

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported): August 3, 2007

XOMA LTD.

(Exact name of registrant as specified in its charter)

Bermuda

(State or other jurisdiction of incorporation)

0-14710

(Commission File Number)

52-2154066

(IRS Employer Identification No.)

2910 Seventh Street, Berkeley, California

(Address of principal executive offices)

Registrant's telephone number, including area code

94710

(Zip code)

(510) 204-7200

Not Applicable

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-

Item 5.02. Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

Steven B. Engle

On August 6, 2007, XOMA Ltd. (the "Company") announced in a press release that Steven B. Engle has been appointed president and chief executive officer and elected as a director of the Company. A copy of the press release is filed herewith as Exhibit 99.1 and incorporated herein by reference.

The Company's subsidiary, XOMA (US) LLC, has entered into an employment agreement with Mr. Engle that provides for Mr. Engle's employment as president and chief executive officer at a salary of not less than \$495,000 per year. Under the employment agreement, Mr. Engle is entitled to participate in any benefit plan for which key executives are eligible, including the CEO Incentive Compensation Plan established effective January 1, 2004 (the "CICP"). Upon termination of his employment for any reason other than cause or upon his resignation for good reason, Mr. Engle will be entitled to a severance payment equal to one and one-half times his then current base salary and target bonus for the then current fiscal year and benefits for eighteen months, as well as outplacement services for twelve months not to exceed \$15,000 in value. The employment agreement will continue for one year and will be automatically extended (without further action by the parties) for one year thereafter and again on each subsequent anniversary thereof, unless notice of non-extension of the term is given by either party. A copy of the employment agreement is filed herewith as Exhibit 10.1 and incorporated herein by reference.

A description of the CICP can be found in the Company's Proxy Statement for its 2007 Annual General Meeting of Shareholders. Any bonus Mr. Engle may earn under the CICP for the calendar year 2007 will be prorated based on his hire date.

The Company has entered into a change of control severance agreement with Mr. Engle that provides that, in the event that Mr. Engle is involuntarily terminated within an eighteen month period following a change of control, as defined in the agreement, of the Company, Mr. Engle will be entitled to (in lieu of his severance payment and benefits under his employment agreement) a severance payment equal to two times his then current base salary and target bonus for the then current fiscal year and benefits for two years, as well as outplacement services for twelve months not to exceed \$15,000 in value. The change of control severance agreement will terminate if Mr. Engle is terminated prior to a change of control or once all obligations thereunder have been satisfied. A copy of the change of control severance agreement is filed herewith as Exhibit 10.2 and incorporated herein by reference.

The Company has entered into a series of share option agreements with Mr. Engle pursuant to which he has been granted options to purchase 500,000 common shares at an exercise price of \$5.00 per share, which will be exercisable immediately, and 2,100,000 common shares at an exercise price equal to the closing price on August 3, 2007, which will become exercisable on the Company's normal four-year vesting schedule. The agreements provide that a change of control of the Company would accelerate the exercisability of 33.3% of the 2,100,000 options that are not immediately exercisable if the change of control occurs on or before September 30, 2007, 66.7% of such options if the change of control occurs on or after October 1, 2007 and on or before December 31, 2007 and all of such options in the event the change of control occurs on or after January 1, 2008. Copies of the share option agreements are filed herewith as Exhibits 10.3 through 10.7 and incorporated herein by reference.

Mr. Engle will receive a signing bonus of \$50,000 and is also eligible for the Company's various insurance and benefits programs and relocation policy, including mortgage assistance benefits.

A description of Mr. Engle's business experience can be found in the copy of the press release filed herewith as Exhibit 99.1.

John L. Castello

Mr. Engle succeeds John L. Castello, the Company's former president and chief executive officer, who resigned from that position effective August 3, 2007. Mr. Castello has been granted options to purchase 150,000 common shares at an exercise price equal to the closing price on August 3, 2007, which will be exercisable immediately, and any bonus he may earn under the CICIP for the calendar year 2007 will not be prorated based on his resignation date.

Mr. Castello will remain with the Company as its non-executive chairman of the board during a transition period, for which he will receive compensation equal to two times that to which a committee chair would be entitled (as described in the Company's Proxy Statement for its 2007 Annual General Meeting of Shareholders) during such period. The Company has entered into a consulting agreement with Mr. Castello pursuant to which he will provide consulting services as requested by Mr. Engle through December 31, 2007 and be compensated at a rate of 40% of his most recent salary for the period covered by the agreement. A copy of the consulting agreement is filed herewith as Exhibit 10.8 and incorporated herein by reference.

Item 9.01. Financial Statements and Exhibits

(d) *Exhibits.* The following exhibits are filed herewith:

Exhibit No.	Description
10.1	Employment Agreement effective as of August 3, 2007 between XOMA (US) LLC and Steven B. Engle
10.2	Change of Control Severance Agreement effective as of August 3, 2007 between XOMA Ltd. and Steven B. Engle
10.3	Share Option Agreement Under the XOMA Ltd. 1981 Share Option Plan dated August 3, 2007 between XOMA Ltd. and Steven B. Engle (immediately exercisable share options)
10.4	Share Option Agreement Under the XOMA Ltd. 1981 Share Option Plan dated August 3, 2007 between XOMA Ltd. and Steven B. Engle (incentive share options with scheduled exercisability)
10.5	Share Option Agreement Under the XOMA Ltd. 1981 Share Option Plan dated August 3, 2007 between XOMA Ltd. and Steven B. Engle (non-qualified share options with scheduled exercisability)
10.6	Non-Qualified Share Option Agreement Under the XOMA Ltd. Restricted Share Plan dated August 3, 2007 between XOMA Ltd. and Steven B. Engle
10.7	XOMA Ltd. Non-Qualified Share Option Agreement dated August 3, 2007 between XOMA Ltd. and Steven B. Engle
10.8	Consulting Agreement effective as of August 3, 2007 between XOMA (US) LLC and John L. Castello
99.1	Press Release dated August 6, 2007

SIGNATURE

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

Date: August 6, 2007

XOMA LTD

By: /s/ Christopher J. Margolin
Christopher J. Margolin
Vice President, General
Counsel and Secretary

EMPLOYMENT AGREEMENT

This Employment Agreement ("Agreement"), effective as of this 3rd day of August, 2007, by and between XOMA (US) LLC ("XOMA" or the "Company"), a Delaware limited liability company with its principal office at 2910 Seventh Street, Berkeley, California, and Steven B. Engle ("Employee"), an individual residing at 14891 De La Valle Place, Del Mar, CA 92015.

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

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

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

1. Employment. The Company agrees to continue to employ Employee, and Employee agrees to continue to be employed by the Company, for the period referred to in Section 3 hereof and upon the other terms and conditions herein provided.
 2. Position and Responsibilities. The Company agrees to employ Employee in the position of Chief Executive Officer and President and also as Director, and Employee agrees to serve as Chief Executive Officer and President and also as Director, for the term and on the conditions hereinafter set forth. Employee agrees to perform such services not inconsistent with his position as shall from time to time be assigned to him by the Board of Directors of the Company's parent company, XOMA Ltd. (the "Board of Directors").
 3. Term and Duties.
 - (a) Term of Employment. This Agreement shall become effective and the term of employment pursuant to this Agreement shall commence on August 3, 2007 and will continue until August 2, 2008, and will be automatically extended (without further action by the parties) for one year thereafter and again on each subsequent anniversary thereof unless notice of nonextension of the term is given by either the Employee or the Company more than 90 days prior to the next scheduled expiration date or unless Employee's employment is terminated by the Company or he resigns from the Company's employ as described herein.
 - (b) Duties. During the period of his employment hereunder Employee shall serve the Company as its Chief Executive Officer and President and also as Director, and except for illnesses, vacation periods and reasonable leaves of absence, Employee shall devote all of his business time, attention, skill and efforts to the faithful performance of his duties hereunder. So long as Employee is Chief Executive Officer and President and also as Director of the Company, he will discharge all duties incidental to such office and such further duties as may be reasonably assigned to him from time to time by the Board of Directors.
-

4. Compensation and Reimbursement of Expenses.

(a) Compensation. For all services rendered by Employee as Chief Executive Officer and President and also as Director during his employment under this Agreement, the Company shall pay Employee as compensation a base salary at a rate of not less than \$495,000.00 per annum. All taxes and governmentally required withholding shall be deducted in conformity with applicable laws.

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

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

6. Payments to Employee Upon Termination of Employment.

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

(i) The termination by the Company of Employee's employment hereunder for any reason other than pursuant to paragraph 6(c) and shall include any termination of the Employee's employment upon expiration of the term of this Agreement due to the Company giving written notice of its intention not to extend the term of this Agreement as provided in paragraph 3(a); or

(ii) Employee's resignation from the Company's employ for Good Reason in accordance with the terms hereof. "Good Reason" shall mean, unless remedied by the Company within thirty (30) days after the receipt of written notice from the Employee as provided below or consented to in writing by the Employee, (A) the material diminution of any material duties or responsibilities of the Employee; or (B) a material reduction in the Employee's base salary; provided, however, that the Employee must have given written notice to the Company of the existence of any such condition within ninety (90) days after the initial existence thereof (and the failure to provide such timely notice will constitute a waiver of the Employee's ability to terminate employment for Good Reason as a result of such condition), and the Company will have a period of thirty (30) days from receipt of such written notice during which it may remedy the condition; provided further, however, that any termination of employment by the Employee for Good Reason must occur not later than one hundred eighty (180) days following the initial existence of the condition giving rise to such Good Reason.

(b) Severance Pay and Other Benefits. The following provisions of this Section 6(b) shall apply upon the occurrence of an event of termination under paragraph 6(a).

(i) Cash Severance Pay. Upon the occurrence of an event of termination under paragraph 6(a), the Company shall, subject to the provisions of Section 7 below, pay Employee, or in the event of his subsequent death, his beneficiary or beneficiaries of his estate, as the case may be, as severance pay or liquidated damages, or both, (A) a severance payment in an amount equal to 1.5 times the Employee's annual base salary as in effect immediately prior to the termination, and (B) a severance payment equal to the sum of (1) 1.5 times the Employee's annual target bonus as in effect for the fiscal year in which the termination occurs, and (2) an amount equal to a pro-rated portion of the Employee's annual target bonus as in effect for the fiscal year in which the termination occurs calculated by multiplying the annual target bonus by a fraction, the numerator of which shall be the number of calendar months (including a portion of any such month) that the Employee was employed with the Company prior to the occurrence of the termination during such fiscal year, and the denominator of which shall be 12. Such severance payments shall be in lieu of any other severance payment to which the Employee shall be entitled as a result of such termination pursuant to this Agreement, any other employment agreement with or offer letter from the Company or any of its affiliates or the Company's or any of its affiliate's then existing severance plans and policies, except in those circumstances where the provisions of the Change of Control Severance Agreement, effective as of August 3, 2007, between Employee and XOMA Ltd., by such agreement's express terms, apply, in which case the provisions of such agreement providing for severance payment(s) to Employee as a result of such termination shall apply in lieu of the provisions of this Agreement relating thereto. The severance payment described in Section 6(b)(i)(A) shall be paid in monthly installments over eighteen (18) months (the "Severance Payment Period"), beginning within thirty (30) days of the termination, and the severance payment described in Section 6(b)(i)(B) shall be paid in a lump sum within thirty (30) days of the termination, in each case subject to the requirements of Section 6(b)(iii) below.

(ii) Group Health Coverage and Certain Other Benefits. In addition, during a period of eighteen (18) months following an event of termination under paragraph 6(a), (A) the Company shall pay for the full cost of the coverage (plus an additional amount to pay for the taxes on such payments, if any, plus any taxes on such additional amount, such amount to be paid no later than ten (10) days prior to the date such taxes are due) of the Employee and Employee's spouse and eligible dependents under any group health plans of the Company on the date of such termination of employment at the same level of health (i.e., medical, vision and dental) coverage and benefits as in effect for the Employee or such covered dependents on the date immediately preceding the date of the Employee's termination; provided, however, that (1) the Employee and Employee's spouse and eligible dependents each constitutes a qualified beneficiary, as defined in Section 4980B(g)(1) of the Internal Revenue Code of 1986, as amended (the "Code"); and (2) the Employee elects continuation coverage pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"), within the time period prescribed pursuant to COBRA; and (B) if Employee is, at the time of such termination, an eligible participant in the Company's mortgage differential program, the Company shall continue to make mortgage assistance payments to Employee pursuant to such program as in effect at the time of such termination. Notwithstanding the foregoing, the payments by the Company for such group health coverage and/or mortgage assistance, as applicable, shall cease prior to the expiration of the eighteen (18) month period in this Section 6(b)(ii) upon the employment of the Employee by another employer. Furthermore, if, at the time of the termination of Employee's employment under paragraph 6(a), Employee is the obligor of a "forgivable" loan (i.e., a loan which by its terms is to be considered forgiven by the Company and paid by the obligor in circumstances other than actual repayment) from the Company, then, notwithstanding any provisions of such loan to the contrary, such loan shall remain outstanding, and the forgiveness thereof shall continue, for a period of eighteen (18) months following such termination in accordance with the terms of such loan in effect at the time of such termination; *provided, however,* that at the end of such period of eighteen (18) months, the outstanding balance of such loan shall be immediately due and payable, together with any accrued and unpaid interest thereon.

(iii) Section 409A of the Code. Notwithstanding the foregoing clauses (i) and (ii), to the extent any of the severance payments, mortgage assistance payments or loan forgiveness referred to therein, or any taxes payable on the health benefits referred to therein, would be deemed made in connection with a "separation from service" within the meaning of the term in Section 409A(a)(2)(A)(i) of the Code to a "specified employee" within the meaning of the term in Section 409A(a)(2)(B)(i) of the Code, and not exempt from the requirements of Section 409A of the Code, then such payments or forgiveness, as the case may be, shall be postponed until six (6) months following the Employee's termination from employment as required by Section 409A of the Code, provided, however, if prior to the expiration of such six-month period, the Employee dies, then such payments or forgiveness, as the case may be, shall commence prior to expiration of the six month period according to the original payment schedule for such payments to the extent permitted by Section 409A of the Code. Thus, for example, if the provision in the preceding sentence applies, the first six (6) monthly installments of the severance payments provided for in clause (i) above shall be paid immediately following the six (6) month period in a lump sum and the seventh (7th) through eighteenth (18th) installments shall be paid according to their original schedule provided that the Employee does not die during such six-month period.

(iv) Outplacement Program. Upon the occurrence of an event of termination under paragraph 6(a), the Employee will immediately become entitled to participate in a twelve (12) month executive outplacement program provided by an executive outplacement service, at the Company's expense not to exceed fifteen thousand dollars (\$15,000).

(v) Release of Claims. As a condition of entering into this Agreement and receiving the severance benefits under this Section 6(b), the Employee agrees to execute and not revoke a release of claims agreement substantially in the form attached hereto as Exhibit A upon the termination of the Employee's employment with the Company. Such release shall not, however, apply to the rights and claims of the Employee under this Agreement, any indemnification agreement between the Employee and XOMA Ltd. (or its successor or acquirer), the bye-laws of XOMA Ltd. (or its successor or acquirer), the share award agreements between the Employee and XOMA Ltd. (or its successor or acquirer), or any employee benefit plan of which the Employee is a participant and under which all benefits due under such plan have not yet been paid or provided.

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

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

(ii) Employee shall act or refrain from acting in respect of any of the duties and responsibilities which have been assigned to him in accordance with this Agreement and shall fail to desist from such action or inaction within thirty (30) days after Employee's receipt of notice from the Company of such action or inaction and the Board of Directors determines that such action or inaction constituted gross negligence or a willful act of malfeasance or misfeasance of Employee in respect of such duties; or

(iii) Employee shall breach any material term of this Agreement and shall fail to correct such breach within thirty (30) days after Employee's receipt of notice from the Company of such breach (provided such breach can be cured);

then, and in each such case, the Company shall have the right to give notice of termination of Employee's services hereunder (or pay Employee in lieu of notice) as of a date (not earlier than fourteen (14) days from such notice) to be specified in such notice and this Agreement (other than the provisions of Section 7 hereof) shall terminate on such date.

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

(a) Confidential Information and Competitive Conduct. Employee shall not, to the detriment of the Company, disclose or reveal to any unauthorized person any trade secret or other confidential information relating to the Company or its affiliates or to any businesses operated by them, and Employee confirms that such information constitutes the exclusive property of the Company. Employee shall not otherwise act or conduct himself to the material detriment of the Company or its affiliates, or in a manner which is inimical or contrary to the interests thereof, and, for a period of twelve (12) months following an event of termination under paragraph 6(a), shall not, directly or indirectly, engage in or render any service (whether to a person, firm or business) in direct competition with the Company; provided, however, that Employee's ownership of less than five percent (5%) of the outstanding stock of a corporation shall not be itself be deemed to constitute such competition. Employee recognizes that the possible restrictions on his activities which may occur as a result of his performance of his obligations under this paragraph 7(a) are required for the reasonable protection of the Company and its investments. For purposes hereof, "in direct competition" means engaged in the research, development and/or production of biological materials intended for use as therapeutic, prophylactic or diagnostic products in one or more of the same indications, and that utilize one or more of the same scientific bases (e.g., in the case of a therapeutic antibody, targets the same signal initiating pathway), as a product or product candidate the research, development and/or production of which is an active part of the Company's business plan at the time of Employee's termination.

