any or all respects whatsoever; provided, however, that no such amendment or modification may adversely affect rights and obligations of an option holder with respect to options at the time outstanding under the Plan, nor adversely affect the rights of any Participant with respect to Common Shares issued under the Plan prior to such action, unless the Optionee or Participant consents to such amendment. In addition, the Board may not, without the approval of the Company's shareholders, amend the Plan to (i) increase the maximum number of shares issuable under the Plan (except for permissible adjustments under Article I, Section 5(c)), (ii) materially increase the benefits accruing to individuals who participate in the Plan, or (iii) materially modify the eligibility requirements for participation in the Plan.

(b) Options may be granted under the Plan to purchase Common Shares in excess of the number of shares then available for issuance under the Plan, provided (i) an amendment to increase the maximum number of shares issuable under the Plan is adopted by the Board prior to the initial grant of any such option and is thereafter submitted to the Company's shareholders for approval and (ii) each option so granted is not to become exercisable, in whole or in part, at any time prior to the obtaining of such shareholder approval.

### 4. EFFECTIVE DATE AND TERM OF PLAN

(a) The Plan as initially implemented became effective on December 23, 1983, upon the issuance of 92,000 Common Shares subject to the Company's permanent rights refusal under Article III, Section 1(d). The Plan was restated in April 1987 and approved by the Company's shareholders at the 1987 Annual Meeting. At the 1989 Annual Meeting, the Company's shareholders approved an increase in the number of Common Shares issuable over the term of the Plan from 200,000 shares to 300,000 shares. The Plan was restated in 1990 and approved in 1991 to extend its term to December 15, 2003 and to increase the number of Common Shares issuable over the term of the Plan to 550,000 shares, again in 1992 to increase the number of shares to 1,000,000 shares, and again in 1996 to increase the number of shares to 1,250,000 shares. The restatement of the Plan was adopted by the Board on October 30, 1996 and was approved by the Company's shareholders at the 1997 Annual Meeting. The Plan was further amended to reflect the change of domicile from Delaware to Bermuda and the new restatement of the Plan was adopted by the Board on February 24, 1999. Amendments to the Plan were adopted by the Board and approved by the Company's

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shareholders on May 30, 2001 to increase the number of shares issuable under the Plan and to extend the term of the Plan to November 15, 2011.

(b) The provisions of this restated and amended Plan shall apply only to option grants and share issuances effected under the Plan from and after the May 30, 2001 effective date. All option grants and share issuances effected under the Plan prior to such effective date shall continue to be governed by the terms and conditions of the Plan (and the respective instruments evidencing each such grant or issuance) as in effect on the date the option grant or share issuance was previously made, and nothing in this May 30, 2001 restatement shall be deemed to affect or otherwise modify the rights or obligations of the holders of such option grants or share issuances with respect to the Common Shares subject

thereto.

(c) Unless sooner terminated in accordance with Section 3 of Article II, the Plan shall terminate upon the earlier of (i) November 15, 2011 or (ii) the date on which all shares available for issuance under the Plan have been issued or cancelled pursuant to the exercise or surrender of options granted under Article II or pursuant to the issuance of shares under Article III. If the date of termination is determined under clause (i) above, then all options outstanding on such date under Article II and all shares issued and outstanding on such date under Article III shall not be affected by the termination of the Plan and will thereafter continue to have force and effect in accordance with the provisions of the share option agreements evidencing such Article II options and the share purchase agreements evidencing the issuance of such Article III shares.

#### 5. USE OF PROCEEDS

Any cash proceeds received by the Company from the issuance of Common Shares hereunder shall be used for general corporate purposes.

#### 6. WITHHOLDING

The Company's obligation to deliver shares upon the exercise or surrender of any options granted under Article II or upon the purchase of any shares issued under Article III shall be subject to the satisfaction of all applicable Federal, State and local income and employment tax withholding requirements.

#### 7. REGULATORY APPROVALS

The implementation of the Plan, the granting of any option under the Option Grant Program, the issuance of any shares under the Share Issuance Program, and the issuance of Common Shares upon the exercise or surrender of the option grants made hereunder shall be subject to the Company's procurement of all approvals and permits required by regulatory authorities having jurisdiction over the Plan, the options granted under it, and the Common Shares issued pursuant to it.

Management Incentive Compensation Plan  
(As Amended and Restated February 20, 2002)

I. Introduction and Summary.

This document describes the XOMA Ltd. ("XOMA") Management Incentive Compensation Plan (the "Plan"), as approved by the Board of Directors. The Plan became effective on July 1, 1993 and was amended October 27, 1993, December 31, 1998 and February 20, 2002. Subject to the ability of the Board of Directors to terminate the Plan at any time, the Plan applies to fiscal years ending December 31, 1993 and each December 31 thereafter.

Officers, employees who have the title of Director or Manager, and additional discretionary participants ("Discretionary Participants") determined by the Chief Executive Officer ("CEO") to be critical to the achievement of Company Objectives established by the Board of Directors, are eligible to participate in this Plan and, depending on their performance and that of the company, earn incentive compensation ("Incentive Compensation") (Article III contains the definitions of certain terms not otherwise defined in the places such terms first appear in this Plan.) The CEO shall designate those eligible employees who will participate in the Plan. Employees receiving promotions, and new employees joining XOMA during a Plan Period, who thereby meet the eligibility criteria for participation in the Plan, will be considered at the discretion of the CEO for participation in the Plan on a pro rata basis. The CEO will not participate in the Plan.

After the conclusion of each applicable Plan Period, the Board of Directors and the Compensation Committee of the Board of Directors (the "Compensation Committee") will make a determination as to the performance of XOMA and Plan participants in meeting Company Objectives as well as individual objectives. Prior to the commencement of each Plan Period, the Board of Directors acting on the advice of the Compensation Committee, will establish a target Incentive Compensation Pool ("Target Incentive Compensation Pool"). The Target Incentive Compensation Pool will be expressed as a percentage of the aggregate annual Base Salaries of all participants in the Plan for the applicable Plan Period. Awards to individual participants will vary depending on (1) the achievement of Company Objectives; (2) the size of the Target Incentive Compensation Pool; (3) the individual's Base Salary; and (4) the individual's performance during the applicable Plan Period and expected ongoing contribution to XOMA. Awards may exceed or be lower than the Target Incentive Compensation Pool on the basis of the calculation of the extent to which XOMA's Company Objectives have been met as set forth in Article IV.

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Individual awards will be granted in cash and/or common shares of XOMA based on the average market value of the common shares for the ten trading days prior to the date of the award. Individual awards will vest over a three-year period with 50% of each award payable on a distribution date set by the Board of Directors acting in part on the advice of the CEO and the Compensation Committee and expected to be in February or March of the year succeeding the Plan Period and 25% of the award payable on each of the next two annual distribution dates as long as the individual continues to be employed by XOMA and continues to be a Plan participant. The portion of each award to be paid on the first distribution date following a Plan Period will be comprised of 50% cash and 50% in common shares of XOMA based on the market value formula set forth above. For the balance of the award expected to be paid in successive years, participants will be asked to make a one-time, irrevocable choice, within two weeks of the time the award is made, of one of the following options for the payment of the balance of the award: (i) 100% in cash, (ii) 100% in common shares of XOMA, or (iii) 50% in cash and 50% in common shares of XOMA. Failure to exercise the option in a timely manner will result in the 100% common shares choice being selected.

The distribution date of awards under the Plan for each Plan Period will be the same for all participants and is expected to be set no later than ninety days after the end of each Plan Period.

Questions concerning the Plan should be forwarded to the Vice President of Human Resources. In all instances, the written provisions of the Plan and other determinations of the Compensation Committee and the Board of Directors shall govern and be final.

II. Purposes.

To build a company team that will achieve XOMA's goals and objectives, to recognize individual efforts, to attract and retain highly motivated individuals and to encourage outstanding performance and contributions to XOMA.