(b) Non-Disparagement. The Employee and the Company agree to refrain from any defamation, libel or slander of the other and its respective officers, directors, employees, representatives, investors, shareholders, administrators, affiliates, divisions, subsidiaries, predecessor and successor corporations and assigns or tortious interference with the contracts and relationships of the other and its respective officers, directors, employees, representatives, investors, shareholders, administrators, affiliates, divisions, subsidiaries, predecessor and successor corporations and assigns.

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

(d) Remedies. Employee agrees that monetary damages would not be adequate compensation for any loss incurred by the Company by reason of a breach of the provisions of this Section 7 and hereby agrees to waive the defense in any action for specific performance that a remedy at law would be adequate.

8. Effect of Prior Agreements. This Agreement contains the entire understanding between the parties hereto and supersedes any prior employment agreements between the Company and Employee, but shall not supersede the Change of Control Severance Agreement referred to above, any indemnification agreement between the Employee and XOMA Ltd. (or its successor or acquirer), the share award agreements between the Employee and XOMA Ltd. (or its successor or acquirer), or any employee benefit plan of which the Employee is a participant and under which all benefits due under such plan have not yet been paid or provided.

9. General Provisions.

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

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

(c) Compliance with Section 409A of the Code. It is intended that this Agreement will comply with Section 409A of the Code (and any regulations and guidelines issued thereunder) to the extent the Agreement is subject thereto, and the Agreement shall be interpreted on the basis consistent with such intent.

10. Successors and Assigns.

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

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

11. Modification and Waiver.

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

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

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

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

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

XOMA (US) LLC

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

Steven B. Engle

EXHIBIT A

FORM RELEASE OF CLAIMS AGREEMENT

This Release of Claims Agreement (this "Agreement") is made and entered into by and between XOMA (US) LLC (the "Company") and Steven B. Engle (the "Employee").

WHEREAS, the Employee was employed by the Company; and

WHEREAS, the Company and the Employee have entered into an employment agreement effective as of August 3, 2007 (the "Employment Agreement").

NOW THEREFORE, in consideration of the mutual promises made herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Employee (collectively referred to as the "Parties") desiring to be legally bound do hereby agree as follows:

1. **Termination.** The Employee's employment with the Company terminated on _____, 20__.
2. **Consideration.** Subject to and in consideration of the Employee's release of claims as provided herein, the Company has agreed to pay the Employee certain benefits and the Employee has agreed to provide certain benefits to the Company, both as set forth in the Employment Agreement.
3. **Release of Claims.** The Employee agrees that the foregoing consideration represents settlement in full of all currently outstanding obligations owed to the Employee by the Company. The Employee, on the Employee's own behalf and the Employee's respective heirs, family members, executors and assigns, hereby fully and forever releases the Company and its past, present and future officers, agents, directors, employees, investors, shareholders, administrators, affiliates, divisions, subsidiaries, parents, predecessor and successor corporations, and assigns, from, and agrees not to sue or otherwise institute or cause to be instituted any legal or administrative proceedings concerning any claim, duty, obligation or cause of action relating to any matters of any kind, whether presently known or unknown, suspected or unsuspected, that the Employee may possess arising from any omissions, acts or facts that have occurred up until and including the Effective Date (as defined below) of this Agreement including, without limitation:
 - (a) any and all claims relating to or arising from the Employee's employment relationship with the Company and the termination of that relationship;
 - (b) any and all claims relating to, or arising from, the Employee's right to purchase, or actual purchase of shares of stock of the Company, including, without limitation, any claims for fraud, misrepresentation, breach of fiduciary duty, breach of duty under applicable state corporate law and securities fraud under any state or federal law;
 - (c) any and all claims for wrongful discharge of employment, termination in violation of public policy, discrimination, breach of contract (both express and implied), breach of a covenant of good faith and fair dealing (both express and implied), promissory estoppel, negligent or intentional infliction of emotional distress, negligent or intentional misrepresentation, negligent or intentional interference with contract or prospective economic advantage, unfair business practices, defamation, libel, slander, negligence, personal injury, assault, battery, invasion of privacy, false imprisonment and conversion;
 - (d) any and all claims for violation of any federal, state or municipal statute, including, but not limited to, Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Age Discrimination in Employment Act of 1967, the Americans with Disabilities Act of 1990, the Fair Labor Standards Act, the Employee Retirement Income Security Act of 1974, The Worker Adjustment and Retraining Notification Act, the California Fair Employment and Housing Act, and Labor Code Section 201, *et seq.* and Section 970, *et seq.* and all amendments to each such Act as well as the regulations issued thereunder;
 - (e) any and all claims for violation of the federal or any state constitution;
 - (f) any and all claims arising out of any other laws and regulations relating to employment or employment discrimination; and
 - (g) any and all claims for attorneys' fees and costs.

The Employee agrees that the release set forth in this Section 4 shall be and remain in effect in all respects as a complete general release as to the matters released. Notwithstanding the foregoing, this release does not extend to any obligations now or subsequently incurred under this Agreement, the Employment Agreement, the Indemnification Agreement between the Employee and the Company (or its successor or acquirer), the outstanding stock award agreements between the Employee and the Company (or its successor or acquirer), or any employee benefit plan of which the Employee is a participant and under which all benefits due under such plan have not yet been paid or provided.

4. **Acknowledgment of Waiver of Claims under ADEA.** The Employee acknowledges that the Employee is waiving and releasing any rights the Employee may have under the Age Discrimination in Employment Act of 1967 ("ADEA") and that this waiver and release is knowing and voluntary. The Employee and the Company agree that this waiver and release does not apply to any rights or claims that may arise under the ADEA after the Effective Date of this Agreement. The Employee acknowledges that the consideration given for this waiver and release agreement is in addition to anything of value to which the Employee was already entitled. The Employee further acknowledges that the Employee has been advised by this writing that (a) the Employee should consult with an attorney prior to executing this Agreement; (b) the Employee has at least twenty-one (21) days within which to consider this Agreement; (c) the Employee has seven (7) days following the execution of this Agreement by the Parties to revoke the Agreement; and (d) this Agreement shall not be effective until the revocation period has expired. Any revocation should be in writing and delivered to the Company by the close of business on the seventh (7th) day from the date that the Employee signs this Agreement.

5. Civil Code Section 1542. The Employee represents that the Employee is not aware of any claims against the Company other than the claims that are released by this Agreement. The Employee acknowledges that the Employee has been advised by legal counsel and is familiar with the provisions of California Civil Code Section 1542, which provides as follows:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HER OR HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HER OR HIM MUST HAVE MATERIALLY AFFECTED HER OR HIS SETTLEMENT WITH THE DEBTOR.

The Employee, being aware of said code section, agrees to expressly waive any rights the Employee may have thereunder, as well as under any other statute or common law principles of similar effect.

6. No Pending or Future Lawsuits. The Employee represents that the Employee has no lawsuits, claims or actions pending in the Employee's name, or on behalf of any other person or entity, against the Company or any other person or entity referred to herein. The Employee also represents that the Employee does not intend to bring any claims on the Employee's own behalf or on behalf of any other person or entity against the Company or any other person or entity referred to herein except, if necessary, with respect to the agreements listed in the last sentence of Section 4 of this Agreement.

7. Confidentiality. The Employee agrees to use the Employee's best efforts to maintain in confidence the existence of this Agreement, the contents and terms of this Agreement, and the consideration for this Agreement (hereinafter collectively referred to as "Release Information"). The Employee agrees to take every reasonable precaution to prevent disclosure of any Release Information to third parties and agrees that there will be no publicity, directly or indirectly, concerning any Release Information. The Employee agrees to take every precaution to disclose Release Information only to those attorneys, accountants, governmental entities and family members who have a reasonable need to know of such Release Information.

8. No Adverse Cooperation. The Employee agrees the Employee will not act in any manner that might damage the business of the Company. The Employee agrees that the Employee will not counsel or assist any attorneys or their clients in the presentation or prosecution of any disputes, differences, grievances, claims, charges or complaints by any third party against the Company and/or any officer, director, employee, agent, representative, shareholder or attorney of the Company, unless compelled under a subpoena or other court order to do so.

9. Costs. The Parties shall each bear their own costs, expert fees, attorneys' fees and other fees incurred in connection with this Agreement.

10. Authority. The Company represents and warrants that the undersigned has the authority to act on behalf of the Company and to bind the Company and all who may claim through it to the terms and conditions of this Agreement. The Employee represents and warrants that the Employee has the capacity to act on the Employee's own behalf and on behalf of all who might claim through the Employee to bind them to the terms and conditions of this Agreement.

11. No Representations. The Employee represents that the Employee has had the opportunity to consult with an attorney, and has carefully read and understands the scope and effect of the provisions of this Agreement. Neither party has relied upon any representations or statements made by the other party hereto which are not specifically set forth in this Agreement.

12. Severability. In the event that any provision hereof becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, this Agreement shall continue in full force and effect without said provision.

13. Entire Agreement. This Agreement and the Employment Agreement and the agreements and plans referenced therein represent the entire agreement and understanding between the Company and the Employee concerning the Employee's separation from the Company, and supersede and replace any and all prior agreements and understandings concerning the Employee's relationship with the Company and the Employee's compensation by the Company. This Agreement may only be amended in writing signed by the Employee and an executive officer of the Company.

14. Governing Law. This Agreement shall be governed by the internal substantive laws, but not the choice of law rules, of the State of California.

15. Effective Date. This Agreement is effective eight (8) days after it has been signed by the Parties (the "Effective Date") unless it is revoked by the Employee within seven (7) days of the execution of this Agreement by the Employee.

16. Counterparts. This Agreement may be executed in counterparts, and each counterpart shall have the same force and effect as an original and shall constitute an effective, binding agreement on the part of each of the undersigned.

17. Voluntary Execution of Agreement. This Agreement is executed voluntarily and without any duress or undue influence on the part or behalf of the Parties hereto, with the full intent of releasing all claims. The Parties acknowledge that:

(a) they have read this Agreement;

(b) they have been represented in the preparation, negotiation and execution of this Agreement by legal counsel of their own choice or that they have voluntarily declined to seek such counsel;

(c) they understand the terms and consequences of this Agreement and of the releases it contains; and

(d) they are fully aware of the legal and binding effect of this Agreement.

IN WITNESS WHEREOF, the Parties have executed this Agreement on the respective dates set forth below.

XOMA (US) LLC

By:

Title: _____

Date: _____

EMPLOYEE

Name

Date: _____

XOMA LTD.

CHANGE OF CONTROL SEVERANCE AGREEMENT

This Change of Control Severance Agreement (the "Agreement") is made and entered into effective as of August 3, 2007 (the "Effective Date"), by and between Steven B. Engle (the "Employee") and XOMA Ltd., a Bermuda company (the "Company").

RECITALS

A. It is expected that the Company may from time to time consider the possibility of a Change of Control (as hereinafter defined). The Board of Directors of the Company (the "Board") recognizes that such consideration could be a distraction to the Employee and could cause the Employee to consider alternative employment opportunities.

B. The Board believes that it is in the best interest of the Company and its shareholders to provide the Employee with an incentive to continue the Employee's employment and to maximize the value of the Company upon a Change of Control for the benefit of its shareholders.

C. In order to provide the Employee with enhanced financial security and sufficient encouragement to remain with the Company notwithstanding the possibility of a Change of Control, the Board believes that it is imperative to provide the Employee with certain severance benefits upon the Employee's termination of employment following a Change of Control.

D. XOMA (US) LLC, a wholly-owned subsidiary of the Company, and the Employee have previously entered into an employment agreement effective as of August 3, 2007 (the "Existing Agreement"), which provides the Employee with certain severance benefits upon the Employee's termination of employment.

E. The parties intend that this Agreement shall operate in addition to, and not in replacement of, the Existing Agreement.

AGREEMENT

In consideration of the mutual covenants herein contained and the continued employment of the Employee by the Company, the parties agree as follows:

1. Definition of Terms. The following terms referred to in this Agreement shall have the following meanings:
-

(a) “Cause” shall mean (i) the Employee has been convicted of any crime or offense constituting a felony under applicable law, including, without limitation, any act of dishonesty such as embezzlement, theft or larceny, (ii) the Employee has acted or refrained from acting in respect of any of the duties and responsibilities which have been assigned to her/him in accordance with this Agreement or the Existing Agreement and shall fail to desist from such action or inaction within thirty (30) days after the Employee’s receipt of notice from the Company of such action or inaction and the Board determines that such action or inaction constituted gross negligence or a willful act of malfeasance or misfeasance of the Employee in respect of such duties, or (iii) the Employee has breached any material term of this Agreement or the Existing Agreement and shall fail to correct such breach within thirty (30) days after the Employee’s receipt of notice from the Company of such breach.

(b) “Change of Control” shall mean the occurrence of any of the following events:

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

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

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

(iv) any approval by the shareholders of the Company of a plan of complete liquidation of the Company;

(v) any “person” (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended) becoming the “beneficial owner” (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the total voting power represented by the Company’s then outstanding voting securities; or

(vi) a change in the composition of the Board, as a result of which fewer than a majority of the directors are Incumbent Directors. “Incumbent Directors” shall mean directors who (A) are directors of the Company as of the date hereof, (B) are elected, or nominated for election, to the Board with the affirmative votes of the directors of the Company as of the date hereof, or (C) are elected, or nominated for election, to the Board with the affirmative votes of at least a majority of those directors whose election or nomination was not in connection with any transaction described in subsections (i) through (v) or in connection with an actual or threatened proxy contest relating to the election of directors of the Company.

(c) “Change of Control Protection Period” shall mean the period commencing one (1) month prior to the execution of the definitive agreement for a Change of Control and eighteen (18) months following the closing of a Change of Control.

(d) “Compensation Continuation Period” shall mean the period of time commencing with termination of the Employee’s employment as a result of Involuntary Termination at any time within a Change of Control Protection Period and ending with the date twenty-four (24) months following the date of the Employee’s Involuntary Termination.

(e) “Code” shall mean the Internal Revenue Code of 1986, as amended.

(f) “Involuntary Termination” shall mean (i) the failure of a successor or an acquiring company to offer the Employee the position held by Employee on the date of this Agreement (or, if higher, a subsequent position of the Employee) with the successor or acquiring company following a Change of Control; (ii) without the Employee’s express written consent, a substantial reduction, without good business reasons, of the rights, privileges and perquisites available to the Employee immediately prior to such reduction; (iii) without the Employee’s express written consent, a material diminution in the authority, responsibilities, duties or reporting lines held or possessed by the Employee prior to the Change of Control; (iv) without the Employee’s express written consent, a reduction by the Company of the Employee’s base salary or target bonus as in effect immediately prior to such reduction; (v) without the Employee’s express written consent, a material reduction by the Company in the kind or level of employee benefits to which the Employee is entitled immediately prior to such reduction with the result that the Employee’s overall benefits package is significantly reduced; (vi) without the Employee’s express written consent, the relocation of the regular offices of the Employee to a facility or a location more than thirty (30) miles further from the Employee’s current location (unless such new facility or location is closer to the Employee’s residence); (vii) any purported termination of the Employee by the Company which is not effected for Cause or for which the grounds relied upon are not valid; or (viii) the failure of the Company to obtain the assumption of this Agreement by any successors contemplated in Section 7 below.

2. Term of Agreement. This Agreement shall terminate upon the date that all obligations of the parties hereto under this Agreement have been satisfied or, if earlier, on the date, prior to a Change of Control Protection Period, the Employee is no longer employed by the Company.

3. At-Will Employment. The Company and the Employee acknowledge that the Employee’s employment is and shall continue to be at-will, as defined under applicable law. If the Employee’s employment terminates for any reason, the Employee shall not be entitled to any payments, benefits, damages, awards or compensation other than as provided by this Agreement or the Existing Agreement or as may otherwise be established under the Company’s then existing employee benefit plans or policies at the time of termination.

4. Change of Control and Severance Benefits.

(a) Option Acceleration and Extended Exercise Period. If the Employee's employment with the Company terminates as a result of an Involuntary Termination at any time within a Change of Control Protection Period, then the exercisability of all options granted to the Employee by the Company (including any such options granted or assumed by the surviving or continuing entity of the Change of Control) and still outstanding (the "Options") shall automatically be accelerated so that all the Options may be exercised immediately upon such Involuntary Termination for any or all of the shares subject thereto and the post-termination exercise period of each Option shall be extended to sixty (60) months (but in no event beyond the remainder of the maximum term of the Option). The Options shall continue to be subject to all other terms and conditions of the Company's share option plans and the applicable option agreements between the Employee and the Company.

(b) Outplacement Program. If the Employee's employment with the Company terminates as a result of an Involuntary Termination at any time within a Change of Control Protection Period, the Employee will immediately become entitled to participate in a twelve (12) month executive outplacement program provided by an executive outplacement service, at the Company's expense not to exceed fifteen thousand dollars (\$15,000).

(c) Termination Following a Change of Control.

(i) Cash Severance Payment Upon Involuntary Termination. If the Employee's employment with the Company terminates as a result of an Involuntary Termination at any time within a Change of Control Protection Period, then the Employee shall be entitled to receive a severance payment equal to the sum of (A) an amount equal to 2.0 times the Employee's annual base salary as in effect immediately prior to the Involuntary Termination, plus (B) an amount equal to 2.0 times Employee's target bonus as in effect for the fiscal year in which the Involuntary Termination occurs. Such severance payments shall be in lieu of any other severance payment to which the Employee shall be entitled as a result of such termination pursuant to this Agreement, any employment agreement with or offer letter from the Company or any of its affiliates or the Company's or any of its affiliate's then existing severance plans and policies. The severance payment described in Section 4(c)(i)(A) shall be paid in monthly installments over twenty-four (24) months, beginning within thirty (30) days of the termination, and the severance payment described in Section 4(c)(i)(B) shall be paid in a lump sum within thirty (30) days of the termination, in each case subject to the requirements of Section 4(c)(iii) below.

(ii) Provision of Group Health and Certain Other Benefits. In addition, during a period of twenty-four (24) months following the termination of Employee's employment as a result of an Involuntary Termination at any time within a Change of Control Protection Period, (A) the Company shall make available and pay for the full cost of the coverage (plus an additional amount to pay for the taxes on such payments, if any, plus any taxes on such additional amount, such amount to be paid no later than ten (10) days prior to the date such taxes are due) of the Employee and Employee's spouse and eligible dependents under any group health plans of the Company on the date of such termination of employment at the same level of health (i.e., medical, vision and dental) coverage and benefits as in effect for the Employee or such covered dependents on the date immediately preceding the date of the Employee's termination; provided, however, that (1) the Employee and Employee's spouse and eligible dependents each constitutes a qualified beneficiary, as defined in Section 4980B(g)(1) of the Internal Revenue Code of 1986, as amended; and (2) the Employee elects continuation coverage pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"), within the time period prescribed pursuant to COBRA; and (B) if Employee is, at the time of such termination, an eligible participant in the Company's mortgage differential program, the Company shall continue to make mortgage assistance payments to Employee pursuant to such program as in effect at the time of such termination. Notwithstanding the foregoing, the payments by the Company for such group health coverage and/or mortgage assistance, as applicable, shall cease prior to the expiration of the twenty-four (24) month period in this Section 4(c)(ii) upon the employment of the Employee by another employer. Furthermore, if, at the time of the termination of Employee's employment as a result of an Involuntary Termination at any time within a Change of Control Protection Period, Employee is the obligor of a "forgivable" loan (i.e., a loan which by its terms is to be considered forgiven by the Company and paid by the obligor in circumstances other than actual repayment) from the Company, then, notwithstanding any provisions of such loan to the contrary, such loan shall remain outstanding, and the forgiveness thereof shall continue, for a period of twenty-four (24) months following such termination in accordance with the terms of such loan in effect at the time of such termination; provided, however, that at the end of such period of twenty-four (24) months, the outstanding balance of such loan shall be immediately due and payable, together with any accrued and unpaid interest thereon.

(iii) Section 409A of the Code. Notwithstanding the foregoing clauses (i) and (ii), to the extent any of the severance payments, mortgage assistance payments or loan forgiveness referred to therein, or any taxes payable on the health benefits referred to therein, would be deemed made in connection with a "separation from service" within the meaning of the term in Section 409A(a)(2)(A)(i) of the Code to a "specified employee" within the meaning of the term in Section 409A(a)(2)(B)(i) of the Code, and not exempt from the requirements of Section 409A of the Code, then such payments or forgiveness, as the case may be, shall be postponed until six (6) months following the Employee's termination from employment as required by Section 409A of the Code, provided, however, if prior to the expiration of such six-month period, the Employee dies, then such payments or forgiveness, as the case may be, shall commence prior to expiration of the six month period according to the original payment schedule for such payments to the extent permitted by Section 409A of the Code. Thus, for example, if the provision in the preceding sentence applies, the first six (6) monthly installments of the severance payments provided for in clause (i) above shall be paid immediately following the six (6) month period in a lump sum and the seventh (7th) through twenty-fourth (24th) installments shall be paid according to their original schedule provided that the Employee does not die during such six-month period.

(iv) Voluntary Resignation or Termination for Cause. If the Employee's employment with the Company terminates as a result of the Employee's voluntary resignation which is not an Involuntary Termination or if the Employee is terminated for Cause at any time after a Change of Control, then the Employee shall not be entitled to receive severance or other benefits hereunder, but may be eligible for those benefits (if any) as may then be established under the Company's then existing severance and benefits plans and policies at the time of such termination.

(d) Disability or Death. If the Employee's employment with the Company terminates due to the Employee's death or disability following a Change of Control, then the Employee shall not be entitled to receive severance or other benefits hereunder, except for those (if any) as may be then established under the Company's then existing severance and benefits plans and policies at the time of such disability or death. In the event of the Employee's death or disability after the termination of the Employee's employment with the Company as a result of an Involuntary Termination within a Change of Control Protection Period, the Employee's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees shall be entitled to receive severance or other benefits hereunder.

(e) Accrued Wages and Vacation Expenses. Without regard to the reason for, or the timing of, the Employee's termination of employment (and without duplication of any similar benefits under any employment agreement with the Company or any of its affiliates): (i) the Company shall pay the Employee any unpaid base salary due for periods prior to the date of termination; (ii) the Company shall pay the Employee all of the Employee's accrued and unused vacation through the date of termination; and (iii) following submission of proper expense reports by the Employee, the Company shall reimburse the Employee for all expenses reasonably and necessarily incurred by the Employee in connection with the business of the Company prior to the date of termination. These payments shall be made promptly upon termination, within the period of time mandated by law, and in no event later than ten (10) days after the date of termination.

5. Conditional Nature of Severance Payments.

(a) Non-Compete. The Employee shall not, to the detriment of the Company or any of its affiliates, disclose or reveal to any unauthorized person any trade secret or other confidential information relating to the Company or its affiliates or to any businesses operated by them, and the Employee confirms that such information constitutes the exclusive property of the Company. The Employee shall not otherwise act or conduct her/himself to the material detriment of the Company or its affiliates, or in a manner which is inimical or contrary to the interests thereof, and, for a period of twenty-four (24) months following the termination of Employee's employment as a result of an Involuntary Termination at any time within a Change of Control Protection Period, shall not, directly or indirectly, engage in or render any service (whether to a person, firm or business) in direct competition with the Company; provided, however, that the Employee's ownership of less than five percent (5%) of the outstanding stock of a corporation shall not itself be deemed to constitute such competition. The Employee recognizes that the possible restrictions on her/his activities which may occur as a result of her/his performance of her/his obligations under this Section 5(a) are required for the reasonable protection of the Company and its investments. For purposes hereof, "in direct competition" means engaged in the research, development and/or production of biological materials intended for use as therapeutic, prophylactic or diagnostic products in one or more of the same indications, and that utilize one or more of the same scientific bases (e.g., in the case of a therapeutic antibody, targets the same signal initiating pathway), as a product or product candidate the research, development and/or production of which is an active part of the Company's business plan at the time of Employee's termination.

(b) Non-Disparagement. The Employee and the Company agree to refrain from any defamation, libel or slander of the other and its respective officers, directors, employees, representatives, investors, shareholders, administrators, affiliates, divisions, subsidiaries, predecessor and successor corporations and assigns or tortious interference with the contracts and relationships of the other and its respective officers, directors, employees, representatives, investors, shareholders, administrators, affiliates, divisions, subsidiaries, predecessor and successor corporations and assigns.

(c) Understanding of Covenants. The Employee represents that the Employee (i) is familiar with the foregoing covenants not to compete and not to disparage, and (ii) is fully aware of the Employee's obligations hereunder, including, without limitation, the reasonableness of the length of time, scope and geographic coverage of the covenant not to compete.

6. Golden Parachute Excise Tax. In the event that the benefits provided for in this Agreement or otherwise payable to the Employee constitute "parachute payments" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code") that are subject to the excise tax imposed by Section 4999 of the Code (the "Excise Tax"), then the Employee shall receive (i) a one-time payment from the Company sufficient to pay such excise tax (the "Excise Tax Gross-Up"), and (ii) an additional one-time payment from the Company sufficient to pay the additional excise tax and federal, state and local income and employment taxes arising from the Excise Tax Gross-Up made by the Company to the Employee pursuant to this Section 6 (the "Additional Gross-Up"). Unless the Company and the Employee otherwise agree in writing, the determination of the Employee's excise tax liability and the amount required to be paid under this Section 6 shall be made in writing in good faith by the accounting firm serving as the Company's independent public accountants immediately prior to the Change of Control (the "Accountants"). The initial Excise Tax Gross-Up and Additional Gross-Up payments hereunder, if any, shall either be (x) paid to the Employee no later than ten (10) days prior to the due date for the payment of any excise tax, or (y) paid to the Internal Revenue Service on behalf of the Employee no later than the due date for the payment of any excise tax. In the event that the Excise Tax incurred by the Employee is determined by the Internal Revenue Service to be greater or lesser than the amount so determined by the Accountants, the Company and the Employee agree to promptly (but in no event later than the end of the calendar year in which the applicable taxes are paid to (or received from) the Internal Revenue Service) make such additional payment, including interest and any tax penalties, to the other party as the Accountants reasonably determine is appropriate. For purposes of making the calculations required by this Section 6, the Accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on interpretations concerning the application of the Code for which there is a "substantial authority" tax reporting position. The Company and the Employee shall furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this Section 6. The Company shall bear all costs the Accountants may reasonably incur in connection with any calculations contemplated by this Section 6.

7. Successors.

(a) Company's Successors. Any successor to the Company (whether direct or indirect and whether by purchase, lease, merger, amalgamation, consolidation, liquidation or otherwise) to all or substantially all of the Company's business and/or assets shall assume the Company's obligations under this Agreement and agree expressly to perform the Company's obligations under this Agreement in the same manner and to the same extent as the Company would be required to perform such obligations in the absence of a succession. For all purposes under this Agreement, the term "Company" shall include any successor to the Company's business and/or assets which executes and delivers the assumption agreement described in this subsection (a) or which becomes bound by the terms of this Agreement by operation of law.

(b) Employee's Successors. Without the written consent of the Company, the Employee shall not assign or transfer this Agreement or any right or obligation under this Agreement to any other person or entity. Notwithstanding the foregoing, the terms of this Agreement and all rights of the Employee hereunder shall inure to the benefit of, and be enforceable by, the Employee's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

8. Notices.

(a) General. Notices and all other communications contemplated by this Agreement shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by U.S. registered or certified mail, return receipt requested and postage prepaid. In the case of the Employee, mailed notices shall be addressed to the Employee at the home address that the Employee most recently communicated to the Company in writing. In the case of the Company, mailed notices shall be addressed to its corporate headquarters, and all notices shall be directed to the attention of its Secretary.

(b) Notice of Termination. Any termination by the Company for Cause or by the Employee as a result of a voluntary resignation or an Involuntary Termination shall be communicated by a notice of termination to the other party hereto given in accordance with this Section 8. Such notice shall indicate the specific termination provision in this Agreement relied upon, shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination under the provision so indicated. The failure by the Employee to include in the notice any fact or circumstance which contributes to a showing of Involuntary Termination shall not waive any right of the Employee hereunder or preclude the Employee from asserting such fact or circumstance in enforcing the Employee's rights hereunder.

9. Execution of Release Agreement Upon Termination. As a condition of entering into this Agreement and receiving the benefits under Section 4, the Employee agrees to execute and not revoke a release of claims agreement substantially in the form attached hereto as Exhibit A upon the termination of the Employee's employment with the Company. Such release shall not, however, apply to the rights and claims of the Employee under this Agreement, any indemnification agreement between the Employee and the Company (or its successor or acquirer), the bye-laws of the Company (or its successor or acquirer), the share award agreements between the Employee and the Company (or its successor or acquirer), or any employee benefit plan of which the Employee is a participant and under which all benefits due under such plan have not yet been paid or provided.

10. Arbitration.

(a) Any dispute or controversy arising out of, relating to, or in connection with this Agreement, or the interpretation, validity, construction, performance, breach, or termination thereof, shall be settled by binding arbitration to be held in San Francisco or Alameda County, California, in accordance with the National Rules for the Resolution of Employment Disputes then in effect of the American Arbitration Association (the "Rules"). The cost of the arbitration shall be borne in full by the Company (or its successor or acquirer) but each of the Employee and the Company (or its successor or acquirer) shall bear his, her or its own legal fees and other cost in such arbitration subject to a possible award of attorneys fees and costs by the arbitrator as provided in the arbitration ruling. The arbitrator may grant injunctions or other relief in such dispute or controversy. The decision of the arbitrator shall be final, conclusive and binding on the parties to the arbitration. Judgment may be entered on the arbitrator's decision in any court having jurisdiction.

(b) The arbitrator(s) shall apply California law to the merits of any dispute or claim, without reference to conflicts of law rules. The arbitration proceedings shall be governed by federal arbitration law and by the Rules, without reference to state arbitration law. The Employee hereby consents to the personal jurisdiction of the state and federal courts located in California for any action or proceeding arising from or relating to this Agreement or relating to any arbitration in which the parties are participants.

(c) The Employee understands that nothing in this Section 10 modifies the Employee's at-will employment status. Either the Employee or the Company can terminate the employment relationship at any time, with or without cause.

(d) THE EMPLOYEE HAS READ AND UNDERSTANDS THIS SECTION, WHICH DISCUSSES ARBITRATION. THE EMPLOYEE UNDERSTANDS THAT SUBMITTING ANY CLAIMS ARISING OUT OF, RELATING TO, OR IN CONNECTION WITH THIS AGREEMENT, OR THE INTERPRETATION, VALIDITY, CONSTRUCTION, PERFORMANCE, BREACH OR TERMINATION THEREOF TO BINDING ARBITRATION TO THE EXTENT PERMITTED BY LAW, AND THAT THIS ARBITRATION CLAUSE CONSTITUTES A WAIVER OF THE EMPLOYEE'S RIGHT TO A JURY TRIAL AND RELATES TO THE RESOLUTION OF ALL DISPUTES RELATING TO ALL ASPECTS OF THE EMPLOYER/EMPLOYEE RELATIONSHIP, INCLUDING BUT NOT LIMITED TO, THE FOLLOWING CLAIMS:

(i) ANY AND ALL CLAIMS FOR WRONGFUL DISCHARGE OF EMPLOYMENT; BREACH OF CONTRACT, BOTH EXPRESS AND IMPLIED; BREACH OF THE COVENANT OF GOOD FAITH AND FAIR DEALING, BOTH EXPRESS AND IMPLIED; NEGLIGENT OR INTENTIONAL INFLICTION OF EMOTIONAL DISTRESS; NEGLIGENT OR INTENTIONAL MISREPRESENTATION; NEGLIGENT OR INTENTIONAL INTERFERENCE WITH CONTRACT OR PROSPECTIVE ECONOMIC ADVANTAGE; AND DEFAMATION.

(ii) ANY AND ALL CLAIMS FOR VIOLATION OF ANY FEDERAL STATE OR MUNICIPAL STATUTE, INCLUDING, BUT NOT LIMITED TO, TITLE VII OF THE CIVIL RIGHTS ACT OF 1964, THE CIVIL RIGHTS ACT OF 1991, THE AGE DISCRIMINATION IN EMPLOYMENT ACT OF 1967, THE AMERICANS WITH DISABILITIES ACT OF 1990, THE FAIR LABOR STANDARDS ACT, THE CALIFORNIA FAIR EMPLOYMENT AND HOUSING ACT, AND LABOR CODE SECTION 201, *et seq*;

(iii) ANY AND ALL CLAIMS ARISING OUT OF ANY OTHER LAWS AND REGULATIONS RELATING TO EMPLOYMENT OR EMPLOYMENT DISCRIMINATION.

11. Miscellaneous Provisions.

(a) Mitigation. The Employee shall not be required to mitigate the amount of any payment contemplated by this Agreement, nor shall any such payment be reduced by any earnings that the Employee may receive from any other source. However, the Employee shall not be entitled to receive the health coverage and benefits contemplated by this Agreement in the event that the Employee receives similar health coverage and benefits as a result of new employment during the Compensation Continuation Period.

(b) Waiver. No provision of this Agreement may be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by the Employee and by an authorized officer of the Company (other than the Employee). No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party shall be considered a waiver of any other condition or provision or of the same condition or provision at another time.

(c) Integration. This Agreement represents the entire agreement and understanding between the parties with respect to the subject matter herein but shall not supersede any employment agreement between the Company or any of its affiliates and the Employee, any indemnification agreement between the Employee and the Company (or its successor or acquirer), the share award agreements between the Employee and the Company (or its successor or acquirer), or any employee benefit plan of which the Employee is a participant and under which all benefits due under such plan have not yet been paid or provided.

(d) Choice of Law. The validity, interpretation, construction and performance of this Agreement shall be governed by the internal substantive laws, but not the conflicts of law rules, of the State of California.

(e) Severability. The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision hereof, which shall remain in full force and effect.

(f) Tax Withholdings. All payments made pursuant to this Agreement shall be subject to withholding of applicable income and employment taxes.

(g) Compliance with Section 409A of the Code. It is intended that this Agreement will comply with Section 409A of the Code (and any regulations and guidelines issued thereunder) to the extent the Agreement is subject thereto, and the Agreement shall be interpreted on the basis consistent with such intent.

(h) Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together will constitute one and the same instrument.

IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of the Company by its duly authorized officer, as of the day and year first above written.

COMPANY:

XOMA LTD.

By: _____

Christopher J. Margolin
Vice President, General Counsel
and Secretary

EMPLOYEE:

Steven B. Engle

EXHIBIT A

FORM RELEASE OF CLAIMS AGREEMENT

This Release of Claims Agreement (this "Agreement") is made and entered into by and between XOMA Ltd. (the "Company") and Steven B. Engle (the "Employee").

WHEREAS, the Employee was employed by the Company; and

WHEREAS, the Company and the Employee have entered into a Change of Control Severance Agreement effective as of August 3, 2007 (the "Severance Agreement").