III. Definitions.

For the purpose of this Plan, the following definitions will apply:

- A. Base Salaries. The term "Base Salaries" means total base salaries before any deferred tax reductions, excluding overtime, moving allowances, participation in clinical studies, incentive or bonus payments, shift differential, imputed income due to fringe benefits such as group insurance plans, and other compensatory items of this type.
- B. Company Objectives. The term "Company Objectives" means that list of company objectives approved from time to time by the Board of Directors in its sole discretion for each Plan Period. The objectives may be based on financial goals, scientific or commercial progress, profits, return on investments or any other criteria established by

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the Board of Directors. The current Company Objectives, the milestones within each Company Objective and their respective relative percentage contribution to the overall Company Objectives shall be maintained by the Human Resources Department. The Required Minimum Company Objective Percentage is set forth in Article IV.

- C. Employee. The term "Employee" means any individual on the XOMA payroll rendering services for XOMA whose normal work week is 30 hours or more (excluding consultants, advisors, and other similar individuals providing services to XOMA).
- D. Plan Period. Subject to Article VI, the term "Plan Period" means the fiscal period from July 1 to December 31, 1993 and, thereafter, each fiscal year ending December 31.
- E. Plan Term. Subject to Article VI, the term "Plan Term" means the period commencing on July 1, 1993 and continuing until the termination of this Plan by the Board of Directors.

IV. Plan Mechanics.

- A. Eligibility. Officers, employees who have the title of Director or Manager, and additional Discretionary Participants determined by the CEO to be critical to the achievement of the Company Objectives, are eligible for participation in the Plan. Other than the officers who may participate in the Plan who shall be designated in writing by the Compensation Committee, the CEO shall designate in writing the employees who will participate in the Plan. An individual who becomes an Employee who meets the eligibility criteria for participation in the Plan after the beginning of a Plan Period, or is promoted after the beginning of a Plan Period to a position eligible for participation in the Plan, will be considered by the Compensation Committee or the CEO, as the case may be, for participation in the Plan and, if designated in writing to participate, such Employee will have her/his award pro-rated as of the date of eligibility determined by the Compensation Committee or the CEO, as the case may be. Because awards vest and are payable over a three-year term, each participant must maintain eligibility and continue as an Employee until each date of distribution to receive the distribution to be made on that date.
- B. Length of Plan. Subject to Article VI, the Plan will be effective for the Plan Term.
- C. Incentive Plan.

1. Determination of Amounts Available for Incentive Compensation.

a. Prior to the commencement of each Plan Period, the Compensation Committee acting on behalf of the Board of Directors in its sole discretion will determine

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the Target Incentive Compensation Pool. As soon as practicable after the end of each Plan Period, the Compensation Committee will determine whether and to what extent the Company Objectives have been met. If a determination is made that XOMA has not met the Company Objectives to the extent required, the Compensation Committee may decline to award any Incentive Compensation.

b. For each year during the Plan Term, unless 70% of the Company Objectives (the "Required Minimum Company Objective Percentage") have been met, no Incentive Compensation will be awarded.

c. The Target Incentive Compensation Pool is expressed as a percentage of the aggregate annual Base Salaries of the participants in the Plan.

The final Incentive Compensation Pool ("Final Incentive Compensation Pool") will be determined by utilizing the method of calculation of the extent to which XOMA's Company Objectives have been met for the applicable Plan Period as set forth in Article IV.

2. Calculation of Individual Incentive Awards.

a. It is the intention of the Compensation Committee and the Board of Directors that awards to participants shall vary depending on: (1) the extent of collective achievement of Company Objectives; (2) each participant's employment level in the organization and Base Salary; and (3) each participant's contributions to the achievement of the Company Objectives as a result of: (x) achievement of individual objectives and ongoing performance and (y) individual contributions towards XOMA's meeting of the Company Objectives without regard to individual objectives.

b. Company and individual performance objectives will be weighted depending upon participant level. A 20% judgment factor will be included as an individual performance measurement for all participants in the Plan.

Company and individual performance goals for participants in the Plan are to be weighted as follows:

<TABLE>  
<CAPTION>

Participant Level	Company Objectives	Individual Objectives	Performance Objectives
Officer	50%	30%	20%
Director	40%	40%	20%
Manager and Discretionary Participant	30%	50%	20%

</TABLE>

c. The bonus opportunity ranges for participants in the Plan expressed as a percentage of Base Salaries at the beginning of a Plan Period are as follows:

<TABLE>  
<CAPTION>

Participant Level	Minimum	Target	Maximum
Officer	12.5%	25%	37.5%
Director	7.5%	15%	27.5%
Manager	5%	10%	15%
Discretionary Participant	2.5%	5%	7.5%

</TABLE>

d. Each of the individual Company Objectives shall be assigned a percentage reflecting its relative importance (the "Target Contribution Percentage") to the achievement of the overall Company Objectives as well as target results and results reflecting best and worst case scenarios (denominated maximum or minimum for purposes hereof). If the target results are achieved, the Target Contribution Percentage is awarded. If results between the target and the best case scenario are achieved, the Target Contribution Percentage is increased proportionately up to a maximum of 150% of the Target Contribution Percentage (the "Best Case Percentage Limitation"). No percentage contribution in excess of the Best Case Percentage Limitation will be awarded. Alternatively, if target results are not met but results greater than the worst case scenario are achieved, the Target Contribution Percentage will be decreased proportionately to a minimum of 50% of the Target Contribution Percentage. Achievements below the worst case scenario will result in a 0% contribution from the applicable Company Objective.

e. The performance of each participant in the Plan will be rated as soon as practicable following the conclusion of the applicable Plan Period in the exercise of the sole discretion of the individual or group indicated below. The ratings for all officers will be approved by the Compensation Committee. The ratings for all other participants will be approved by the CEO. Participants whose performance for the Plan Period is rated as unsatisfactory will not be eligible for participation in the Plan for that Plan Period and no Incentive Compensation will be awarded for below minimum performance.

f. The total value of all awards made for the applicable Plan Period will not exceed the amount of the Final Incentive Compensation Pool determined for that Plan Period. Thus, each individual award for a participant from the Final Incentive Compensation Pool will vary depending on the participant's rat-

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ing, employment level in the organization, Base Salary, and the individual ratings of all participants.

3. Awards to Participants.

a. Approval. All awards will be approved following the end of a Plan Period by the Compensation Committee acting on the advice of the Board of Directors and the CEO.

b. Distribution of Incentive Awards. The distribution dates for awards will be established by the Board of Directors acting on the advice of the Compensation Committee. Subject to vesting requirements, it is expected that distributions will normally be made in February or March of the succeeding year of the applicable Plan Period.

c. Taxes and Withholding. Each participant will bear any Federal, state, and local taxes accruing with respect to any award under the Plan. As required by law, XOMA will withhold in cash from any distributions amounts required for Federal and state withholding tax purposes. With respect to awards in common shares, arrangements for the payment of withholding tax in cash satisfactory to XOMA must be made prior to the date of any distribution.

d. Termination of participation.

i. Subject to other provisions hereof, if a participant's employment is terminated for any reason, or for no reason, on or before December 31 of any Plan Period or at any time in any subsequent year in which awards with respect to any Plan Period are expected to be made, such participant shall forfeit all rights to Incentive Compensation as yet unpaid pursuant to the Plan.

ii. If an Employee changes employment status from full-time to part-time (less than 30 hours per week), any such change will terminate participation in the Plan and all rights to payments awarded for any Plan Period but payable in subsequent years, unless the CEO determines in her/his sole discretion, that such Employee should continue to participate.

iii. A participant may elect to withdraw, without prejudice, from the Plan at any time.

e. Eligibility for Distribution. Subject to other provisions hereof, a participant must also be an Employee of the Company continuously from the con-

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clusion of any Plan Period up to and including the date of distribution of the award to be eligible to receive such distribution.

f. Change in Control Exception. Notwithstanding any other provision hereof, (x) if within one year after a "change in control" (as defined below), a participant's employment with XOMA is involuntarily terminated other than for cause, or (y) if a participant shall voluntarily terminate her or his employment with XOMA within one year after a change in control because the nature of such participant's duties or compensation do not continue to be substantially equivalent to what they were at the time of such change in control, then all awards authorized but not yet distributed to such participant shall be distributed to such participant.