NOW THEREFORE, in consideration of the mutual promises made herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Employee (collectively referred to as the "Parties") desiring to be legally bound do hereby agree as follows:

1. Termination. The Employee's employment with the Company terminated on _____, 20__.

2. Consideration. Subject to and in consideration of the Employee's release of claims as provided herein, the Company has agreed to pay the Employee certain benefits and the Employee has agreed to provide certain benefits to the Company, both as set forth in the Severance Agreement.

3. Release of Claims. The Employee agrees that the foregoing consideration represents settlement in full of all currently outstanding obligations owed to the Employee by the Company. The Employee, on the Employee's own behalf and the Employee's respective heirs, family members, executors and assigns, hereby fully and forever releases the Company and its past, present and future officers, agents, directors, employees, investors, shareholders, administrators, affiliates, divisions, subsidiaries, parents, predecessor and successor corporations, and assigns, from, and agrees not to sue or otherwise institute or cause to be instituted any legal or administrative proceedings concerning any claim, duty, obligation or cause of action relating to any matters of any kind, whether presently known or unknown, suspected or unsuspected, that the Employee may possess arising from any omissions, acts or facts that have occurred up until and including the Effective Date (as defined below) of this Agreement including, without limitation:

(a) any and all claims relating to or arising from the Employee's employment relationship with the Company and the termination of that relationship;

(b) any and all claims relating to, or arising from, the Employee's right to purchase, or actual purchase of shares of the Company, including, without limitation, any claims for fraud, misrepresentation, breach of fiduciary duty, breach of duty under applicable state corporate law and securities fraud under any state or federal law;

(c) any and all claims for wrongful discharge of employment, termination in violation of public policy, discrimination, breach of contract (both express and implied), breach of a covenant of good faith and fair dealing (both express and implied), promissory estoppel, negligent or intentional infliction of emotional distress, negligent or intentional misrepresentation, negligent or intentional interference with contract or prospective economic advantage, unfair business practices, defamation, libel, slander, negligence, personal injury, assault, battery, invasion of privacy, false imprisonment and conversion;

(d) any and all claims for violation of any federal, state or municipal statute, including, but not limited to, Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Age Discrimination in Employment Act of 1967, the Americans with Disabilities Act of 1990, the Fair Labor Standards Act, the Employee Retirement Income Security Act of 1974, The Worker Adjustment and Retraining Notification Act, the California Fair Employment and Housing Act, and Labor Code Section 201, *et seq.* and Section 970, *et seq.* and all amendments to each such Act as well as the regulations issued thereunder;

(e) any and all claims for violation of the federal or any state constitution;

(f) any and all claims arising out of any other laws and regulations relating to employment or employment discrimination; and

(g) any and all claims for attorneys' fees and costs.

The Employee agrees that the release set forth in this Section 4 shall be and remain in effect in all respects as a complete general release as to the matters released. Notwithstanding the foregoing, this release does not extend to any obligations now or subsequently incurred under this Agreement, the Severance Agreement, the Indemnification Agreement between the Employee and the Company (or its successor or acquirer), the outstanding share award agreements between the Employee and the Company (or its successor or acquirer), or any employee benefit plan of which the Employee is a participant and under which all benefits due under such plan have not yet been paid or provided.

4. Acknowledgment of Waiver of Claims under ADEA. The Employee acknowledges that the Employee is waiving and releasing any rights the Employee may have under the Age Discrimination in Employment Act of 1967 (“ADEA”) and that this waiver and release is knowing and voluntary. The Employee and the Company agree that this waiver and release does not apply to any rights or claims that may arise under the ADEA after the Effective Date of this Agreement. The Employee acknowledges that the consideration given for this waiver and release agreement is in addition to anything of value to which the Employee was already entitled. The Employee further acknowledges that the Employee has been advised by this writing that (a) the Employee should consult with an attorney prior to executing this Agreement; (b) the Employee has at least twenty-one (21) days within which to consider this Agreement; (c) the Employee has seven (7) days following the execution of this Agreement by the Parties to revoke the Agreement; and (d) this Agreement shall not be effective until the revocation period has expired. Any revocation should be in writing and delivered to the Company by the close of business on the seventh (7th) day from the date that the Employee signs this Agreement.

5. Civil Code Section 1542. The Employee represents that the Employee is not aware of any claims against the Company other than the claims that are released by this Agreement. The Employee acknowledges that the Employee has been advised by legal counsel and is familiar with the provisions of California Civil Code Section 1542, which provides as follows:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HER OR HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HER OR HIM MUST HAVE MATERIALLY AFFECTED HER OR HIS SETTLEMENT WITH THE DEBTOR.

The Employee, being aware of said code section, agrees to expressly waive any rights the Employee may have thereunder, as well as under any other statute or common law principles of similar effect.

6. No Pending or Future Lawsuits. The Employee represents that the Employee has no lawsuits, claims or actions pending in the Employee’s name, or on behalf of any other person or entity, against the Company or any other person or entity referred to herein. The Employee also represents that the Employee does not intend to bring any claims on the Employee’s own behalf or on behalf of any other person or entity against the Company or any other person or entity referred to herein except, if necessary, with respect to the agreements listed in the last sentence of Section 4 of this Agreement.

7. Confidentiality. The Employee agrees to use the Employee's best efforts to maintain in confidence the existence of this Agreement, the contents and terms of this Agreement, and the consideration for this Agreement (hereinafter collectively referred to as "Release Information"). The Employee agrees to take every reasonable precaution to prevent disclosure of any Release Information to third parties and agrees that there will be no publicity, directly or indirectly, concerning any Release Information. The Employee agrees to take every precaution to disclose Release Information only to those attorneys, accountants, governmental entities and family members who have a reasonable need to know of such Release Information.
8. No Adverse Cooperation. The Employee agrees the Employee will not act in any manner that might damage the business of the Company. The Employee agrees that the Employee will not counsel or assist any attorneys or their clients in the presentation or prosecution of any disputes, differences, grievances, claims, charges or complaints by any third party against the Company and/or any officer, director, employee, agent, representative, shareholder or attorney of the Company, unless compelled under a subpoena or other court order to do so.
9. Costs. The Parties shall each bear their own costs, expert fees, attorneys' fees and other fees incurred in connection with this Agreement.
10. Authority. The Company represents and warrants that the undersigned has the authority to act on behalf of the Company and to bind the Company and all who may claim through it to the terms and conditions of this Agreement. The Employee represents and warrants that the Employee has the capacity to act on the Employee's own behalf and on behalf of all who might claim through the Employee to bind them to the terms and conditions of this Agreement.
11. No Representations. The Employee represents that the Employee has had the opportunity to consult with an attorney, and has carefully read and understands the scope and effect of the provisions of this Agreement. Neither party has relied upon any representations or statements made by the other party hereto which are not specifically set forth in this Agreement.
12. Severability. In the event that any provision hereof becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, this Agreement shall continue in full force and effect without said provision.
13. Entire Agreement. This Agreement and the Severance Agreement and the agreements and plans referenced therein represent the entire agreement and understanding between the Company and the Employee concerning the Employee's separation from the Company, and supersede and replace any and all prior agreements and understandings concerning the Employee's relationship with the Company and the Employee's compensation by the Company. This Agreement may only be amended in writing signed by the Employee and an executive officer of the Company.

14. Governing Law. This Agreement shall be governed by the internal substantive laws, but not the choice of law rules, of the State of California.

15. Effective Date. This Agreement is effective eight (8) days after it has been signed by the Parties (the "Effective Date") unless it is revoked by the Employee within seven (7) days of the execution of this Agreement by the Employee.

16. Counterparts. This Agreement may be executed in counterparts, and each counterpart shall have the same force and effect as an original and shall constitute an effective, binding agreement on the part of each of the undersigned.

17. Voluntary Execution of Agreement. This Agreement is executed voluntarily and without any duress or undue influence on the part or behalf of the Parties hereto, with the full intent of releasing all claims. The Parties acknowledge that:

- (a) they have read this Agreement;
- (b) they have been represented in the preparation, negotiation and execution of this Agreement by legal counsel of their own choice or that they have voluntarily declined to seek such counsel;
- (c) they understand the terms and consequences of this Agreement and of the releases it contains; and
- (d) they are fully aware of the legal and binding effect of this Agreement.

IN WITNESS WHEREOF, the Parties have executed this Agreement on the respective dates set forth below.

XOMA LTD.

By: _____

Title: _____

Date: _____

EMPLOYEE

Name

Date: _____

Share Option Agreement**Under the XOMA Ltd.****1981 Share Option Plan**

(A) Optionee: Steven B. Engle	(E) Payroll Number:
(B) Grant Date: August 3, 2007	(F) Expiration Date: August 3, 2017
(C) Shares: 500,000	(G) Exercise Price: \$5.00
(D) Share Installments: 500,000 shares are exercisable immediately	(H) Option Type: Non-Qualified Share Option

XOMA Ltd. (the "Company") has granted you an option to purchase the number of Common Shares shown in item (C) above (the "Optioned Shares") at the Exercise Price per share shown in item (G) above. This option is subject to the terms of the Company's 1981 Share Option Plan, as amended through December 8, 2004 (the "Plan") and to the terms and conditions set forth in this Share Option Agreement under the XOMA Ltd. 1981 Share Option Plan (the "Agreement").

The details of your option are as follows:

1. Term; Transfer. The term of this option commences on the Grant Date shown in item (B) above and, except as provided in Section 3 and Subsection 5(a) hereof, expires at the close of business on the Expiration Date shown in item (F) above, which is 10 years from the Grant Date.

This option may be transferred or assigned to your spouse or descendent (any such spouse or descendent, your "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 your Immediate Family Member, provided that (i) there may be no consideration for any such transfer and (ii) subsequent transfers of the transferred option will be prohibited other than by will or the laws of descent and distribution. Following transfer, the 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. The events of termination of employment will continue to be applied with respect to you, following which the option will be exercisable by the transferee only to the extent, and for the periods specified, in this Agreement.

2. **Exercise Schedule.** The option granted herein is exercisable immediately on this date of grant.

This option may be exercised in whole or in part in increments of 25 or more shares and, to the extent not exercised, will accumulate and be exercisable at any time on or before the Expiration Date or sooner termination of the option term.

3. **Effect of Termination of Employment.**

(a) If you cease to be an employee of the Company at any time during the option term for any reason other than as provided in Subsections (b), (c), (d) or (e) below, then the period for exercising this option will be limited to the three-month period commencing with the date of such cessation of employee status; provided that, notwithstanding the foregoing, if you cease to be an employee of the Company and immediately thereafter become a consultant to the Company at any time during the option term, then the period for exercising this option will not be limited as aforesaid but will be limited to the three-month period commencing with the date of cessation of consultant status, if during the option term; and provided further, that in no event will this option be exercisable at any time after the Expiration Date. Upon the expiration of any 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 and cease by reason thereof to be either an employee of or a consultant to the Company at any time during the option term, then this option will remain exercisable for a twelve-month period following the date of death; provided, however, that in no event shall this option be exercisable at any time after the Expiration Date. Upon the expiration of such twelve-month period or (if earlier) upon the Expiration Date, this option will terminate and cease to be outstanding. Upon your death, the option will be exercisable by the personal representative of your estate or by the person or persons to whom the option is transferred pursuant to Section 1 above, provided any such exercise occurs prior to the earlier of (i) the expiration of the twelve-month period following the date of your death or (ii) the specified Expiration Date of the option term.

(c) If you become permanently disabled and cease by reason thereof to be either an employee of or a consultant to the Company at any time during the option term, then you will have a period of twelve months (commencing with the date of such cessation of employee or consultant status, as the case may be) during which to exercise this option; provided, however, that in no event shall 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 for the Company or its subsidiaries.

(d) If you retire at or after age fifty-five (55) and the sum of your age on the date of retirement plus years of full-time employment or consultancy with the Company exceeds seventy (70) ("Retirement") and if by reason thereof you cease to be either an employee of or consultant to the Company, at any time during the option term, then this option will remain exercisable for the full option term until the Expiration Date as if you had continued in employment or consultancy. On the Expiration Date, the option will terminate and cease to be outstanding.

(e) Should (i) your status as either an employee or a consultant be 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) you make or attempt to make any unauthorized use or disclosure of confidential information or trade secrets of the Company or its subsidiaries, then in any such event this option will terminate and cease to be exercisable immediately upon the date of such termination of employee or consultant status, as the case may be, or such unauthorized use or disclosure of confidential or secret information or attempt thereat.

(f) For purposes of this Agreement, you will be deemed to be an employee of the Company for so long as you remain in the employ of the Company or one or more of its subsidiaries, and you will be deemed to be a consultant to the Company for so long as you are actively rendering consulting services on a periodic basis to the Company or one or more of its subsidiaries. A legal entity will be deemed to be a subsidiary of the Company if it is a member of an unbroken chain of legal entities beginning with the Company, provided that each such legal entity in the chain (other than the last legal entity) owns, at the time of determination, shares possessing 50% or more of the total combined voting power of all classes of shares in one of the other legal entities in such chain.

4. Adjustment in Option Shares.

(a) If any change is made to the Common Shares issuable under the Plan, whether 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 total number of Optioned Shares subject to this option and (ii) the Exercise Price payable per share, in order to reflect such change and thereby preclude the dilution or enlargement of benefits under this Agreement. The adjustments determined by the plan administrator (the "Plan Administrator") will be final, binding and conclusive.

(b) If the Company is the surviving or continuing entity in any merger, amalgamation or other business combination, then this option, if outstanding under the Plan immediately after such merger, amalgamation or other business combination, will be appropriately adjusted to apply and pertain to the number and class of securities which the holder of the same number of Common Shares as are 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 payable hereunder will remain the same.

5. [Intentionally omitted.]

6. Privilege of Share Ownership. The holder of this option will not have any rights of a shareholder with respect to the Optioned Shares until such individual has exercised the option, paid the Exercise Price and been issued a certificate for the purchased shares.

7. Manner of Exercising Option.

(a) In order to exercise this option with respect to all or any part of the Optioned Shares, you (or in the case of exercise after your death, your executor, administrator, heir, legatee or transferee 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 for the purchased Optioned Shares in one or more of the following alternative forms: (A) full payment in cash or by check payable to the Company's order; (B) full payment in Common Shares of the Company valued at fair market value on the exercise date (as such terms are defined below); (C) full payment in combination of Common Shares of the Company valued at fair market value on the exercise date and cash or check payable to the Company's order; (D) payment effected through a broker-dealer sale and remittance procedure pursuant to which you (I) will 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 Exercise 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) will provide written directives to the Company to deliver the certificates for the purchased shares directly to such broker-dealer; or, to the extent the Plan Administrator specifically authorizes such method of payment at the time of exercise, (E) payment by a full-recourse promissory note. Any such promissory note authorized by the Plan Administrator will be substantially in the form approved by the Plan Administrator, will bear interest at the minimum per annum rate necessary to avoid the imputation of interest income to the Company and compensation income to you under the Federal tax laws and will become due in full (in one or more consecutive annual installments measured from the execution date of the note) not later than the Expiration Date of this option. Payment of the note will be secured by the pledge of the purchased shares, and the pledged shares will be released only as the note is paid.

(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) For purposes of Subsection 7(a) hereof, the fair market value per Common Share on any relevant date will be determined in accordance with Subsections (i) through (iii) below, and the exercise date will be the date on which you exercise this option in compliance with the provisions of Subsection 7(a).

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

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

(iii) If the Common Shares are neither listed nor admitted to trading on any stock exchange nor traded in the over-the-counter market on the date in question or if the Plan Administrator determines that the quotations under Subsections (i) or (ii) above do not accurately reflect the fair market value of such shares, the fair market value will be determined by the Plan Administrator after taking into account such factors as the Plan Administrator may deem appropriate, including one or more independent professional appraisals.

(c) In no event may this option be exercised for any fractional share.

8. Compliance with Laws and Regulations.

(d) 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 the Company's Common Shares may be listed at the time of such exercise and issuance.

(e) 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 laws.

9. Restrictive Legends. If and to the extent any Optioned Shares acquired under this option are not registered under the Securities Act of 1933, the 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."

10. Successors and Assigns. Except to the extent otherwise provided in Section 1 and Subsection 5(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.

11. Liability of the Company.

(f) If the Optioned Shares covered by this Agreement exceed, as of the Grant Date, the number of Common Shares which may without shareholder approval be issued under the Plan, then this option will be void with respect to such excess shares unless shareholder approval of an amendment sufficiently increasing the number of Common Shares issuable under the Plan is obtained in accordance with the provisions of the Plan.

(g) 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.

12. No Employment or Consulting Contract. Nothing in this Agreement or in the Plan will confer upon you any right to continue in the employ or service of the Company for any period of time or interfere with or otherwise restrict in any way the rights of the Company (or any subsidiary of the Company employing or retaining you) or you, which rights are hereby expressly reserved by each, to terminate your employee or consultant status as the case may be, at any time for any reason whatsoever, with or without cause.

13. 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 principal 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.

14. Construction. This Agreement and the option evidenced hereby are made and granted pursuant to the Plan and are in all respects limited by and subject to the express terms and provisions of the Plan. Any dispute regarding the interpretation of this Agreement will be submitted to the Plan Administrator for resolution. The decision of the Plan Administrator will be final, binding and conclusive. Questions regarding this option or the Plan should be referred to the Legal Department of the Company.

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

16. [Intentionally omitted.]

17. Tax Arrangements. You hereby agree to make appropriate arrangements with the Company or subsidiary thereof by which you are employed or retained for the satisfaction of all Federal, State or local income tax withholding requirements and Federal social security employee tax requirements applicable to the exercise of this option.

XOMA LTD.

By: _____

Christopher J. Margolin
Vice President , General Counsel
and Secretary

Dated _____

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

By: _____

Steven B. Engle
14891 De La Valle Place
Del Mar, CA 92014

Dated: _____

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 and the Plan.

By: _____

Carolyn G. Engle
14891 De La Valle Place
Del Mar, CA 92014

Dated: _____

Share Option Agreement**Under the XOMA Ltd.****1981 Share Option Plan**

- | | |
|---|---|
| (A) Optionee:
Steven B. Engle | (E) Payroll Number: |
| (B) Grant Date:
August 3, 2007 | (F) Expiration Date:
August 3, 2017 |
| (C) Shares:
184,328 | (G) Exercise Price:
\$2.17 |
| (D) Share Installments:
34,561 shares become exercisable beginning August 8, 2007 | (H) Option Type:
Incentive Share Option |
- 149,767 shares become exercisable monthly in accordance with the attached Schedule A

XOMA Ltd. (the "Company") has granted you an option to purchase the number of Common Shares shown in item (C) above (the "Optioned Shares") at the Exercise Price per share shown in item (G) above. This option is subject to the terms of the Company's 1981 Share Option Plan, as amended through December 8, 2004 (the "Plan") and to the terms and conditions set forth in this Share Option Agreement under the XOMA Ltd. 1981 Share Option Plan (the "Agreement").

The details of your option are as follows:

1. Term; Transfer. The term of this option commences on the Grant Date shown in item (B) above and, except as provided in Section 3 and Subsection 5(a) hereof, expires at the close of business on the Expiration Date shown in item (F) above, which is 10 years from the Grant Date.

If this option is a non-qualified option, it may be transferred or assigned to your spouse or descendent (any such spouse or descendent, your "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 your Immediate Family Member, provided that (i) there may be no consideration for any such transfer and (ii) subsequent transfers of the transferred option will be prohibited other than by will or the laws of descent and distribution. Following transfer, the 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. The events of termination of employment will continue to be applied with respect to you, following which the option will be exercisable by the transferee only to the extent, and for the periods specified, in this Agreement.

If this option is an incentive share option, the option shall be exercisable during your lifetime only by you and shall not be assignable or transferable otherwise than by will or by the laws of descent and distribution.

2. Exercise Schedule. Provided that you remain an employee of or consultant to the Company (as determined in accordance with Subsection 3(f) hereof), the option granted herein will become exercisable (a) as to 25% of such number of shares (rounded to the nearest whole integer), upon the first anniversary of this date of grant, and (b) as to the remaining 75% of such number of shares (rounded to the nearest whole integer) monthly in accordance with the attached schedule A.

Exercisable installments may be exercised in whole or in part in increments of 25 or more shares and, to the extent not exercised, will accumulate and be exercisable at any time on or before the Expiration Date or sooner termination of the option term.

3. Effect of Termination of Employment.

(a) If you cease to be an employee of the Company at any time during the option term for any reason other than as provided in Subsections (b), (c), (d) or (e) below, then the period for exercising this option will be limited to the three-month period commencing with the date of such cessation of employee status; provided that, notwithstanding the foregoing, if you cease to be an employee of the Company and immediately thereafter become a consultant to the Company at any time during the option term, then the period for exercising this option will not be limited as aforesaid but will be limited to the three-month period commencing with the date of cessation of consultant status, if during the option term; and provided further, that in no event will this option be exercisable at any time after the Expiration Date. During any such limited period of exercisability, this option may not be exercised for more than the number of Optioned Shares (if any) for which it is exercisable at the date of your cessation of employee or consultant status, as the case may be. Upon the expiration of any 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 and cease by reason thereof to be either an employee of or a consultant to the Company at any time during the option term, then this option will become fully exercisable on the date of death even if the option was not fully exercisable prior to death, and will remain exercisable for a twelve-month period following the date of death; provided, however, that in no event shall this option be exercisable at any time after the Expiration Date. Upon the expiration of such twelve-month period or (if earlier) upon the Expiration Date, this option will terminate and cease to be outstanding. Upon your death, the option will be exercisable by the personal representative of your estate or by the person or persons to whom the option is transferred pursuant to Section 1 above, provided any such exercise occurs prior to the earlier of (i) the expiration of the twelve-month period following the date of your death or (ii) the specified Expiration Date of the option term.

(c) If you become permanently disabled and cease by reason thereof to be either an employee of or a consultant to the Company at any time during the option term, then you will have a period of twelve months (commencing with the date of such cessation of employee or consultant status, as the case may be) during which to exercise this option; provided, however, that in no event shall this option be exercisable at any time after the Expiration Date. During such limited period of exercisability, this 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 your cessation of employee or consultant status, as the case may be. 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 for the Company or its subsidiaries.

(d) If you retire at or after age fifty-five (55) and the sum of your age on the date of retirement plus years of full-time employment or consultancy with the Company exceeds seventy (70) ("Retirement") and if by reason thereof you cease to be either an employee of or consultant to the Company, at any time during the option term, then this option will become fully exercisable as of the date of Retirement (even if the option was not fully exercisable prior to Retirement) and will remain exercisable for the full option term until the Expiration Date as if you had continued in employment or consultancy. On the Expiration Date, the option will terminate and cease to be outstanding.

(e) Should (i) your status as either an employee or a consultant be 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) you make or attempt to make any unauthorized use or disclosure of confidential information or trade secrets of the Company or its subsidiaries, then in any such event this option will terminate and cease to be exercisable immediately upon the date of such termination of employee or consultant status, as the case may be, or such unauthorized use or disclosure of confidential or secret information or attempt thereat.

(f) For purposes of this Agreement, you will be deemed to be an employee of the Company for so long as you remain in the employ of the Company or one or more of its subsidiaries, and you will be deemed to be a consultant to the Company for so long as you are actively rendering consulting services on a periodic basis to the Company or one or more of its subsidiaries. A legal entity will be deemed to be a subsidiary of the Company if it is a member of an unbroken chain of legal entities beginning with the Company, provided that each such legal entity in the chain (other than the last legal entity) owns, at the time of determination, shares possessing 50% or more of the total combined voting power of all classes of shares in one of the other legal entities in such chain.

4. Adjustment in Option Shares.

(a) If any change is made to the Common Shares issuable under the Plan, whether 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 total number of Optioned Shares subject to this option and (ii) the Exercise Price payable per share, in order to reflect such change and thereby preclude the dilution or enlargement of benefits under this Agreement. The adjustments determined by the plan administrator (the "Plan Administrator") will be final, binding and conclusive.

(b) If the Company is the surviving or continuing entity in any merger, amalgamation or other business combination, then this option, if outstanding under the Plan immediately after such merger, amalgamation or other business combination, will be appropriately adjusted to apply and pertain to the number and class of securities which the holder of the same number of Common Shares as are 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 payable hereunder will remain the same.

5. 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 organization,

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

(iii) any other reorganization or 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 the exercisability of this option will automatically be accelerated so that such option may be exercised simultaneously with consummation of such Corporate Transaction for the Applicable Percentage (as defined below) of the Optioned Shares. No such acceleration of this option will occur, however, if and to the extent: (x) the terms of the agreement for such Corporate Transaction provide as a prerequisite to the consummation of such Corporate Transaction that outstanding options under the Plan (including this option) are to be assumed by the successor or parent thereof or are to be replaced with the comparable options to purchase shares of capital stock of the successor or parent thereof, such comparability to be determined by the Plan Administrator, or (y) the acceleration of this option would, when added to the present value of certain other payments in the nature of compensation which become due and payable to you in connection with the Corporate Transaction, result in the payment to you of excess parachute payments under Section 280G(b) of the Internal Revenue Code. The existence of such excess parachute payments will be determined by the Plan Administrator in the exercise of its reasonable business judgment and on the basis of tax counsel provided to the Company. Immediately following consummation of the Corporate Transaction, this option will, to the extent not previously exercised or assumed by the successor or its parent, terminate and cease to be exercisable.

As used herein, "Applicable Percentage" means (i) 33.3% if the Corporate Transaction Trigger Event (as defined below) occurs on or before September 30, 2007, (ii) 66.7% if the Corporate Transaction Trigger Event occurs on or after October 1, 2007 and on or before December 31, 2007 and (iii) 100% in the event the Corporate Transaction Trigger Event occurs on or after January 1, 2008, and "Corporate Transaction Trigger Event" means, with respect to a particular Corporate Transaction, full execution of a "heads-of-terms"-style agreement reflecting a fully-negotiated set of terms for such Corporate Transaction intended to lead directly to the drafting and finalization of a definitive agreement governing such Corporate Transaction.

(b) The exercisability of this option as an incentive share option under the Federal tax laws (if designated as such above) will be subject to the applicable dollar limitation of Section 16 hereof.

(a) The Plan Administrator will use its best efforts to provide you with written notice of a Corporate Transaction at least ten business days prior to the effective date.

(d) 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.

6. Privilege of Share Ownership. The holder of this option will not have any rights of a shareholder with respect to the Optioned Shares until such individual has exercised the option, paid the Exercise Price and been issued a certificate for the purchased shares.

7. 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, legatee or transferee 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 for the purchased Optioned Shares in one or more of the following alternative forms: (A) full payment in cash or by check payable to the Company's order; (B) full payment in Common Shares of the Company valued at fair market value on the exercise date (as such terms are defined below); (C) full payment in combination of Common Shares of the Company valued at fair market value on the exercise date and cash or check payable to the Company's order; (D) payment effected through a broker-dealer sale and remittance procedure pursuant to which you (I) will 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 Exercise 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) will provide written directives to the Company to deliver the certificates for the purchased shares directly to such broker-dealer; or, to the extent the Plan Administrator specifically authorizes such method of payment at the time of exercise, (E) payment by a full-recourse promissory note. Any such promissory note authorized by the Plan Administrator will be substantially in the form approved by the Plan Administrator, will bear interest at the minimum per annum rate necessary to avoid the imputation of interest income to the Company and compensation income to you under the Federal tax laws and will become due in full (in one or more consecutive annual installments measured from the execution date of the note) not later than the Expiration Date of this option. Payment of the note will be secured by the pledge of the purchased shares, and the pledged shares will be released only as the note is paid.

(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) For purposes of Subsection 7(a) hereof, the fair market value per Common Share on any relevant date will be determined in accordance with Subsections (i) through (iii) below, and the exercise date will be the date on which you exercise this option in compliance with the provisions of Subsection 7(a).

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

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

(iii) If the Common Shares are neither listed nor admitted to trading on any stock exchange nor traded in the over-the-counter market on the date in question or if the Plan Administrator determines that the quotations under Subsections (i) or (ii) above do not accurately reflect the fair market value of such shares, the fair market value will be determined by the Plan Administrator after taking into account such factors as the Plan Administrator may deem appropriate, including one or more independent professional appraisals.

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

8. 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 the Company's Common Shares 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 laws.

9. Restrictive Legends. If and to the extent any Optioned Shares acquired under this option are not registered under the Securities Act of 1933, the 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."

10. Successors and Assigns. Except to the extent otherwise provided in Section 1 and Subsection 5(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.

11. Liability of the Company.

(a) If the Optioned Shares covered by this Agreement exceed, as of the Grant Date, the number of Common Shares which may without shareholder approval be issued under the Plan, then this option will be void with respect to such excess shares unless shareholder approval of an amendment sufficiently increasing the number of Common Shares issuable under the Plan is obtained in accordance with the provisions of the Plan.

(b) 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.

12. No Employment or Consulting Contract. Nothing in this Agreement or in the Plan will confer upon you any right to continue in the employ or service of the Company for any period of time or interfere with or otherwise restrict in any way the rights of the Company (or any subsidiary of the Company employing or retaining you) or you, which rights are hereby expressly reserved by each, to terminate your employee or consultant status as the case may be, at any time for any reason whatsoever, with or without cause.

13. 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 principal 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.

14. Construction. This Agreement and the option evidenced hereby are made and granted pursuant to the Plan and are in all respects limited by and subject to the express terms and provisions of the Plan. Any dispute regarding the interpretation of this Agreement will be submitted to the Plan Administrator for resolution. The decision of the Plan Administrator will be final, binding and conclusive. Questions regarding this option or the Plan should be referred to the Legal Department of the Company.

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

16. Additional Terms Applicable to an Incentive Share Option. In the event this option is an incentive share option, the following terms and conditions will apply to the grant:

(a) This option will cease to qualify for favorable tax treatment as an incentive share option under the Federal tax laws if (and to the extent) this option is exercised for Optioned Shares: (i) more than three months after the date you cease to be an employee for any reason other than death or permanent disability (as defined in Section 3) or (ii) more than one (1) year after the date you cease to be an employee by reason of permanent disability.

(b) Except in the event of a Corporate Transaction under Section 5, this option will not become exercisable in the calendar year in which granted if (and to the extent) the aggregate fair market value (determined at the Grant Date) of the Company's Common Shares for which this option would otherwise first become exercisable in such calendar year would, when added to the aggregate fair market value (determined as of the respective date or dates of grant) of the Company's Common Shares for which this option or one or more other post-1986 incentive share options granted to you prior to the Grant Date (whether under the Plan or any other option plan of the Company or any parent or subsidiary) first become exercisable during the same calendar year, exceed One Hundred Thousand Dollars (\$100,000) in the aggregate. To the extent the exercisability of this option is deferred by reason of the foregoing limitation, the deferred portion will first become exercisable in the first calendar year or years thereafter in which the One Hundred Thousand Dollar (\$100,000) limitation of this Section 16(b) would not be contravened.

(c) Should the exercisability of this option be accelerated upon a Corporate Transaction in accordance with Section 5, then this option will qualify for favorable tax treatment as an incentive share option under the Federal tax laws only to the extent the aggregate fair market value (determined at the Grant Date) of the Company's Common Shares for which this option first becomes exercisable in the calendar year in which the Corporate Transaction occurs does not, when added to the aggregate fair market value (determined as of the respective date or dates of grant) of the Company's Common Shares for which this option or one or more other post-1986 incentive share options granted to you prior to Grant Date (whether under the Plan or any other option plan of the Company or any parent or subsidiary) first become exercisable during the same calendar year, exceed One Hundred Thousand Dollars (\$100,000) in the aggregate.

(d) To the extent that this option fails to qualify as an incentive share option under the Federal tax laws, you will recognize compensation income in connection with the acquisition of one or more Optioned Shares hereunder, and you must make appropriate arrangements for the satisfaction of all Federal, State or local income tax withholding requirements and Federal social security employee tax requirements applicable to such compensation income.

17. Tax Arrangements. You hereby agree to make appropriate arrangements with the Company or subsidiary thereof by which you are employed or retained for the satisfaction of all Federal, State or local income tax withholding requirements and Federal social security employee tax requirements applicable to the exercise of this option.

XOMA LTD.

By: _____

Christopher J. Margolin
Vice President , General Counsel
and Secretary

Dated: _____

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

By: _____

Steven B. Engle
14891 De La Valle Place
Del Mar, CA 92014

Dated: _____

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 and the Plan.

By: _____

Carolyn G. Engle
14891 De La Valle Place
Del Mar, CA 92014

Dated: _____

Share Option Agreement**Under the XOMA Ltd.****1981 Share Option Plan**

(A) Optionee: Steven B. Engle	(E) Payroll Number:
(B) Grant Date: August 3, 2007	(F) Expiration Date: August 3, 2017
(C) Shares: 315,672	(G) Exercise Price: \$2.17
(D) Share Installments: 78,918 shares become exercisable beginning August 8, 2007 236,754 shares become exercisable in accordance with the attached Schedule A	(H) Option Type: Non-Qualified Share Option

XOMA Ltd. (the "Company") has granted you an option to purchase the number of Common Shares shown in item (C) above (the "Optioned Shares") at the Exercise Price per share shown in item (G) above. This option is subject to the terms of the Company's 1981 Share Option Plan, as amended through December 8, 2004 (the "Plan") and to the terms and conditions set forth in this Share Option Agreement under the XOMA Ltd. 1981 Share Option Plan (the "Agreement").

The details of your option are as follows:

1. Term; Transfer. The term of this option commences on the Grant Date shown in item (B) above and, except as provided in Section 3 and Subsection 5(a) hereof, expires at the close of business on the Expiration Date shown in item (F) above, which is 10 years from the Grant Date.

If this option is a non-qualified option, it may be transferred or assigned to your spouse or descendent (any such spouse or descendent, your "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 your Immediate Family Member, provided that (i) there may be no consideration for any such transfer and (ii) subsequent transfers of the transferred option will be prohibited other than by will or the laws of descent and distribution. Following transfer, the 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. The events of termination of employment will continue to be applied with respect to you, following which the option will be exercisable by the transferee only to the extent, and for the periods specified, in this Agreement.

If this option is an incentive share option, the option shall be exercisable during your lifetime only by you and shall not be assignable or transferable otherwise than by will or by the laws of descent and distribution.

2. Exercise Schedule Provided that you remain an employee of or consultant to the Company (as determined in accordance with Subsection 3(f) hereof), the option granted herein will become exercisable (a) as to 25% of such number of shares (rounded to the nearest whole integer), upon the first anniversary of this date of grant, and (b) as to the remaining 75% of such number of shares (rounded to the nearest whole integer) monthly in accordance with the attached schedule A.

Exercisable installments may be exercised in whole or in part in increments of 25 or more shares and, to the extent not exercised, will accumulate and be exercisable at any time on or before the Expiration Date or sooner termination of the option term.