For the purposes of this subsection, a "change in control" shall have occurred if any person (as defined in Section 13 of the Securities Exchange Act of 1934, as amended) acquires shares of voting capital shares, (other than directly from XOMA) and thereby becomes the owner of more than 20% of XOMA's outstanding shares of voting capital shares (on a fully diluted basis) or XOMA enters into a merger, amalgamation or other consolidation (other than one in



connection with a voluntary change of corporate domicile or similar reorganization or recapitalization transaction) in which the shareholders of XOMA (as determined immediately prior to the merger, amalgamation or other consolidation) do not own at least 50% of the outstanding shares of voting capital shares of the surviving or continuing entity after the merger, amalgamation or other consolidation. Solely for the purposes of the foregoing, a termination shall be deemed to have been made for "cause" in the event a participant is terminated for any of the following reasons:

i. the participant's continued failure to substantially perform her or his duties with XOMA, or

ii. gross misconduct by the participant which is materially and demonstrably injurious to XOMA or its employees.

g. Death of a participant. In the event of the death of a participant while an Employee after the completion of any Plan Period but prior to the distribution, the award will be made as soon as practicable to the deceased participant's beneficiary as indicated on the participant's group insurance enrollment card.

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V. No Right to Employment.

Nothing in this Plan shall give any participant the right to continued employment by XOMA. Furthermore, under XOMA policy, employment at XOMA is "at will" and can be terminated at any time by either party, with or without cause and with or without notice.

VI. Plan Modification.

This Plan may be modified or terminated by the Board of Directors at any time.

VII. Miscellaneous.

A. Nontransferability. Awards shall not be transferable by a participant except by will or the laws of descent and distribution and shall be exercisable during the lifetime of a participant only by such participant or his or her guardian or legal representative. A participant's rights under the Plan may not be pledged, mortgaged, hypothecated, or otherwise encumbered, and shall not be subject to claims of the participant's creditors.

B. Unfunded Status of Awards. The Plan is intended to constitute an "unfunded" plan of incentive compensation. With respect to any payments not yet made to a participant pursuant to an award, nothing contained in the Plan or any Award shall give any such participant any rights that are greater than those of a general unsecured creditor of XOMA.

1992 DIRECTORS SHARE OPTION PLAN

(As Amended and Restated Through December 31, 1998)

1. General. The XOMA Ltd. 1992 Directors Share Option Plan (the "Plan") was adopted on February 20, 1992 (the "Adoption Date") by the Board of Directors of XOMA Ltd. (the "Company"), subject to the approval of the Company's shareholders at its 1992 annual meeting. A total of 300,000 of the Company's Common Shares, par value \$.0005 per share ("Common Shares"), have been reserved for issuance hereunder. The Plan provides for the granting to non-employee directors of the Company of non-qualified options ("Options" or "Option") to purchase Common Shares.

2. Purposes. The purposes of the Plan are to increase the proprietary interest of non-employee directors in the Company by granting them non-qualified options to purchase Common Shares, to promote long-term shareholder value through the potential for increased ownership of Common Shares by non-employee directors, and to encourage the continued service on the Board of Directors (the "Board") of non-employee directors.

3. Administration. The Plan is designed to operate automatically and not require administration. However, to the extent that administration is necessary, the Plan shall be administered by those members of the Board who are not eligible to participate in the Plan (the "Plan Administrators"). Since it is intended that this Plan provide for grants of Options to non-employee directors of the Company, this function will be limited to matters of administrative oversight. Decisions and determinations of the Plan Administrators shall be final and binding upon all persons having an interest in the Plan. The Plan Administrators will have no discretion with respect to the selection of optionees or the determination of the exercise price, the timing of grants or the number of shares covered by the Options granted hereunder. The Plan Administrators will receive no additional compensation for their services in connection with the administration of the Plan.

4. Eligibility. Each member of the Board who is not a full or part-time employee of the Company or of any subsidiary or affiliate of the Company ("Director") shall be entitled to participate in the Plan.

5. Grants under the Plan. All Options granted under the Plan shall be non-statutory options, not entitled to special tax treatment under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"). The number of Common Shares available for grants under the Plan shall not exceed 300,000 shares, subject to

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adjustment as provided in Section 7. The shares with respect to which a particular Option has been granted are hereinafter referred to as "Optioned Shares." The written agreement evidencing each Option granted under the Plan (the "Agreement") shall be dated as of the applicable date of grant. Each Director accepting an Option grant shall execute and return a copy of the Agreement to the Company. If any outstanding Option shall terminate for any reason without having been exercised in full, the shares applicable to the unexercised portion of such Option shall again become available under the Plan.

6. Share Options.

(a) Initial Grants. On the Adoption Date (which shall be the date of grant for purposes of paragraphs 6(c), (d) and (e)) of the Plan, each Director shall be granted an Option to purchase that number of Common Shares equal to 10,000 minus the number of Common Shares with respect to which options have been previously granted to such Director (without regard to the status of such Director at the time of any such prior grant, whether any such prior grant was made pursuant to another plan of the company or any other circumstances of any such prior grant), subject to the approval of the Plan by the Company's shareholders at the 1992 Annual Meeting. Each person who becomes a Director for the first time after the Effective Date (as defined below) through calendar year 1997 shall be granted an Option on the six-month anniversary of the date such person becomes a Director to purchase that number of Common Shares equal to 10,000 minus the number of Common Shares with respect to which options have been previously granted to such Director (without regard to the status of such Director at the time of any such prior grant, whether any such prior grant was made pursuant to another plan of the Company or any other circumstances of any such prior grant). Each person who becomes a Director for the first time beginning calendar year 1998 shall be granted an Option on the six-month anniversary of the date such person becomes a Director to purchase that number of Common Shares equal to 15,000 minus the number of Common Shares with respect

to which options have been previously granted to such Director (without regard to the status of such Director at the time of any such prior grant, whether any such prior grant was made pursuant to another plan of the Company or any other circumstances of any such prior grant).

(b) Regular Annual Grants. On each date that the Company holds its annual meeting of shareholders commencing with the 1993 and ending with the 1997 calendar years, immediately after the annual election of directors, each Director then in office (other than those Directors first elected at such meeting) will receive a grant of an Option to purchase 1,000 shares, provided that no Director will receive under this Plan Options to purchase a total of more than 25,000 shares. On each date that the Company holds its annual meeting of shareholders commencing with the 1998 calendar year, immediately after the

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annual election of directors, each Director then in office (other than those Directors first elected at such meeting) will receive a grant of an Option to purchase 7,500 shares, provided that no Director will receive under this Plan Options to purchase a total of more than 75,000 shares.

(c) Option Exercise Price. The per share price to be paid by the Director at the time an Option is exercised shall be 100% of the fair market value of the Common Shares on the date of grant. "Fair market value" shall be determined as follows:

(i) If the Common Shares are not at the time listed or admitted to trading on any stock exchange but is traded in the over-the-counter market, the fair market value shall be the closing selling price per Common Share on the date in question, as such price is reported by the National Association of Securities Dealers through its Nasdaq National Market System or any successor system. If there is no reported closing selling price for Common Shares on the date in question, then the closing selling price on the last preceding date for which such quotation exists shall be determinative of fair market value.

(ii) If the Common Shares are at the time listed or admitted to trading on any stock exchange, then the fair market value shall be the closing selling price per Common Share on the date in question on the stock exchange which is the primary market for the Common Shares, as such price is officially quoted on such exchange. If there is no reported sale of Common Shares on such exchange on the date in question, then the fair market value shall be the closing selling price on the exchange on the last preceding date for which such quotation exists.

(d) Maximum Term of Option. Each Option shall have a maximum term of ten (10) years from the date of grant.

(e) Date of Exercise. Provided that an optionee hereunder (an "Optionee") remains a Director, and except as otherwise provided in paragraph 8(a),

(i) the Options granted in Section 6(a) hereof shall become exercisable in accordance with the following schedule:

- (A) With respect to Options granted pursuant to the first sentence of Section 6(a) hereof, each such Option shall become exercisable with respect to 20% of the Optioned Shares on the date of grant;
- (B) Each Option shall become exercisable with respect to 20% (or, in the case of Options referred to in clause (A) above, an addi-

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tional 20%) of the Optional Shares after the expiration of one year from the date of grant;

- (C) Each Option shall become exercisable with respect to an additional 20% of the Optional Shares after the expiration of two years from the date of grant;
- (D) Each Option shall become exercisable with respect to an additional 20% of the Optional Shares after the expiration of three years from the date of grant;
- (E) Each Option shall become exercisable with respect to an additional 20% (or, in the case of Options referred to in clause (A) above, the remaining 20%) of the Optional Shares after the expiration of four years from the date of grant;
- (F) With respect to Options other than those referred to in clause (A) above, each such Option shall become exercisable with respect to the remaining 20% of the Optioned Shares after the expiration of five

years from the date of grant; and

(ii) the Options granted in Section 6(b) hereof shall become exercisable on the date of grant.

Exercisable installments may be exercised in whole or in part and, to the extent not exercised, shall accumulate and be exercisable at any time on or before the Expiration Date or sooner termination of the Option term.

(f) Accelerated Termination of Option Term. The option term with respect to a particular Option granted hereunder shall terminate (and such Option shall cease to be exercisable) prior to the specified expiration date thereof (the "Expiration Date") should one of the following provisions become applicable:

(i) Except as otherwise provided in subparagraphs (ii), (iii) and (iv) below, should Optionee cease to be a Director at any time during the option term, then Optionee shall have up to a three (3) month period commencing with the date of such cessation of Director status in which to exercise this Option, but in no event shall this Option be exercisable at any time after the Expiration Date. During such limited period of exercisability, the Option may not be exercised for more than the number of Optioned Shares (if any) for which it is exercisable at the date of Optionee's cessation of Director status. Upon the expiration of such limited period of exercisability or (if earlier) upon the Expiration Date, the Option shall terminate and cease to be outstanding.

(ii) Should Optionee die while such Option is outstanding, then the personal representative of Optionee's estate or the person or persons to whom the Op-

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tion is transferred shall have the right to exercise this Option, but only with respect to that number of Optioned shares (if any) for which Option is exercisable on the date of Optionee's death. Such right shall lapse and the Option shall cease to be exercisable upon the earlier of (A) the expiration of the one (1) year period measured from the date of Optionee's death or (B) the specified Expiration Date of the Option term.

(iii) Should Optionee become permanently disabled and cease by reason thereof to be a Director at any time during the Option term, then Optionee shall have a period of twelve (12) months (commencing with the date of such cessation of Director status) during which to exercise such Option; provided, however, that in no event shall the Option be exercisable at any time after the Expiration Date. During such limited period of exercisability, the Option may not be exercised for more than the number of Optioned Shares (if any) for which this Option is exercisable at the date of Optionee's cessation of Director status. Upon the expiration of such limited period of exercisability or (if earlier) upon the Expiration Date, the Option shall terminate and cease to be outstanding. Optionee shall be deemed to be permanently disabled if Optionee is, by reason of any medically determinable physical or mental impairment expected to result in death or to be of continuous duration of not less than 12 consecutive months or more, unable to perform his/her usual duties as a director of the Company.

(iv) Should Optionee's status as a Director be terminated on account of any act of (A) fraud or intentional misrepresentation, or (B) embezzlement, misappropriation or conversion of assets or opportunities of the Company, or any unauthorized disclosure of confidential information or trade secrets of the Company, such Option shall terminate and cease to be exercisable immediately upon the date of such termination of Director status.

(g) Method of Exercise. An Option may be exercised with respect to all or any part of the shares of Common Shares for which such Option is at the time exercisable. Each notice of exercise shall be accompanied by the full purchase price of the shares being purchased, with such payment to be made in cash or by check.

(h) Transferability. Options are transferable and assignable to the spouse of the Optionee or a descendent of the Optionee (any such spouse or descendent, an "Immediate Family Member") or a corporation, partnership, limited liability company or trust so long as all of the shareholders, partners, members or beneficiaries thereof, as the case may be, are either the Optionee or an Immediate Family Member of the Optionee, provided that (i) there may be no consideration for any such transfer and (ii) subsequent transfers or transferred options will be prohibited other than by will, by the laws of descent and distribution or pursuant to a "qualified domestic relations order" as such term is defined by the Code or the Employee Retirement Income Security Act of 1974 ("ERISA"). Fol-

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lowing transfer, any such options will continue to be subject to the same terms and conditions as were applicable immediately prior to transfer, provided that for purposes of the option agreement the term "Optionee" will refer to the transferee.

#### 7. Adjustment Upon Changes in Capitalization.

(a) If the number of shares of the Company as a whole are increased, decreased or changed into, or exchanged for, a different number or kind of shares or securities of the Company, whether through reclassification, share dividend, share split, combination of shares, exchange of shares, change in corporate structure or the like, an appropriate and proportionate adjustment shall be made in the number and kind of shares subject to the Plan, and in the number, kind and per share exercise price of shares subject to unexercised Options or portions thereof granted prior to any such change. Any such adjustment in an outstanding Option, however, shall be made without a change in the total price applicable to the unexercised portion of the Option but with a corresponding adjustment in the price for each share covered by the Option.

(b) If the Company is the surviving or continuing entity in any merger, amalgamation or other business combination, then an Option shall be appropriately adjusted to apply and pertain to the number and class of securities which the holder of the number of Common Shares subject to an Option immediately prior to such merger, amalgamation or other business combination would have been entitled to receive in the consummation of such merger, amalgamation or other business combination, and appropriate adjustment shall be made to the option price payable per share, provided the aggregate option price shall remain the same.

#### 8. Corporate Transaction.

(a) In the event of one or more of the following transactions ("Corporate Transaction"):

(i) a merger, amalgamation or acquisition in which the Company is not the surviving or continuing entity, except for a transaction the principal purpose of which is to change the jurisdiction of the Company's incorporation,

(ii) the sale, transfer or other disposition of all or substantially all of the assets of the Company, or

(iii) any other business combination in which fifty percent (50%) or more of the Company's outstanding voting shares are transferred to different holders in a single transaction or a series of related transactions,

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then the exercisability of an Option shall automatically be accelerated so that such Option may be exercised for any or all of the Common Shares subject to such Option. No such acceleration of exercise dates shall occur, however, if and to the extent the terms of any agreement relating to such Corporate Transaction provide as a prerequisite to the consummation of such Corporate Transaction that outstanding options purchase Common Shares (including an Option issued pursuant to this Plan) are to be assumed by the successor corporation or parent thereof or are to be replaced with options to purchase capital shares of the successor corporation or parent thereof. In any such case, an appropriate adjustment as to the number and kind of shares and the per share exercise prices shall be made. No fractional shares shall be issued under the Plan on account of any adjustment specified above. Upon the consummation of the Corporate Transaction, an Option shall, to the extent not previously exercised or assumed by the successor corporation or its parent company, terminate and cease to be exercisable.

(b) This Plan shall not in any way affect the right of the company to adjust, reclassify, reorganize or otherwise make changes in its capital or business structure or to merge, amalgamate, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

9. Amendment and Termination of Plan. The Board may make such amendments to the Plan and to any Agreements hereunder as it shall deem advisable; provided, however, that the Board may not, without further approval by the affirmative votes of the holders of a majority of the securities of the Company present, or represented, and entitled to vote at a shareholders meeting duly held in accordance with applicable laws, increase the number of shares as to which Options may be granted under this Plan (except as otherwise permitted in paragraph 8(a) hereof), materially increase the benefits accruing to participants under this Plan or materially modify the requirements as to eligibility for participation under this Plan. In addition, the Board may not amend the Plan or Agreement hereunder more than once every six months, other than to comport with changes in the Code or the rules thereunder. The Board may terminate the Plan at any time within its absolute discretion. No such termination, other than that provided in Section 8(a) hereof, shall in any way affect any Option then outstanding.

10. Miscellaneous Provisions. Neither the Plan nor any action taken hereunder shall be construed as giving any Director any right to be nominated for re-election to the Board. The Plan shall be governed by the laws of the State of California.