3. Effect of Termination of Employment.

(a) If you cease to be an employee of the Company at any time during the option term for any reason other than as provided in Subsections (b), (c), (d) or (e) below, then the period for exercising this option will be limited to the three-month period commencing with the date of such cessation of employee status; provided that, notwithstanding the foregoing, if you cease to be an employee of the Company and immediately thereafter become a consultant to the Company at any time during the option term, then the period for exercising this option will not be limited as aforesaid but will be limited to the three-month period commencing with the date of cessation of consultant status, if during the option term; and provided further, that in no event will this option be exercisable at any time after the Expiration Date. During any such limited period of exercisability, this option may not be exercised for more than the number of Optioned Shares (if any) for which it is exercisable at the date of your cessation of employee or consultant status, as the case may be. Upon the expiration of any 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 and cease by reason thereof to be either an employee of or a consultant to the Company at any time during the option term, then this option will become fully exercisable on the date of death even if the option was not fully exercisable prior to death, and will remain exercisable for a twelve-month period following the date of death; provided, however, that in no event shall this option be exercisable at any time after the Expiration Date. Upon the expiration of such twelve-month period or (if earlier) upon the Expiration Date, this option will terminate and cease to be outstanding. Upon your death, the option will be exercisable by the personal representative of your estate or by the person or persons to whom the option is transferred pursuant to Section 1 above, provided any such exercise occurs prior to the earlier of (i) the expiration of the twelve-month period following the date of your death or (ii) the specified Expiration Date of the option term.

(c) If you become permanently disabled and cease by reason thereof to be either an employee of or a consultant to the Company at any time during the option term, then you will have a period of twelve months (commencing with the date of such cessation of employee or consultant status, as the case may be) during which to exercise this option; provided, however, that in no event shall this option be exercisable at any time after the Expiration Date. During such limited period of exercisability, this 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 your cessation of employee or consultant status, as the case may be. 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 for the Company or its subsidiaries.

(d) If you retire at or after age fifty-five (55) and the sum of your age on the date of retirement plus years of full-time employment or consultancy with the Company exceeds seventy (70) ("Retirement") and if by reason thereof you cease to be either an employee of or consultant to the Company, at any time during the option term, then this option will become fully exercisable as of the date of Retirement (even if the option was not fully exercisable prior to Retirement) and will remain exercisable for the full option term until the Expiration Date as if you had continued in employment or consultancy. On the Expiration Date, the option will terminate and cease to be outstanding.

(e) Should (i) your status as either an employee or a consultant be 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) you make or attempt to make any unauthorized use or disclosure of confidential information or trade secrets of the Company or its subsidiaries, then in any such event this option will terminate and cease to be exercisable immediately upon the date of such termination of employee or consultant status, as the case may be, or such unauthorized use or disclosure of confidential or secret information or attempt thereat.

(f) For purposes of this Agreement, you will be deemed to be an employee of the Company for so long as you remain in the employ of the Company or one or more of its subsidiaries, and you will be deemed to be a consultant to the Company for so long as you are actively rendering consulting services on a periodic basis to the Company or one or more of its subsidiaries. A legal entity will be deemed to be a subsidiary of the Company if it is a member of an unbroken chain of legal entities beginning with the Company, provided that each such legal entity in the chain (other than the last legal entity) owns, at the time of determination, shares possessing 50% or more of the total combined voting power of all classes of shares in one of the other legal entities in such chain.

4. Adjustment in Option Shares.

(a) If any change is made to the Common Shares issuable under the Plan, whether 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 total number of Optioned Shares subject to this option and (ii) the Exercise Price payable per share, in order to reflect such change and thereby preclude the dilution or enlargement of benefits under this Agreement. The adjustments determined by the plan administrator (the "Plan Administrator") will be final, binding and conclusive.

(b) If the Company is the surviving or continuing entity in any merger, amalgamation or other business combination, then this option, if outstanding under the Plan immediately after such merger, amalgamation or other business combination, will be appropriately adjusted to apply and pertain to the number and class of securities which the holder of the same number of Common Shares as are 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 payable hereunder will remain the same.

5. 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 organization,

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

(iii) any other reorganization or 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 the exercisability of this option will automatically be accelerated so that such option may be exercised simultaneously with consummation of such Corporate Transaction for the Applicable Percentage (as defined below) of the Optioned Shares. No such acceleration of this option will occur, however, if and to the extent: (x) the terms of the agreement for such Corporate Transaction provide as a prerequisite to the consummation of such Corporate Transaction that outstanding options under the Plan (including this option) are to be assumed by the successor or parent thereof or are to be replaced with the comparable options to purchase shares of capital stock of the successor or parent thereof, such comparability to be determined by the Plan Administrator, or (y) the acceleration of this option would, when added to the present value of certain other payments in the nature of compensation which become due and payable to you in connection with the Corporate Transaction, result in the payment to you of excess parachute payments under Section 280G(b) of the Internal Revenue Code. The existence of such excess parachute payments will be determined by the Plan Administrator in the exercise of its reasonable business judgment and on the basis of tax counsel provided to the Company. Immediately following consummation of the Corporate Transaction, this option will, to the extent not previously exercised or assumed by the successor or its parent, terminate and cease to be exercisable.

As used herein, "Applicable Percentage" means (i) 33.3% if the Corporate Transaction Trigger Event (as defined below) occurs on or before September 30, 2007, (ii) 66.7% if the Corporate Transaction Trigger Event occurs on or after October 1, 2007 and on or before December 31, 2007 and (iii) 100% in the event the Corporate Transaction Trigger Event occurs on or after January 1, 2008, and "Corporate Transaction Trigger Event" means, with respect to a particular Corporate Transaction, full execution of a "heads-of-terms"-style agreement reflecting a fully-negotiated set of terms for such Corporate Transaction intended to lead directly to the drafting and finalization of a definitive agreement governing such Corporate Transaction.

(b) The exercisability of this option as an incentive share option under the Federal tax laws (if designated as such above) will be subject to the applicable dollar limitation of Section 16 hereof.

(a) The Plan Administrator will use its best efforts to provide you with written notice of a Corporate Transaction at least ten business days prior to the effective date.

(d) 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.

6. **Privilege of Share Ownership.** The holder of this option will not have any rights of a shareholder with respect to the Optioned Shares until such individual has exercised the option, paid the Exercise Price and been issued a certificate for the purchased shares.

7. **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, legatee or transferee 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 for the purchased Optioned Shares in one or more of the following alternative forms: (A) full payment in cash or by check payable to the Company's order; (B) full payment in Common Shares of the Company valued at fair market value on the exercise date (as such terms are defined below); (C) full payment in combination of Common Shares of the Company valued at fair market value on the exercise date and cash or check payable to the Company's order; (D) payment effected through a broker-dealer sale and remittance procedure pursuant to which you (I) will 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 Exercise 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) will provide written directives to the Company to deliver the certificates for the purchased shares directly to such broker-dealer; or, to the extent the Plan Administrator specifically authorizes such method of payment at the time of exercise, (E) payment by a full-recourse promissory note. Any such promissory note authorized by the Plan Administrator will be substantially in the form approved by the Plan Administrator, will bear interest at the minimum per annum rate necessary to avoid the imputation of interest income to the Company and compensation income to you under the Federal tax laws and will become due in full (in one or more consecutive annual installments measured from the execution date of the note) not later than the Expiration Date of this option. Payment of the note will be secured by the pledge of the purchased shares, and the pledged shares will be released only as the note is paid.

(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) For purposes of Subsection 7(a) hereof, the fair market value per Common Share on any relevant date will be determined in accordance with Subsections (i) through (iii) below, and the exercise date will be the date on which you exercise this option in compliance with the provisions of Subsection 7(a).

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

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

(iii) If the Common Shares are neither listed nor admitted to trading on any stock exchange nor traded in the over-the-counter market on the date in question or if the Plan Administrator determines that the quotations under Subsections (i) or (ii) above do not accurately reflect the fair market value of such shares, the fair market value will be determined by the Plan Administrator after taking into account such factors as the Plan Administrator may deem appropriate, including one or more independent professional appraisals.

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

8. 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 the Company's Common Shares 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 laws.

9. Restrictive Legends. If and to the extent any Optioned Shares acquired under this option are not registered under the Securities Act of 1933, the 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."

10. Successors and Assigns. Except to the extent otherwise provided in Section 1 and Subsection 5(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.

11. Liability of the Company.

(a) If the Optioned Shares covered by this Agreement exceed, as of the Grant Date, the number of Common Shares which may without shareholder approval be issued under the Plan, then this option will be void with respect to such excess shares unless shareholder approval of an amendment sufficiently increasing the number of Common Shares issuable under the Plan is obtained in accordance with the provisions of the Plan.

(b) 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.

12. No Employment or Consulting Contract. Nothing in this Agreement or in the Plan will confer upon you any right to continue in the employ or service of the Company for any period of time or interfere with or otherwise restrict in any way the rights of the Company (or any subsidiary of the Company employing or retaining you) or you, which rights are hereby expressly reserved by each, to terminate your employee or consultant status as the case may be, at any time for any reason whatsoever, with or without cause.

13. 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 principal 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.

14. Construction. This Agreement and the option evidenced hereby are made and granted pursuant to the Plan and are in all respects limited by and subject to the express terms and provisions of the Plan. Any dispute regarding the interpretation of this Agreement will be submitted to the Plan Administrator for resolution. The decision of the Plan Administrator will be final, binding and conclusive. Questions regarding this option or the Plan should be referred to the Legal Department of the Company.

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

16. Additional Terms Applicable to an Incentive Share Option. In the event this option is an incentive share option, the following terms and conditions will apply to the grant:

(a) This option will cease to qualify for favorable tax treatment as an incentive share option under the Federal tax laws if (and to the extent) this option is exercised for Optioned Shares: (i) more than three months after the date you cease to be an employee for any reason other than death or permanent disability (as defined in Section 3) or (ii) more than one (1) year after the date you cease to be an employee by reason of permanent disability.

(b) Except in the event of a Corporate Transaction under Section 5, this option will not become exercisable in the calendar year in which granted if (and to the extent) the aggregate fair market value (determined at the Grant Date) of the Company's Common Shares for which this option would otherwise first become exercisable in such calendar year would, when added to the aggregate fair market value (determined as of the respective date or dates of grant) of the Company's Common Shares for which this option or one or more other post-1986 incentive share options granted to you prior to the Grant Date (whether under the Plan or any other option plan of the Company or any parent or subsidiary) first become exercisable during the same calendar year, exceed One Hundred Thousand Dollars (\$100,000) in the aggregate. To the extent the exercisability of this option is deferred by reason of the foregoing limitation, the deferred portion will first become exercisable in the first calendar year or years thereafter in which the One Hundred Thousand Dollar (\$100,000) limitation of this Section 16(b) would not be contravened.

(c) Should the exercisability of this option be accelerated upon a Corporate Transaction in accordance with Section 5, then this option will qualify for favorable tax treatment as an incentive share option under the Federal tax laws only to the extent the aggregate fair market value (determined at the Grant Date) of the Company's Common Shares for which this option first becomes exercisable in the calendar year in which the Corporate Transaction occurs does not, when added to the aggregate fair market value (determined as of the respective date or dates of grant) of the Company's Common Shares for which this option or one or more other post-1986 incentive share options granted to you prior to Grant Date (whether under the Plan or any other option plan of the Company or any parent or subsidiary) first become exercisable during the same calendar year, exceed One Hundred Thousand Dollars (\$100,000) in the aggregate.

(d) To the extent that this option fails to qualify as an incentive share option under the Federal tax laws, you will recognize compensation income in connection with the acquisition of one or more Optioned Shares hereunder, and you must make appropriate arrangements for the satisfaction of all Federal, State or local income tax withholding requirements and Federal social security employee tax requirements applicable to such compensation income.

17. Tax Arrangements. You hereby agree to make appropriate arrangements with the Company or subsidiary thereof by which you are employed or retained for the satisfaction of all Federal, State or local income tax withholding requirements and Federal social security employee tax requirements applicable to the exercise of this option.

XOMA LTD.

By: _____

Christopher J. Margolin
Vice President , General Counsel
and Secretary

Dated: _____

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

By: _____

Steven B. Engle
14891 De La Valle Place
Del Mar, CA 92014

Dated: _____

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 and the Plan.

By: _____

Carolyn G. Engle
14891 De La Valle Place
Del Mar, CA 92014

Dated: _____

**Non-Qualified Share Option Agreement
Under the XOMA Ltd.
Restricted Share Plan**

<p>(A) Optionee: Steven B. Engle</p> <p>(B) Grant Date: August 3, 2007</p> <p>(C) Shares: 500,000</p> <p>(D) Share Installments: 125,000 shares become exercisable beginning August 3, 2008 375,000 shares become exercisable in 36 monthly installments beginning September 3, 2008</p>	<p>(E)</p> <p>(F)</p> <p>(G)</p> <p>(H)</p>	<p>Payroll Number:</p> <p>Expiration Date: August 3, 2017</p> <p>Exercise Price: \$2.17</p> <p>Option Type: Non-Qualified Share Option</p>
--	---	--

XOMA Ltd. (the "Company") has granted you a non-qualified option to purchase the number of Common Shares shown in item (C) above (the "Optioned Shares") at the Exercise Price per share shown in item (G) above. This option is subject to the terms of the Company's Restricted Share Plan, as amended through May 23, 2006 (the "Plan") and to the terms and conditions set forth in this Non-Qualified Share Option Agreement Under the XOMA Ltd. Restricted Share Plan (the "Agreement").

The details of your option are as follows:

1. Term; Transfer. The term of this option commences on the Grant Date shown in item (B) above and, except as provided in Section 3 and Subsection 5(a) hereof, expires at the close of business on the Expiration Date shown in item (F) above, which is 10 years from the Grant Date.

This option may be transferred or assigned to your spouse or descendent (any such spouse or descendent, your "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 your Immediate Family Member, provided that (i) there may be no consideration for any such transfer and (ii) subsequent transfers of the transferred option will be prohibited other than by will or the laws of descent and distribution. Following transfer, the 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. The events of termination of employment will continue to be applied with respect to you, following which the option will be exercisable by the transferee only to the extent, and for the periods specified, in this Agreement.

2. Exercise Schedule. Provided that you remain an employee of or consultant to the Company (as determined in accordance with Subsection 3(f) hereof), the option granted herein will become exercisable (a) as to 25% of such number of shares (rounded to the nearest whole integer), upon the first anniversary of this date of grant, and (b) as to the remaining 75% of such number of shares (rounded to the nearest whole integer), in thirty-six (36) equal and consecutive monthly installments beginning one year and one month after this date of grant.

Exercisable installments may be exercised in whole or in part in increments of 25 or more shares and, to the extent not exercised, will accumulate and be exercisable at any time on or before the Expiration Date or sooner termination of the option term.

3. Effect of Termination of Employment.

(a) If you cease to be an employee of the Company at any time during the option term for any reason other than as provided in Subsections (b), (c), (d) or (e) below, then the period for exercising this option will be limited to the three-month period commencing with the date of such cessation of employee status; provided that, notwithstanding the foregoing, if you cease to be an employee of the Company and immediately thereafter become a consultant to the Company at any time during the option term, then the period for exercising this option will not be limited as aforesaid but will be limited to the three-month period commencing with the date of cessation of consultant status, if during the option term; and provided further, that in no event will this option be exercisable at any time after the Expiration Date. During any such limited period of exercisability, this option may not be exercised for more than the number of Optioned Shares (if any) for which it is exercisable at the date of your cessation of employee or consultant status, as the case may be. Upon the expiration of any 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 and cease by reason thereof to be either an employee of or a consultant to the Company at any time during the option term, then this option will become fully exercisable on the date of death even if the option was not fully exercisable prior to death, and will remain exercisable for a twelve-month period following the date of death; provided, however, that in no event shall this option be exercisable at any time after the Expiration Date. Upon the expiration of such twelve-month period or (if earlier) upon the Expiration Date, this option will terminate and cease to be outstanding. Upon your death, the option will be exercisable by the personal representative of your estate or by the person or persons to whom the option is transferred pursuant to Section 1 above, provided any such exercise occurs prior to the earlier of (i) the expiration of the twelve-month period following the date of your death or (ii) the specified Expiration Date of the option term.

(c) If you become permanently disabled and cease by reason thereof to be either an employee of or a consultant to the Company at any time during the option term, then you will have a period of twelve months (commencing with the date of such cessation of employee or consultant status, as the case may be) during which to exercise this option; provided, however, that in no event shall this option be exercisable at any time after the Expiration Date. During such limited period of exercisability, this 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 your cessation of employee or consultant status, as the case may be. 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 for the Company or its subsidiaries.

(d) If you retire at or after age fifty-five (55) and the sum of your age on the date of retirement plus years of full-time employment or consultancy with the Company exceeds seventy (70) ("Retirement") and if by reason thereof you cease to be either an employee of or consultant to the Company at any time during the option term, then this option will become fully exercisable as of the date of Retirement (even if the option was not fully exercisable prior to Retirement) and will remain exercisable for a twelve-month period following the date of Retirement. Upon the expiration of such twelve-month or shorter period or (if earlier) on the Expiration Date, the option will terminate and cease to be outstanding.

(e) Should (i) your status as either an employee or a consultant be 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) you make or attempt to make any unauthorized use or disclosure of confidential information or trade secrets of the Company or its subsidiaries, then in any such event this option will terminate and cease to be exercisable immediately upon the date of such termination of employee or consultant status, as the case may be, or such unauthorized use or disclosure of confidential or secret information or attempt thereat.