11. Effective Date. The Plan was initially adopted by the Board on February 20, 1992 and approved by the Company shareholders at the 1992 Annual Meeting, to be effective as of February 20, 1992 (the "Effective Date"). Amendments to the Plan regarding transfer provisions were adopted by the Board on October 30, 1996 and approved by the shareholders at the 1997 Annual Meeting. Further amendments to the amended and restated Plan to increase the number of shares issuable under the Plan were adopted by the Board on February 25, 1998 and approved by the shareholders at the 1998 Annual Meeting. The Plan was further amended to reflect the Company's change of domicile from Delaware to Bermuda

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and the new restatement of the Plan, effective December 31, 1998, was adopted by the Board on February, 1999.

August 12, 2002

Mr. Patrick J. Zenner  
297 Dutchmans Point  
Mantoloking, NJ 08738

Via FEDEX

Dear Pat:

On July 31, 2002, you were granted an option to purchase 15,000 XOMA Ltd. Common Shares. Enclosed are two original copies of a Share Option Agreement (the "Agreement") with a copy of a sample exercise form. A copy of the Form 3 Initial Statement of Beneficial Ownership that has been filed with the SEC to report the grant has been sent to you under separate cover.

Please review the enclosed documents and let us know if you have any questions. If not, please sign and date both copies of the Agreement, have them signed and dated by your spouse, retain one for yourself and return the other to me at your early convenience.

When you decide to exercise your option, please complete an exercise form and transmit it to me for review prior to initiating the exercise. The completed exercise form also may be sent to me along with payment for the full purchase price of the shares being purchased.

If you have questions on this letter, the option, any of the enclosed documents or the exercise process in general, please let me know.

With best wishes,

Christopher J. Margolin  
Vice President, General Counsel  
and Secretary

CJM/jh

Enclosures:

Share Option Agreement (2)  
Exercise Form

cc: J. Castello  
J. Hubel

XOMA Ltd.  
Share Option Agreement

- |  |  |
|--|--|
| (A) Optionee:<br>Patrick J. Zenner                     |  |
| (B) Grant Date:<br>July 31, 2002                       | (E) Expiration Date:<br>July 31, 2012          |
| (C) Shares:<br>15,000 shares                           | (F) Exercise Price:<br>\$4.699 per share       |
| (D) Share Installments:<br>Option is fully exercisable | (G) Option Type:<br>Non-Qualified Share Option |

Subject to the terms and conditions set forth in this agreement (the "Agreement"), XOMA Ltd. (the "Company") has granted you, as of the Grant Date shown in item (B) above, a nonqualified share option (not entitled to special tax treatment under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code")) to purchase the number of Common Shares of the Company shown in item (C) above (the "Optioned Shares") at the Exercise Price shown in item (F) above.

The details of your option are as follows:

1. Term. This option has a maximum term of ten years measured from the Grant Date and will, unless sooner terminated in accordance with Section 4 or Subsection 6(a) hereof, expire on the Expiration Date shown in item (E) above.

Upon the Expiration Date or upon the sooner termination of this option under Section 4 or Subsection 6(a), this option will cease to be exercisable and have no further force or effect whatsoever.

2. Transferability. This option is transferable and assignable by you to your spouse or descendent (any such spouse or descendent, an "Immediate Family Member") or a corporation, partnership, limited liability company or trust so long as all of the shareholders, partners, members or beneficiaries thereof, as the case may be, are either you or an Immediate Family Member, provided that there may be no consideration for any such transfer, and, following transfer, (i) subsequent transfers of this option will be prohibited other than by will or the laws of descent and distribution, and (ii) this option will continue to be subject to the same terms and conditions as were applicable immediately prior to transfer, provided that for purposes of this Agreement any references to "you" will refer to the transferee.

3. Exercise Schedule. The option granted herein is exercisable with respect to 100% of the Optioned Shares beginning on the Grant Date and may be exercised in whole or in part, and to the extent not exercised, will be exercisable at any time on or before the Expiration Date or sooner termination of the option term.

4. Accelerated Termination of Option Term. The option term specified in Section 1 will terminate (and this option will cease to be exercisable) prior to the Expiration Date should one of the following provisions become applicable:

(a) Except as otherwise provided in Subsections (b), (c) and (d) below, if you cease to be a member of the Board of Directors of the Company who is not a full or part-time employee of the Company or of any subsidiary or affiliate of the Company (a "Director") at any time during the option term, then you will have up to three months commencing with the date of such cessation of Director status in which to exercise this option, but in no event will this option be exercisable at any time after the Expiration Date. Upon the expiration of such limited period of exercisability or (if earlier) upon the Expiration Date, this option will terminate and cease to be outstanding.

(b) If you die while this option is outstanding, then the personal representative of your estate or the person or persons to whom the option is transferred pursuant to your will or in accordance with the laws of descent and distribution will have the right to exercise this option. Such right will lapse and this option will cease to be exercisable upon the earlier of (i) the expiration of the one-year period measured from the date of your death or (ii) the Expiration Date.

(c) If you become permanently disabled and cease by reason thereof to be a Director at any time during the option term, then you will have a period of twelve months (commencing with the date of such cessation of Director status) during which to exercise this option; provided, however, that in no event will this option be exercisable at any time after the Expiration Date. Upon the expiration of such limited period of exercisability or (if earlier) upon the Expiration Date, this option will terminate and cease to be outstanding. You will be deemed to be permanently disabled if you are, by reason of any medically determinable physical or mental impairment expected to result in death or to be of continuous duration of not less than twelve consecutive months or more, unable to perform your usual duties as a Director of the Company.

(d) If your status as a Director is terminated on account of any act of (i) fraud or intentional misrepresentation or (ii) embezzlement, misappropriation or conversion of assets or opportunities of the Company, or any unauthorized disclosure of confidential information or trade secrets of the Company, this option will terminate and cease to be exercisable immediately upon the date of such termination of Director status.

5. Adjustment Upon Changes in Capitalization.

(a) if the number of shares of the Company as a whole is increased, decreased or changed into, or exchanged for, a different number or kind of shares or securities of the Company, whether through reclassification, share dividend, share split, combination of shares, exchange of shares, change in corporate structure or the like, an appropriate and proportionate adjustment will be made in the number, kind, and per share exercise price of shares subject to un-exercised options or portions thereof granted prior to any such change. Any such adjustment in an outstanding portion, however, will be made without a change in the total price applicable to

the unexercised portion of the option, but with a corresponding adjustment in the price of each share covered by the option.

(b) If the Company is the surviving or continuing entity in any merger,



amalgamation or other business combination, then this option will be appropriately adjusted to apply and pertain to the number and class of securities which the holder of the number of Common Shares of the Company subject to this option immediately prior to such merger, amalgamation or other business combination would have been entitled to receive in the consummation of such merger, amalgamation or other business combination, and an appropriate adjustment will be made to the Exercise Price payable per share, provided the aggregate Exercise Price will remain the same.

#### 6. Corporate Transaction.

(a) In the event of one or more of the following transactions ("Corporate Transaction"):

(i) a merger, amalgamation or acquisition in which the Company is not the surviving or continuing entity, except for a transaction the principal purpose of which is to change the jurisdiction of the Company's incorporation,

(ii) the sale, transfer or other disposition of all or substantially all of the assets of the Company, or

(iii) any other business combination in which fifty percent (50%) or more of the Company's outstanding voting shares is transferred to different holders in a single transaction or a series of related transactions,

then the exercisability of this option will automatically be accelerated so that such option may be exercised simultaneously with the consummation of such Corporate Transaction for any or all of the Common Shares of the Company subject to this option. No such acceleration of exercise dates will occur, however, if and to the extent the terms of any agreement relating to such Corporate Transaction provide as a prerequisite to the consummation of such Corporate Transaction that outstanding options to purchase the Company's Common Shares (including this option) are to be assumed by the successor corporation or parent thereof or are to be replaced with options to purchase shares of capital stock of the successor corporation or parent thereof. In any such case, an appropriate adjustment as to the number and kind of shares and the per share exercise prices will be made. No fractional shares will be issued on account of any adjustment specified above. Immediately following the consummation of the Corporate Transaction, this option will, to the extent not previously exercised or assumed by the successor corporation or its parent company, terminate and cease to be exercisable.