(f) For purposes of this Agreement, you will be deemed to be an employee of the Company for so long as you remain in the employ of the Company or one or more of its subsidiaries, and you will be deemed to be a consultant to the Company for so long as you are actively rendering consulting services on a periodic basis to the Company or one or more of its subsidiaries. A legal entity will be deemed to be a subsidiary of the Company if it is a member of an unbroken chain of legal entities beginning with the Company, provided that each such legal entity in the chain (other than the last legal entity) owns, at the time of determination, shares possessing 50% or more of the total combined voting power of all classes of shares in one of the other legal entities in such chain.

4. Adjustment in Option Shares.

(a) If any change is made to the Common Shares issuable under the Plan, whether 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 total number of Optioned Shares subject to this option and (ii) the Exercise Price payable per share, in order to reflect such change and thereby preclude the dilution or enlargement of benefits under this Agreement. The adjustments determined by the plan administrator (the "Plan Administrator") will be final, binding and conclusive.

(b) If the Company is the surviving or continuing entity in any merger, amalgamation or other business combination, then this option, if outstanding under the Plan immediately after such merger, amalgamation or other business combination, will be appropriately adjusted to apply and pertain to the number and class of securities which the holder of the same number of Common Shares as are 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 payable hereunder will remain the same.

5. 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 organization,

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

(iii) any other reorganization or 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 the exercisability of this option will automatically be accelerated so that such option may be exercised simultaneously with consummation of such Corporate Transaction for the Applicable Percentage (as defined below) of the Optioned Shares. No such acceleration of this option will occur, however, if and to the extent: (x) the terms of the agreement for such Corporate Transaction provide as a prerequisite to the consummation of such Corporate Transaction that outstanding options under the Plan (including this option) are to be assumed by the successor or parent thereof or are to be replaced with the comparable options to purchase shares of capital stock of the successor or parent thereof, such comparability to be determined by the Plan Administrator, or (y) the acceleration of this option would, when added to the present value of certain other payments in the nature of compensation which become due and payable to you in connection with the Corporate Transaction, result in the payment to you of excess parachute payments under Section 280G(b) of the Internal Revenue Code. The existence of such excess parachute payments will be determined by the Plan Administrator in the exercise of its reasonable business judgment and on the basis of tax counsel provided to the Company. Immediately following consummation of the Corporate Transaction, this option will, to the extent not previously exercised or assumed by the successor or its parent, terminate and cease to be exercisable.

As used herein, "Applicable Percentage" means (i) 33.3% if the Corporate Transaction Trigger Event (as defined below) occurs on or before September 30, 2007, (ii) 66.7% if the Corporate Transaction Trigger Event occurs on or after October 1, 2007 and on or before December 31, 2007 and (iii) 100% in the event the Corporate Transaction Trigger Event occurs on or after January 1, 2008, and "Corporate Transaction Trigger Event" means, with respect to a particular Corporate Transaction, full execution of a "heads-of-terms"-style agreement reflecting a fully-negotiated set of terms for such Corporate Transaction intended to lead directly to the drafting and finalization of a definitive agreement governing such Corporate Transaction.

(b) The Plan Administrator will use its best efforts to provide you with written notice of a Corporate Transaction at least ten business days prior to the effective date.

(c) 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.

6. **Privilege of Share Ownership.** The holder of this option will not have any rights of a shareholder with respect to the Optioned Shares until such individual has exercised the option, paid the Exercise Price and been issued a certificate for the purchased shares.

7. **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, legatee or transferee 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 for the purchased Optioned Shares in one or more of the following alternative forms: (A) full payment in cash or by check payable to the Company's order; (B) full payment in Common Shares of the Company valued at fair market value on the exercise date (as such terms are defined below); (C) full payment in combination of Common Shares of the Company valued at fair market value on the exercise date and cash or check payable to the Company's order; (D) payment effected through a broker-dealer sale and remittance procedure pursuant to which you (I) will 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 Exercise 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) will provide written directives to the Company to deliver the certificates for the purchased shares directly to such broker-dealer; or, to the extent the Plan Administrator specifically authorizes such method of payment at the time of exercise, (E) payment by a full-recourse promissory note. Any such promissory note authorized by the Plan Administrator will be substantially in the form approved by the Plan Administrator, will bear interest at the minimum per annum rate necessary to avoid the imputation of interest income to the Company and compensation income to you under the Federal tax laws and will become due in full (in one or more consecutive annual installments measured from the execution date of the note) not later than the Expiration Date of this option. Payment of the note will be secured by the pledge of the purchased shares, and the pledged shares will be released only as the note is paid.

(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) For purposes of Subsection 7(a) hereof, the fair market value per Common Share on any relevant date will be determined in accordance with Subsections (i) through (iii) below, and the exercise date will be the date on which you exercise this option in compliance with the provisions of Subsection 7(a).

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

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

(iii) If the Common Shares are neither listed nor admitted to trading on any stock exchange nor traded in the over-the-counter market on the date in question or if the Plan Administrator determines that the quotations under Subsections (i) or (ii) above do not accurately reflect the fair market value of such shares, the fair market value will be determined by the Plan Administrator after taking into account such factors as the Plan Administrator may deem appropriate, including one or more independent professional appraisals.

(c) In no event may this option be exercised for any fractional share.

8. 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 the Company's Common Shares 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 laws.

9. Restrictive Legends. If and to the extent any Optioned Shares acquired under this option are not registered under the Securities Act of 1933, the 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."

10. Successors and Assigns. Except to the extent otherwise provided in Section 1 and Subsection 5(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.

11. Liability of the Company.

(a) If the Optioned Shares covered by this Agreement exceed, as of the Grant Date, the number of Common Shares which may without shareholder approval be issued under the Plan, then this option will be void with respect to such excess shares unless shareholder approval of an amendment sufficiently increasing the number of Common Shares issuable under the Plan is obtained in accordance with the provisions of the Plan.

(b) 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.

12. No Employment or Consulting Contract. Nothing in this Agreement or in the Plan will confer upon you any right to continue in the employ or service of the Company for any period of time or interfere with or otherwise restrict in any way the rights of the Company (or any subsidiary of the Company employing or retaining you) or you, which rights are hereby expressly reserved by each, to terminate your employee or consultant status as the case may be, at any time for any reason whatsoever, with or without cause.

13. 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 principal 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.

14. Construction. This Agreement and the option evidenced hereby are made and granted pursuant to the Plan and are in all respects limited by and subject to the express terms and provisions of the Plan. Any dispute regarding the interpretation of this Agreement will be submitted to the Plan Administrator for resolution. The decision of the Plan Administrator will be final, binding and conclusive. Questions regarding this option or the Plan should be referred to the Legal Department of the Company.

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

16. Tax Arrangements. You hereby agree to make appropriate arrangements with the Company or subsidiary thereof by which you are employed or retained for the satisfaction of all Federal, State or local income tax withholding requirements and Federal social security employee tax requirements applicable to the exercise of this option.

XOMA Ltd.

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

Date: _____

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

By: _____
Steven B. Engle
14891 De La Valle Place
Del Mar, CA 92014

Date: _____

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 and the Plan.

By: _____
Caroline G. Engle
14891 De La Valle Place
Del Mar, CA 92014

Date: _____

XOMA Ltd.
Non-Qualified Share Option Agreement

(A)	Optionee: Steven B. Engle	(E)	Payroll Number:
(B)	Grant Date: August 3, 2007	(F)	Expiration Date: August 3, 2017
(C)	Shares: 1,100,000	(G)	Exercise Price: \$2.17
(D)	Share Installments: 275,000 shares become exercisable beginning August 3, 2008 825,000 shares become exercisable in 36 monthly installments beginning September 3, 2008	(H)	Option Type: Non-Qualified Share Option

XOMA Ltd. (the "Company") has granted you a non-qualified option to purchase the number of Common Shares shown in item (C) above (the "Optioned Shares") at the Exercise Price per share shown in item (G) above. Although this option was not granted under the Company's Restricted Share Plan, as amended through May 23, 2006 (the "Plan"), Sections 3, 4 and 5 of Article I, Sections 1 and 3 of Article II and Sections 1, 3, 5, 6 and 7 of Article IV of the Plan are expressly incorporated herein by reference, together with any other provisions of the Plan which the Plan Administrator (as defined in the Plan) determines are necessary for the proper administration of this option (collectively, the "Incorporated Terms"). This option is subject to the Incorporated Terms and to the terms and conditions set forth in this XOMA Ltd. Non-Qualified Share Option Agreement (the "Agreement").

The details of your option are as follows:

1. Term: Transfer. The term of this option commences on the Grant Date shown in item (B) above and, except as provided in Section 3 and Subsection 5(a) hereof, expires at the close of business on the Expiration Date shown in item (F) above, which is 10 years from the Grant Date.

This option may be transferred or assigned to your spouse or descendent (any such spouse or descendent, your "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 your Immediate Family Member, provided that (i) there may be no consideration for any such transfer and (ii) subsequent transfers of the transferred option will be prohibited other than by will or the laws of descent and distribution. Following transfer, the 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. The events of termination of employment will continue to be applied with respect to you, following which the option will be exercisable by the transferee only to the extent, and for the periods specified, in this Agreement.

2. Exercise Schedule. Provided that you remain an employee of or consultant to the Company (as determined in accordance with Subsection 3(f) hereof), the option granted herein will become exercisable (a) as to 25% of such number of shares (rounded to the nearest whole integer), upon the first anniversary of this date of grant, and (b) as to the remaining 75% of such number of shares (rounded to the nearest whole integer), in thirty-six (36) equal and consecutive monthly installments beginning one year and one month after this date of grant.

Exercisable installments may be exercised in whole or in part in increments of 25 or more shares and, to the extent not exercised, will accumulate and be exercisable at any time on or before the Expiration Date or sooner termination of the option term.

3. Effect of Termination of Employment.

(a) If you cease to be an employee of the Company at any time during the option term for any reason other than as provided in Subsections (b), (c), (d) or (e) below, then the period for exercising this option will be limited to the three-month period commencing with the date of such cessation of employee status; provided that, notwithstanding the foregoing, if you cease to be an employee of the Company and immediately thereafter become a consultant to the Company at any time during the option term, then the period for exercising this option will not be limited as aforesaid but will be limited to the three-month period commencing with the date of cessation of consultant status, if during the option term; and provided further, that in no event will this option be exercisable at any time after the Expiration Date. During any such limited period of exercisability, this option may not be exercised for more than the number of Optioned Shares (if any) for which it is exercisable at the date of your cessation of employee or consultant status, as the case may be. Upon the expiration of any 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 and cease by reason thereof to be either an employee of or a consultant to the Company at any time during the option term, then this option will become fully exercisable on the date of death even if the option was not fully exercisable prior to death, and will remain exercisable for a twelve-month period following the date of death; provided, however, that in no event shall this option be exercisable at any time after the Expiration Date. Upon the expiration of such twelve-month period or (if earlier) upon the Expiration Date, this option will terminate and cease to be outstanding. Upon your death, the option will be exercisable by the personal representative of your estate or by the person or persons to whom the option is transferred pursuant to Section 1 above, provided any such exercise occurs prior to the earlier of (i) the expiration of the twelve-month period following the date of your death or (ii) the specified Expiration Date of the option term.

(c) If you become permanently disabled and cease by reason thereof to be either an employee of or a consultant to the Company at any time during the option term, then you will have a period of twelve months (commencing with the date of such cessation of employee or consultant status, as the case may be) during which to exercise this option; provided, however, that in no event shall this option be exercisable at any time after the Expiration Date. During such limited period of exercisability, this 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 your cessation of employee or consultant status, as the case may be. 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 for the Company or its subsidiaries.

(d) If you retire at or after age fifty-five (55) and the sum of your age on the date of retirement plus years of full-time employment or consultancy with the Company exceeds seventy (70) ("Retirement") and if by reason thereof you cease to be either an employee of or consultant to the Company at any time during the option term, then this option will become fully exercisable as of the date of Retirement (even if the option was not fully exercisable prior to Retirement) and will remain exercisable for a twelve-month period following the date of Retirement. Upon the expiration of such twelve-month or shorter period or (if earlier) on the Expiration Date, the option will terminate and cease to be outstanding.

(e) Should (i) your status as either an employee or a consultant be 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) you make or attempt to make any unauthorized use or disclosure of confidential information or trade secrets of the Company or its subsidiaries, then in any such event this option will terminate and cease to be exercisable immediately upon the date of such termination of employee or consultant status, as the case may be, or such unauthorized use or disclosure of confidential or secret information or attempt thereat.

(f) For purposes of this Agreement, you will be deemed to be an employee of the Company for so long as you remain in the employ of the Company or one or more of its subsidiaries, and you will be deemed to be a consultant to the Company for so long as you are actively rendering consulting services on a periodic basis to the Company or one or more of its subsidiaries. A legal entity will be deemed to be a subsidiary of the Company if it is a member of an unbroken chain of legal entities beginning with the Company, provided that each such legal entity in the chain (other than the last legal entity) owns, at the time of determination, shares possessing 50% or more of the total combined voting power of all classes of shares in one of the other legal entities in such chain.

4. Adjustment in Option Shares.

(a) If any change is made to the Common Shares issuable under the Incorporated Terms, whether 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 total number of Optioned Shares subject to this option and (ii) the Exercise Price payable per share, in order to reflect such change and thereby preclude the dilution or enlargement of benefits under this Agreement. The adjustments determined by the Plan Administrator will be final, binding and conclusive.

(b) If the Company is the surviving or continuing entity in any merger, amalgamation or other business combination, then this option, if outstanding immediately after such merger, amalgamation or other business combination, will be appropriately adjusted to apply and pertain to the number and class of securities which the holder of the same number of Common Shares as are 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 payable hereunder will remain the same.

5. 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 organization,

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

(iii) any other reorganization or 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 the exercisability of this option will automatically be accelerated so that such option may be exercised simultaneously with consummation of such Corporate Transaction for the Applicable Percentage (as defined below) of the Optioned Shares. No such acceleration of this option will occur, however, if and to the extent: (x) the terms of the agreement for such Corporate Transaction provide as a prerequisite to the consummation of such Corporate Transaction that this option is to be assumed by the successor or parent thereof or are to be replaced with the comparable options to purchase shares of capital stock of the successor or parent thereof, such comparability to be determined by the Plan Administrator, or (y) the acceleration of this option would, when added to the present value of certain other payments in the nature of compensation which become due and payable to you in connection with the Corporate Transaction, result in the payment to you of excess parachute payments under Section 280G(b) of the Internal Revenue Code. The existence of such excess parachute payments will be determined by the Plan Administrator in the exercise of its reasonable business judgment and on the basis of tax counsel provided to the Company. Immediately following consummation of the Corporate Transaction, this option will, to the extent not previously exercised or assumed by the successor or its parent, terminate and cease to be exercisable.

As used herein, "Applicable Percentage" means (i) 33.3% if the Corporate Transaction Trigger Event (as defined below) occurs on or before September 30, 2007, (ii) 66.7% if the Corporate Transaction Trigger Event occurs on or after October 1, 2007 and on or before December 31, 2007 and (iii) 100% in the event the Corporate Transaction Trigger Event occurs on or after January 1, 2008, and "Corporate Transaction Trigger Event" means, with respect to a particular Corporate Transaction, full execution of a "heads-of-terms"-style agreement reflecting a fully-negotiated set of terms for such Corporate Transaction intended to lead directly to the drafting and finalization of a definitive agreement governing such Corporate Transaction.

(b) The Plan Administrator will use its best efforts to provide you with written notice of a Corporate Transaction at least ten business days prior to the effective date.

(c) 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.

6. Privilege of Share Ownership. The holder of this option will not have any rights of a shareholder with respect to the Optioned Shares until such individual has exercised the option, paid the Exercise Price and been issued a certificate for the purchased shares.

7. 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, legatee or transferee 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 for the purchased Optioned Shares in one or more of the following alternative forms: (A) full payment in cash or by check payable to the Company's order; (B) full payment in Common Shares of the Company valued at fair market value on the exercise date (as such terms are defined below); (C) full payment in combination of Common Shares of the Company valued at fair market value on the exercise date and cash or check payable to the Company's order; (D) payment effected through a broker-dealer sale and remittance procedure pursuant to which you (I) will 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 Exercise 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) will provide written directives to the Company to deliver the certificates for the purchased shares directly to such broker-dealer; or, to the extent the Plan Administrator specifically authorizes such method of payment at the time of exercise, (E) payment by a full-recourse promissory note. Any such promissory note authorized by the Plan Administrator will be substantially in the form approved by the Plan Administrator, will bear interest at the minimum per annum rate necessary to avoid the imputation of interest income to the Company and compensation income to you under the Federal tax laws and will become due in full (in one or more consecutive annual installments measured from the execution date of the note) not later than the Expiration Date of this option. Payment of the note will be secured by the pledge of the purchased shares, and the pledged shares will be released only as the note is paid.

(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) For purposes of Subsection 7(a) hereof, the fair market value per Common Share on any relevant date will be determined in accordance with Subsections (i) through (iii) below, and the exercise date will be the date on which you exercise this option in compliance with the provisions of Subsection 7(a).

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

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

(iii) If the Common Shares are neither listed nor admitted to trading on any stock exchange nor traded in the over-the-counter market on the date in question or if the Plan Administrator determines that the quotations under Subsections (i) or (ii) above do not accurately reflect the fair market value of such shares, the fair market value will be determined by the Plan Administrator after taking into account such factors as the Plan Administrator may deem appropriate, including one or more independent professional appraisals.