(b) This Agreement will not in any way affect the right of the Company to adjust, reclassify, reorganize or otherwise make changes in its capital or business structure or to merge, amalgamate, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

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7. Privilege of Share Ownership. You will not have any rights of a shareholder of the Company with respect to the Optioned Shares until you have exercised the option, paid the Exercise Price and been issued the purchased shares.

#### 8. Manner of Exercising Option.

(a) In order to exercise this option with respect to all or any part of the Optioned Shares for which this option is at the time exercisable, you (or in the case of exercise after your death, your executor, administrator, heir or legatee, as the case may be) must take the following actions:

(i) Provide the Secretary of the Company with written notice of such exercise, specifying the number of Optioned Shares with respect to which the option is being exercised.

(ii) Pay the Exercise Price in full, in cash or by check payable to the Company's order, for the Optioned Shares being purchased.

(iii) Furnish to the Company appropriate documentation that the person or persons exercising the option, if other than you, have the right to exercise this option.

(b) In no event may this option be exercised for any fractional shares.

#### 9. Compliance with Laws and Regulations.

(a) The exercise of this option and the issuance of Optioned Shares upon such exercise will be subject to compliance by the Company and by you with all applicable requirements of law relating thereto and with all applicable regulations of any stock exchange on which Common Shares of the Company may be listed at the time of such exercise and issuance.

(b) In connection with the exercise of this option, you will execute and deliver to the Company such representations in writing as may be requested by the Company in order for it to comply with the applicable requirements of Federal and State securities law.

10. Restrictive Legends. If and to the extent any Optioned Shares acquired under this option are not registered under the Securities Act of 1933, the share certificates for such Optioned Shares will be endorsed with restrictive legends, including (without limitation) the following:

"The Shares represented by this certificate have not been registered under the Securities Act of 1933. The shares have been acquired for investment and may not be sold or offered for sale in the absence of (a) an effective registration statement for the shares under such Act, (b) a 'no action' letter of the Securities and Exchange Commission with respect to such sale or offer, or (c) an opinion of counsel to the Company that registration under such Act is not required with respect to such sale or offer."

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11. Successors and Assigns. Except to the extent otherwise provided in Section 2 and Subsection 6(a), the provisions of this Agreement will inure to the benefit of, and be binding upon, your successors, administrators, heirs, legal representatives and assigns and the successors and assigns of the Company.

12. Liability of the Company. The inability of the Company to obtain approval from any regulatory body having authority deemed by the Company to be necessary to the lawful issuance and sale of any Common Shares pursuant to this option will relieve the Company of any liability in respect of the non-issuance or sale of such shares as to which such approval will not have been obtained.

13. No Right to Nomination. Neither this Agreement nor any action taken hereunder will be construed as giving you any right to be nominated for re-election to the Board of Directors of the Company.

14. Notices. Any notice required to be given or delivered to the Company under the terms of this Agreement will be in writing and addressed to the Company in care of its Secretary at its corporate offices. Any notice required to be given or delivered to you will be in writing and addressed to you at the address indicated below your signature line herein. All notices will be deemed to be given or delivered upon personal delivery or upon deposit in the U.S. mail, postage prepaid and properly addressed to the party to be notified.

15. Governing Law. The interpretation, performance, and enforcement of this Agreement will be governed by the laws of the State of California.

XOMA LTD.

By: /s/John L. Castello

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

Dated: August 12, 2002

I hereby agree to be bound by the terms and conditions of this Agreement.

By: /s/Patrick J. Zenner

-----  
Patrick J. Zenner  
297 Dutchmans Point  
Mantoloking, NJ 08738

Dated: 8/23/02

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If the optionee resides in California or another community property jurisdiction, I, as the optionee's spouse, also agree to be bound by the terms and conditions of this Agreement.

By: /s/Margaret E. Zenner

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Margaret E. Zenner  
297 Dutchmans Point  
Mantoloking, NJ 08738

Dated: 8/23/02

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1998 EMPLOYEE SHARE PURCHASE PLAN

(Amended and Restated through June 30, 2000)

1. Purpose. The purpose of this XOMA Ltd. 1998 Employee Share Purchase Plan (the "Plan") is to provide employees of XOMA Ltd., a Bermuda company (the "Company"), with an opportunity to purchase common shares of the Company ("Common Shares") through accumulated payroll deductions. It is the intention of the Company to have the Plan qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code of 1986, as amended (the "Code"). The provisions of the Plan, accordingly, shall be construed so as to extend and limit participation in a manner consistent with the requirements of that section of the Code.

2. Definitions.

(a) "Board" shall mean the Board of Directors of the Company.

(b) "Committee" shall mean the Compensation Committee of the Board or such other committee selected by the Board to administer the Plan.

(c) "Compensation" shall mean total cash compensation received by the Employee from the Company, including regular pay, overtime pay, and bonuses, and shall also include any pretax Employee cash or deferred contributions to a plan maintained by the Company which qualifies under Section 401(k) of the Code and any pretax Employee contributions to a plan maintained by the Company which qualifies under Section 125 of the Code.

(d) "Employee" shall mean any individual who is an employee of the Company for purposes of tax withholding under the Code whose customary employment with the Company is at least twenty (20) hours per week and more than five (5) months in any calendar year. For purposes of the Plan, the employment relationship shall be treated as continuing intact while the individual is on sick leave or other leave of absence approved by the Company. Where the period of leave exceeds ninety (90) days and the individual's right to reemployment is not guaranteed either by statute or by contract, the employment relationship will be deemed to have terminated on the ninety-first (91st) day of such leave.

(e) "Enrollment Date" shall mean the first day of each Offering Period.

(f) "Exercise Date" shall mean the last day of each Offering Period.

(g) "Fair Market Value" shall mean, as of any date, the value of Common Shares determined as follows:

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(1) If the Common Shares are listed on any established stock exchange or a national market system, including without limitation the Nasdaq National Market, their Fair Market Value shall be the closing selling price for the Common Shares, as quoted on such exchange (or the exchange with the greatest volume of trading in Common Shares) or system on the date of such determination, as reported in The Wall Street Journal or such other source as the Committee deems reliable;  
or

(2) If the Common Shares are quoted on the Nasdaq Stock Market (but not on the Nasdaq National Market), their Fair Market Value shall be the closing selling price for the Common Shares on the date of such determination, as reported in The Wall Street Journal or such other source as the Committee deems reliable; or

(3) In the absence of an established market for the Common Shares, the Fair Market Value thereof shall be determined in good faith by the Committee.

(h) "Offering Periods" shall mean concurrent twenty-four (24) month periods (or another period as determined by the Committee), commencing once every calendar quarter beginning on the first Trading Day on or after January 1, April 1, July 1 and October 1 of each year (or at other times determined by the Committee), and ending on the last Trading Day prior to the end of such twenty-four (24) month period.

(i) "Purchase Price" shall mean with respect to each Offering Period either (i) an amount equal to 85% of the Fair Market Value of a Common Share on the Enrollment Date for that Offering Period or on the Exercise Date for that Offering Period, whichever is lower, or (ii) such higher price as may be set by the Committee at the beginning of that Offering Period.

(j) "Reserves" shall mean the number of Common Shares covered by each

option under the Plan which has not yet been exercised and the number of Common Shares which have been authorized for issuance under the Plan but not yet placed under option.

(k) "Trading Day" shall mean a day on which national stock exchanges and the Nasdaq Stock Market are open for trading.

### 3. Eligibility.

(a) Any person who is an Employee on a given Enrollment Date shall be eligible to participate in the Plan.

(b) Any provisions of the Plan to the contrary notwithstanding, no Employee shall be granted an option under the Plan (i) if, immediately after the grant, such Employee would own shares (together with shares owned by any other person or entity that would be attributed to such Employee pursuant to Section 424(d) of the Code) of the Company (including,

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for this purpose, all shares of stock subject to any outstanding options to purchase such stock, whether or not currently exercisable and irrespective of whether such options are subject to the favorable tax treatment of Section 421(a) of the Code) possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company or of any parent (within the meaning of Section 424(e) of the Code) or subsidiary (within the meaning of Section 424(f) of the Code), or (ii) which permits his or her rights to purchase stock under all Offering Periods and all employee stock purchase plans (within the meaning of Section 423 of the Code) of the Company and its parents and subsidiaries to accrue at a rate which exceeds Twenty-Five Thousand Dollars (\$25,000) worth of stock (determined at the Fair Market Value of the stock at the time such option is granted) for each calendar year in which such option is outstanding at any time. The limitation described in clause (ii) of the preceding sentence shall be applied in a manner consistent with Section 423(b)(8) of the Code.

4. Offering Periods. The Plan shall be implemented by concurrent Offering Periods with a new Offering Period commencing on the first Trading Day of each calendar quarter, or on such other date as the Committee shall determine, with such Offering Periods extending for twenty-four (24) months, or such other length as the Committee shall determine. The Committee shall have the power to change the duration of Offering Periods (including the commencement dates thereof) with respect to future offerings without stockholder approval if such change is announced at least fifteen (15) days prior to the scheduled beginning of the first Offering Period to be affected thereafter.

### 5. Participation.

(a) An eligible Employee may become a participant in the Plan by completing a subscription agreement authorizing payroll deductions in a form prepared by the Company and filing it with the Company's Human Resources Department at least fifteen (15) days prior to the applicable Enrollment Date for a particular Offering Period, unless a later time for filing the subscription agreement is set by the Committee for all eligible Employees with respect to a given Offering Period.

(b) Payroll deductions for a participant shall commence on the first payroll date following the Enrollment Date and shall end on the last payroll date in the Offering Period to which such authorization is applicable, unless sooner terminated by the participant as provided in Section 10 hereof.

### 6. Payroll Deductions.

(a) At the time a participant files his or her subscription agreement, he or she shall elect to have payroll deductions made on each payday during the Offering Period in an amount not exceeding twenty percent (20%) (or such other lesser percentage, applied uniformly to all participants, as an executive officer of the Company shall set), in whole multiples of one percent (1%), of the Compensation which he or she receives on each payday during the Offering Period. The aggregate amount of payroll deductions for all concurrent Offering Periods shall not

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exceed twenty percent (20%) (or such lesser percentage, applied uniformly to all participants, as an executive officer of the Company shall set).

(b) All payroll deductions made for a participant shall be credited to his or her account under the Plan and will be withheld in whole percentages only. A participant may not make any additional payments into such account.

(c) Once an Offering Period has commenced, a participant may decrease, but not increase, the rate of his or her payroll deductions for that Offering Period

once per calendar quarter by filing a new subscription agreement at least fifteen (15) days prior to the beginning of the calendar quarter, which decrease shall become effective at the beginning of the next calendar quarter; provided, however, that a participant may discontinue his or her participation in the Plan, as provided in Section 10 hereof, at any time during the Offering Period prior to the Exercise Date. During an Offering Period, a participant may elect to have new or additional payroll deductions made with respect to the next beginning Offering Period, by completing or filing with the Company an additional subscription agreement, at least fifteen (15) days prior to the beginning of the next Offering Period, authorizing a payroll deduction rate with respect to the new Offering Period. A participant's subscription agreement shall remain in effect for other Offering Periods, but separate subscription agreements are required for each Offering Period.

(d) Notwithstanding the foregoing, a participant's payroll deductions for each Offering Period may be decreased to 0% at any time, to the extent necessary to comply with Section 423(b)(8) of the Code and Section 3(b) hereof.

(e) At the time the option is exercised, in whole or in part, or at the time some or all of the Company's Common Shares issued under the Plan are disposed of, the participant must make adequate provisions for the Company's federal, state, or other tax withholding obligations, if any, which arise upon the exercise of the option or the disposition of the Common Shares. At any time, the Company may, but will not be obligated to, withhold from the participant's compensation the amount necessary for the Company to meet applicable withholding obligations.

7. Grant of Option. On the Enrollment Date of each Offering Period, each eligible Employee participating in such Offering Period shall be granted an option to purchase on the Exercise Date of such Offering Period (at the applicable Purchase Price) up to a number of Common Shares determined by dividing such Employee's payroll deductions accumulated with respect to that Offering Period prior to such Exercise Date and retained in the participant's account as of the Exercise Date by the applicable Purchase Price; provided, however, that in no event shall an Employee be permitted to purchase during each Offering Period and with respect to such Offering Period more than 50,000 Common Shares; and provided, further, that such purchase shall be subject to the limitations set forth in Sections 3(b) and 12 hereof. Exercise of the option with respect to that Offering Period shall occur as provided in Section 8 hereof, unless the participant has withdrawn pursuant to Section 10 hereof, and the option with respect to that Offering Period shall expire on the last day of the Offering Period.

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8. Exercise of Option. Unless a participant has withdrawn from the Plan as provided in Section 10 hereof, his or her option for the purchase of Common Shares will be exercised automatically on the Exercise Date, and, subject to the limitations set forth in Sections 3(b), 7 and 12 hereof, the maximum number of full shares subject to option shall be purchased for such participant at the applicable Purchase Price with the accumulated payroll deductions in his or her account with respect to that Offering Period. Unless otherwise approved by the Committee, no fractional shares will be purchased. Unless acquisition of fractional shares has been so approved, any payroll deductions accumulated in a participant's account which are not sufficient to purchase a full Common Share shall be retained in the participant's account for the next expiring Offering Periods, subject to earlier withdrawal by the participant as provided in Section 10 hereof. Any other monies left over in a participant's account after the Exercise Date shall be returned to the participant. During a participant's lifetime, a participant's option to purchase shares hereunder is exercisable only by the participant.

9. Issuance; Delivery; Restriction. The Common Shares purchased for a participant on the last day of an Offering Period shall be deemed to have been issued by the Company for all purposes as of the Exercise Date. Prior to such date, none of the rights and privileges of a shareholder of the Company shall exist with respect to such Common Shares. The registrar for the Company shall be instructed to make entries on its books and records evidencing that Common Shares issued hereunder have been duly issued as of each pertinent Exercise Date; provided, however, that an employee may in the alternative elect in writing to receive a stock certificate representing the amount of such shares so acquired; and provided, further, that, regardless of whether an employee elects to receive such stock certificates, the Committee may direct the Company to distribute stock certificates representing the amount of shares acquired to any or all employees. Notwithstanding the foregoing, delivery of certificates representing Common Shares or transfer to or for the account of any participant under the Plan may be conditioned upon the agreement of such participant to allow federal income tax withholdings as may be required to be made by the Company.

10. Withdrawal; Termination of Employment.

(a) A participant may withdraw all but not less than all the payroll deductions credited to his or her account and not yet used to exercise his or her option under the Plan with respect to each Offering Period at any time prior to the last business day of the Offering Period by giving written notice to the Company in a form prepared by the Company. All of the participant's payroll deductions credited to his or her account will be paid to such participant promptly after receipt of notice of withdrawal and such participant's option for the Offering Period will be automatically terminated, and no further payroll deductions for the purchase of shares will be made during the Offering Period with respect to such Offering Period. If a participant withdraws from the Plan with respect to one Offering Period during an Offering Period, he or she may resume participation for a subsequent Offering Period by delivering to the Company a new subscription agreement at least fifteen (15) days prior to the Enrollment Date for such Offering Pe-

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riod and he or she may continue in the Plan with respect to other Offering Periods that have already begun.

(b) Upon a participant's ceasing to be an Employee, for any reason, he or she will be deemed to have elected to withdraw from the Plan and the payroll deductions credited to such participant's account during the current Offering Periods but not yet used to exercise the option will be returned to such participant or, in the case of his or her death, to the person or persons entitled thereto under Section 14 hereof, and such participant's option will be automatically terminated.

(c) A participant's withdrawal from an Offering Period will not have any effect upon his or her eligibility to participate in any similar plan which may hereafter be adopted by the Company or in subsequent and all other Offering Periods.

11. Interest. No interest or other increment shall accrue or be payable with respect to any of the payroll deductions of a participant in the Plan.

12. Shares.

(a) The maximum number of Common Shares which shall be made available for sale under the Plan shall be 500,000 shares, subject to adjustment upon changes in capitalization of the Company as provided in Section 18 hereof. Such Common Shares may be authorized but unissued shares or shares purchased in the open market.

(b) If on a given Exercise Date the number of Common Shares with respect to which options are to be exercised exceeds the number of shares then available under the Plan, the Committee shall make a pro-rata allocation of the shares remaining available for purchase in as uniform a manner as shall be practicable and as it shall determine to be equitable, and the balance of the payroll deductions accumulated in the participant's account shall be retained in the participant's account for the next expiring Offering Periods.

(c) No participant will have an interest or voting right in Common Shares covered by his or her option until such option has been exercised.

(d) Common Shares to be delivered to a participant under the Plan will be registered in the name of the participant or in the name of the participant and his or her spouse.

13. Administration. The Plan shall be administered by the Committee. The Committee shall have full and exclusive discretionary authority to construe, interpret and apply the terms of the Plan, to determine eligibility and to adjudicate all disputed claims filed under the Plan. Every finding, decision and determination made by the Committee shall, to the full extent permitted by law, be final and binding upon all parties. Members of the Committee shall not be permitted to participate in the Plan.

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14. Designation of Beneficiary.

(a) A participant may file a written designation of a beneficiary who is to receive any Common Shares and cash, if any, from the participant's account under the Plan in the event of such participant's death subsequent to an Exercise Date on which the option is exercised but prior to delivery to such participant of such shares or cash. In addition, a participant may file a written designation of a beneficiary who is to receive any cash from the participant's account under the Plan in the event of such participant's death prior to exercise of the option. If a participant is married and the designated beneficiary is not the spouse, spousal consent shall be required for such designation to be effective.

(b) Such designation of beneficiary may be changed by the participant at any time by written notice. In the event of the death of a participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such participant's death, the Company shall deliver such Common Shares or cash to the executor or administrator of the estate of the participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may deliver such shares or cash to the spouse or to any one or more dependents or relatives of the participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

15. Transferability. Neither payroll deductions credited to a participant's account nor any rights with regard to the exercise of an option or to receive Common Shares under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will, the laws of descent and distribution or as provided in Section 14 hereof) by the participant. Any such attempt at assignment, transfer, pledge or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw funds from an Offering Period in accordance with Section 10 hereof.

16. Use of Funds. All payroll deductions received or held by the Company under the Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such payroll deductions.

17. Reports. Individual accounts will be maintained for each participant in the Plan. Statements of account will be given to participating Employees at least annually, within such time as the Committee may reasonably determine, which statements will set forth the amounts of payroll deductions, the Purchase Price, the number of shares purchased and the remaining cash balance, if any.

18. Adjustments Upon Changes in Capitalization.

(a) Changes in Capitalization. The Reserves, the maximum number of Common Shares an Employee is permitted to purchase in any Offering Period under Section 7, and the price per Common Share covered by each option under the Plan which has not yet been exer-

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cised shall be proportionately adjusted for any increase or decrease in the number of issued Common Shares resulting from a share split, reverse share split, share dividend, combination or reclassification of the Common Shares, or any other increase or decrease in the number of Common Shares effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been effected without receipt of consideration. Such adjustment shall be made by the Committee, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of any class, or securities convertible into shares of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of Common Shares subject to an option.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Offering Period will terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Committee.

(c) Amalgamation, Merger or Asset Sale. In the event of a proposed sale of all or substantially all of the assets of the Company, or the amalgamation or merger of the Company with or into another corporation, all options under the Plan shall be assumed or an equivalent option shall be substituted by such successor corporation or a parent or subsidiary of such successor corporation, unless the Committee determines, in the exercise of its sole discretion and in lieu of such assumption or substitution, to shorten the Offering Periods then in progress by setting new Exercise Dates ("New Exercise Dates"). If the Committee shortens the Offering Period then in progress in lieu of assumption or substitution in the event of an amalgamation, merger or sale of assets, the Committee shall notify each participant in writing, at least fifteen (15) days prior to the New Exercise Dates, that the Exercise Dates for his or her option have been changed to the New Exercise Dates and that his or her options will be exercised automatically on the New Exercise Dates, unless prior to such dates he or she has withdrawn from the Offering Periods as provided in Section 10 hereof. For purposes of this paragraph, options granted under the Plan shall be deemed to be assumed if, following the sale of assets, amalgamation or merger, the options confer the right to purchase, for each option share subject to the option immediately prior to the sale of assets, amalgamation or merger, the consideration (whether stock, cash or other securities or property) received in the sale of assets, amalgamation or merger by holders of Common Shares for each Common Share held on the effective date of the transaction (and if such holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Common Shares); provided, however, that if such consideration received in the sale of assets, amalgamation or merger was not solely common shares of the successor corporation or its parent (as defined



in Section 424(e) of the Code), the Committee may, with the consent of the successor corporation and the participant, provide for the consideration to be received upon exercise of the options to be solely common shares of the successor corporation or its parent equal in fair market value to the per share consideration received by holders of Common Shares in the sale of assets, amalgamation or merger.

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19. Amendment or Termination.

(a) The Board may at any time and for any reason terminate or amend the Plan. Except as provided in Section 18 hereof, no such termination may adversely affect options previously granted; provided, however, that Offering Periods may be terminated by the Board on any Exercise Date if the Board determines that the termination of the Plan is in the best interests of the Company and its stockholders. Except as provided in Section 18 hereof, no amendment may make any change in any option theretofore granted which adversely affects the rights of any participant. To the extent necessary to comply with [Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended], or Section 423 of the Code (or any successor rule or provision or any other applicable law or regulation), the Company shall obtain stockholder approval in such a manner and to such a degree as required.

(b) Without shareholder consent and without regard to whether any participant rights may be considered to have been adversely affected, the Committee shall be entitled to change the Offering Periods, limit the frequency or number of changes in the amount withheld during the Offering Periods, permit payroll withholding in excess of the amount designated by a participant in order to adjust for delays or mistakes in the Company's processing of properly completed withholding elections, establish reasonable waiting and adjustment periods or accounting and crediting procedures to ensure that amounts applied toward the purchase of Common Shares for each participant properly correspond with amounts withheld from the participant's Compensation, and establish such other limitations or procedures as the Committee finds, in its sole discretion, advisable and consistent with the Plan.

20. Notices. All notices or other communications by a participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

21. Conditions Upon Issuance of Shares. Shares shall not be issued with respect to an option unless the exercise of such option and the issuance and delivery of such shares pursuant thereto shall comply with all applicable provisions of law, domestic or foreign, including, without limitation, the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, the rules and regulations promulgated thereunder and the requirements of any stock exchange upon which the shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance. As a condition to the exercise of an option, the Company may require the person exercising such option to represent and warrant at the time of any such exercise that the shares are being purchased only for investment and without any present intention to sell or distribute such shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned applicable provisions of law.

22. Term of Plan. The Plan shall become effective on February 25, 1998 (the "Effective Date"), subject to its approval by the stockholders of the Company within twelve (12)

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months after its adoption by the Board. It shall continue in effect until terminated under Section 19 hereof. The Plan was amended, effective as of May 20, 1998, by the Board of Directors to clarify the limits of contributions. The Plan was restated by the Board of Directors on February 24, 1999, effective December 31, 1998, to reflect the change of domicile of the Company from Delaware to Bermuda. The Plan was again restated by the Board of Directors on July 26, 2000, effective June 30, 2000, to make certain administrative corrections.

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement (Form S-8) pertaining to the XOMA Ltd. 1981 Share Option Plan, the XOMA Ltd. Restricted Share Plan, the XOMA Ltd. Management Incentive Compensation Plan, the XOMA Ltd. 1992 Directors Share Option Plan, the XOMA Ltd. 2002 Director Share Option Plan and the XOMA Ltd. 1998 Employee Share Purchase Plan of our report dated February 7, 2003, except for Note 13 as to which the date is February 28, 2003, with respect to the consolidated financial statements of XOMA Ltd. included in its Annual Report (Form 10-K) for the year ended December 31, 2002, filed with the Securities and Exchange Commission.

/S/ ERNST & YOUNG LLP

Palo Alto, California  
August 26, 2003