(c) In no event may this option be exercised for any fractional share.

8. 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 the Company's Common Shares 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 laws.

9. Restrictive Legends. If and to the extent any Optioned Shares acquired under this option are not registered under the Securities Act of 1933, the 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."

10. Successors and Assigns. Except to the extent otherwise provided in Section 1 and Subsection 5(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.

11. Liability of the Company.

(a) If the Optioned Shares covered by this Agreement exceed, as of the Grant Date, the number of Common Shares which may without shareholder approval be issued, then this option will be void with respect to such excess shares unless shareholder approval of this option is obtained.

(b) 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.

12. No Employment or Consulting Contract. Nothing in this Agreement or in the Incorporated Terms will confer upon you any right to continue in the employ or service of the Company for any period of time or interfere with or otherwise restrict in any way the rights of the Company (or any subsidiary of the Company employing or retaining you) or you, which rights are hereby expressly reserved by each, to terminate your employee or consultant status as the case may be, at any time for any reason whatsoever, with or without cause.

13. 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 principal 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.

14. Construction. This Agreement and the option evidenced hereby are made and granted pursuant to the Incorporated Terms and are in all respects limited by and subject to the express terms and provisions of the Incorporated Terms. Any dispute regarding the interpretation of this Agreement will be submitted to the Plan Administrator for resolution. The decision of the Plan Administrator will be final, binding and conclusive. Questions regarding this option or the Incorporated Terms should be referred to the Legal Department of the Company.

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

16. Tax Arrangements. You hereby agree to make appropriate arrangements with the Company or subsidiary thereof by which you are employed or retained for the satisfaction of all Federal, State or local income tax withholding requirements and Federal social security employee tax requirements applicable to the exercise of this option.

XOMA Ltd.

By: _____

Christopher J. Margolin
Vice President , General Counsel
and Secretary

Date: _____

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

By: _____

Steven B. Engle
14891 De La Valle Place
Del Mar, CA 92014

Date: _____

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 and the Incorporated Terms.

By: _____

Carolyn G. Engle
14891 De La Valley Place
Del Mar, CA 92014

Date: _____

CONSULTING AGREEMENT

THIS CONSULTING AGREEMENT ("Agreement"), effective as of 12:01 p.m., August 3, 2007 (the "Effective Date"), is between XOMA (US) LLC (hereinafter referred to as "XOMA"), a Delaware company with limited liability having an address of 2910 Seventh Street, Berkeley, California 94710, and John L. Castello (hereinafter referred to as "MR. CASTELLO"), an individual having an address of 201 Oakridge Drive, Danville, California 94506, both of whom may be jointly referred to sometimes hereinafter as the "Parties". In consideration of the mutual promises, covenants, and conditions contained herein, the Parties hereby agree as follows:

1. **Consulting Services:** MR. CASTELLO agrees to perform the consulting services described in Exhibit A to this Agreement ("Services"). MR. CASTELLO warrants that he has the skills, ability and training necessary to and that he shall render the Services in a timely and professional manner consistent with industry standards in accordance with the terms of this Agreement including Exhibit A, and otherwise meeting the professional and/or services standards of XOMA. Subject to the foregoing, the manner and means by which MR. CASTELLO chooses to complete the Services are in MR. CASTELLO's sole discretion and control.
2. **Compensation:** In consideration of the Services to be rendered hereunder, XOMA agrees to pay MR. CASTELLO the compensation set forth in Exhibit A to this Agreement.
3. **Expenses:** XOMA will reimburse MR. CASTELLO for all reasonable travel, lodging and other expenses documented to the reasonable satisfaction of XOMA.
4. **Other Services and Conflicts of Interest:** During the term of this Agreement, MR. CASTELLO may perform services for, or be employed by other persons, companies, or employers, so long as doing so does not create a conflict of interest or otherwise cause MR. CASTELLO to breach his obligations under this Agreement.
5. **Term:** The term of this Agreement will begin on the Effective Date hereof and continue until the earlier of December 31, 2007, or termination by either Party in accordance with this Section 5.

(a) Either XOMA or MR. CASTELLO may terminate this Agreement immediately upon a material breach by the other Party by giving written notice to the breaching Party.

(b) This Agreement shall terminate automatically upon (i) the appointment of a receiver, liquidator or trustee for either Party by decree of competent authority in connection with any adjudication or determination by such authority that such Party is bankrupt or insolvent, (ii) the filing by either Party of a petition in voluntary bankruptcy, the making of an assignment for the benefit of either Party's creditors or the entering into of a composition with either Party's creditors, or (iii) any resolution by the Board of Directors of XOMA to terminate such Party's/XOMA's existence or otherwise cease operations or wind up XOMA's affairs.

(c) Unless MR. CASTELLO and XOMA otherwise agree in writing, the Agreement shall terminate automatically upon the sale of all or substantially all of XOMA's assets or the acquisition of XOMA by way of merger or consolidation with another entity or the acquisition of outstanding capital stock of XOMA in any transaction in which the shareholders of XOMA immediately prior to such transaction do not own a majority of the outstanding equity interests of the resulting or surviving entity, unless in any such case the resulting or surviving entity affirmatively assumes in writing XOMA's obligations hereunder.

(d) This Agreement shall terminate automatically upon the death of MR. CASTELLO.

(e) Without limiting the foregoing, either XOMA or MR. CASTELLO may terminate this Agreement, at its discretion, upon prior written notice to the other Party.

6. Confidential Information:

(a) MR. CASTELLO acknowledges that his association with XOMA under this Agreement creates a relationship of confidence and trust between MR. CASTELLO and XOMA with respect to information disclosed to MR. CASTELLO or known to MR. CASTELLO as a result of his relationship with XOMA, not generally known to the trade or industry in which XOMA is engaged, about XOMA's products, processes, programs, methods, formulas, techniques, concepts, applications, calculations and services, including research, development, manufacturing, purchasing, finance, engineering, marketing, merchandising, and selling; and corresponding information about the products, processes, programs, methods, formulas, techniques, concepts, applications, calculations and services of XOMA's affiliates acquired by MR. CASTELLO or developed or made known to XOMA by MR. CASTELLO in the scope of MR. CASTELLO's relationship with XOMA (hereinafter referred to as "Confidential Information").

(b) At all times during the term of this Agreement and thereafter, MR. CASTELLO will not disclose, use, disseminate, lecture upon or publish Confidential Information unless MR. CASTELLO first secures XOMA's written consent.

(c) (i) MR. CASTELLO will disclose promptly to XOMA, in confidence, all formulas, processes, techniques, test data, discoveries, improvements, innovations, concepts and ideas, whether patentable or not, conceived or made by MR. CASTELLO in the course of the Services performed hereunder, solely or jointly with another or others, which are made or conceived with the use of XOMA's facilities, materials, equipment, trade secrets, personnel, or time, or are suggested by or result from, any task assigned to MR. CASTELLO or work performed by MR. CASTELLO for, or on behalf of XOMA which relate to the Services performed hereunder (hereinafter collectively referred to as "Inventions") and all such Inventions will be owned by and will be the sole and exclusive property of XOMA. MR. CASTELLO hereby agrees to assign to XOMA any and all rights MR. CASTELLO may have in any Inventions.

(ii) Pursuant to Sections 2870-2872 of the California Labor Code, the term "Invention" as used herein will not apply to any invention for which no equipment, supplies, facility or trade secret information of XOMA was used and which was developed entirely on MR. CASTELLO's own time or on MR. CASTELLO's employees' own time, and (a) which does not relate (1) to the business of XOMA or (2) to XOMA's actual or demonstrably anticipated research or development, or (b) which does not result from any work performed by MR. CASTELLO for XOMA. Pursuant hereto, the term "Invention" as used herein will not include any invention which will arise outside the scope of the Services performed hereunder.

(d) MR. CASTELLO will not disclose to XOMA or induce XOMA to use any secret or confidential information or material which MR. CASTELLO has reason to believe is owned by others.

(e) MR. CASTELLO will, whenever requested to do so by XOMA, execute any applications, assignments, or other instruments which XOMA will consider necessary to apply for and obtain Letters Patent in the United States, or any foreign country, or to otherwise protect XOMA's interests therein with respect to Inventions. These obligations will continue beyond the termination of Services hereunder with respect to Inventions conceived or made by MR. CASTELLO, pertaining to the Services performed hereunder, during the period MR. CASTELLO renders Services to XOMA hereunder, and will be binding upon MR. CASTELLO's successors, assigns, or other legal representatives. MR. CASTELLO will also disclose to XOMA all patent applications filed by MR. CASTELLO within one year after termination of Services hereunder. MR. CASTELLO acknowledges that any such application which relates to the subject matter of the Services performed hereunder will be presumed to relate to an Invention which was made before termination of the Services hereunder.

(f) Upon termination of this Agreement, MR. CASTELLO will turn over to a designated individual employed by XOMA all property then in MR. CASTELLO's possession or custody and belonging to XOMA. MR. CASTELLO will not retain any copies or reproductions of correspondence, memoranda, reports, specifications, computations, notebooks, drawings, photographs or other documents relating in any way to the Services performed hereunder which are entrusted to MR. CASTELLO at any time during the term of this Agreement.

7. Patents: MR. CASTELLO will not assert any rights under any Inventions as having been made or acquired by MR. CASTELLO prior to the effective date of this Agreement.

8. Representations and Warranties: MR. CASTELLO represents and warrants that performance of this Agreement will not breach any agreement or other contractual commitment or obligation by which MR. CASTELLO is bound.

9. Employment Taxes, Payments and Records: MR. CASTELLO agrees (a) to pay and/or withhold any and all fees, charges, payments and taxes required to be paid or withheld pursuant to any and all applicable federal, state and local laws, statutes, rules and regulations (collectively, the "Laws"), including, without limitation, any and all federal and state income tax, social security, unemployment and disability insurance laws, statutes, rules and regulations, in connection with this Agreement; (b) to maintain any and all records and documents required by the Laws in connection with this Agreement and to file such records and documents as required by the Laws; and (c) to reimburse and indemnify XOMA in the event that MR. CASTELLO fails fully and in a timely fashion to perform any of the obligations set forth in this Section 9 and XOMA, at its option which is hereby granted, performs or discharges any and all of such obligations in MR. CASTELLO's name or on MR. CASTELLO's behalf or otherwise.

10. Independent Contractor Status: In performing the Services, MR. CASTELLO will be deemed to be for all purposes an independent contractor (and not an employee or agent of XOMA) under any and all laws, whether existing or future, including without limitation Social Security laws, unemployment insurance laws, and withholding and other employment taxation laws. MR. CASTELLO will not be entitled to participate in any employee benefits accruing to employees of XOMA. MR. CASTELLO will not be authorized to make any representation, contract or commitment on behalf of XOMA unless MR. CASTELLO is specifically requested or authorized to do so in writing by an authorized representative of XOMA.

11. Performance of Services: In performing the Services, MR. CASTELLO agrees to provide his own equipment, tools and other materials at his own expense. Notwithstanding the preceding sentence, XOMA shall make its facilities and equipment available to MR. CASTELLO as reasonably necessary in connection with the Services. For any work performed on XOMA's premises, MR. CASTELLO shall comply with all security, confidentiality, safety and health policies of XOMA. MR. CASTELLO shall take all necessary precautions to prevent, and shall be responsible for, any injury to any persons (including, without limitation, employees of XOMA) or damage to property (including, without limitation, XOMA's property) arising from or relating to MR. CASTELLO's performance of the Services or the use by MR. CASTELLO of any XOMA equipment, tools, facility or other property, whether or not such claim is based upon its condition or on the alleged negligence of XOMA in permitting its use.

12. Injunctive Relief: XOMA and MR. CASTELLO reaffirm, recognize and agree that the Services to be performed by MR. CASTELLO hereunder are of a special, unique, extraordinary and intellectual character; that those Services are of particular value to XOMA and that the breach of any or all obligations undertaken by MR. CASTELLO hereunder, including, without limiting the generality of the foregoing, MR. CASTELLO's obligation of non-competition, could not be reasonably or adequately compensated by damages in an action at law, and that an appropriate remedy for XOMA for any such breach or threat to commit a breach will be, without limitation, an injunction restraining MR. CASTELLO from committing such breach and granting specific performance hereunder.

13. Arbitration: Any controversy, dispute or claim arising out of or relating to this Agreement or any alleged breach hereof, will be settled by arbitration before three neutral arbitrators in accordance with the Commercial Arbitration Rules of the American Arbitration Association then in effect, and judgment upon the award rendered by the arbitrators may be entered in any court of competent jurisdiction.

14. Legal Fees: If any action or proceeding in arbitration or law is commenced to enforce any of the provisions or rights under this Agreement, the unsuccessful party to such action or proceeding, as determined by arbitration or by the court in a final judgment or decree, will pay the successful party all costs, expenses, and reasonable attorney's fees incurred therein by such party (including, without limitation, such costs, expenses and fees on any appeal), and if such successful party will recover judgment in any such action or proceedings, such costs, expenses and attorneys' fees will be included as part of such judgment.

15. Severability: If any provision of this Agreement is held to be inoperative, unenforceable or otherwise invalid, the remaining provisions hereof will be carried into effect without regard to such inoperative, unenforceable or otherwise invalid provision.

16. Governing Law: This Agreement will be construed in accordance with, and governed by, the laws of the State of California.

17. Assignment: Since this Agreement requires the performance of personal services by MR. CASTELLO, MR. CASTELLO may not assign any right or delegate any duty described in this Agreement without XOMA's prior written approval.

18. Entire Agreement: This instrument constitutes the entire Agreement between the Parties hereto and supersedes any and all prior agreements concerning the engagement of MR. CASTELLO by XOMA, whether written or oral. This Agreement will not be amended, altered or changed except by written agreement signed by both Parties hereto.

IN WITNESS WHEREOF, the Parties have executed this Agreement on the date(s) set forth below.

XOMA (US) LLC

Charles C. Wells
Vice President, Human Resources and
Information Technology

John L. Castello

Date

Date

EXHIBIT A

Statement of Work

I. DESCRIPTION OF THE SERVICES TO BE PERFORMED:

Mr. Castello will be available to provide consulting services for up to two (2) days a week as requested by, and shall provide such services exclusively to, the Chief Executive Officer and President of XOMA Ltd.

II. COMPENSATION

XOMA will pay MR. CASTELLO, in monthly installments, an aggregate amount equal to 40% of the base salary he would have received had he remained an employee of XOMA for the term of this agreement, based on his annual salary as in effect immediately prior to his entry into this agreement (\$500,000 per year), for consulting services rendered by MR. CASTELLO during the term of this Agreement.

[Social Security/Tax I.D. # _____]

News Release

XOMA Appoints Steven B. Engle President, Chief Executive Officer and Director

Berkeley, Calif. -- August 6, 2007 -- XOMA Ltd. (Nasdaq:XOMA), a leader in the discovery and development of antibody therapeutics for cancer and inflammatory diseases, today announced that Steven B. Engle has been named president, chief executive officer and a member of the company's board of directors. Mr. Engle succeeds Jack Castello, the company's former president and chief executive officer, who announced his retirement plans earlier this year. Mr. Castello will remain with the company as non-executive chairman of the board during a transition period, expected to run through October of 2007.

"On behalf of the XOMA Board, I couldn't be more pleased that Steve has joined XOMA to serve as the company's next president and chief executive officer," said Denny Van Ness, a member of XOMA's board of directors who led the succession search. "His leadership experience in our industry, together with his expertise in therapeutic products, operations and corporate development, make him the right person to lead XOMA forward. I am confident in Steve's ability to enhance and execute the company's strategic plan to create value for XOMA shareholders."

Mr. Van Ness added, "I also want to thank Jack Castello for his strong leadership and years of service at XOMA. It is due to his efforts that XOMA is so well-positioned today. We appreciate his many contributions to the company and wish him all the best in retirement."

Mr. Engle stated, "XOMA's leadership in therapeutic antibody discovery and development is based on its world class technologies and proven capabilities as well as an expanding pipeline of product candidates. The growing use of therapeutic antibodies is one of the largest opportunities in healthcare today. To address this opportunity, XOMA has built an extensive business platform which combines revenue-generating collaborations, licensing programs, royalties on marketed products, and a proprietary pipeline. I look forward to working with XOMA's talented employees and the company's partners in creating long-term value and bringing the benefits of antibody therapeutics to patients with unmet medical needs."

Mr. Engle has more than 25 years of executive leadership and biotechnology and pharmaceutical industry experience. He previously served as chairman of the board and chief executive officer of La Jolla Pharmaceutical Company, a publicly-held biopharmaceutical company focused on the research and development of therapeutic products for autoimmune and antibody-mediated diseases. He joined La Jolla Pharmaceutical Company in 1993, became president and a director in 1994, CEO in 1995, and chairman of the board in 1997. Prior to joining La Jolla, he held executive-level positions at Cygnus Therapeutic Systems, a developer of drug delivery systems, and Micro Power Systems, Inc., a manufacturer of high technology products, including medical devices. He began his professional career with the Strategic Decisions Group and the Stanford Research Institute. Mr. Engle is a graduate of the University of Texas with BS and MS degrees in Biomedical Engineering.

Pursuant to NASDAQ requirements, the company noted that as part of his employment agreement Mr. Engle received an option to purchase 500,000 XOMA common shares at an exercise price of \$5.00 per share, which will be exercisable immediately, and an option to purchase 2,100,000 XOMA common shares at an exercise price equal to the closing price on August 3, 2007, which is exercisable on the company's normal four-year vesting schedule.

About XOMA

XOMA is a leader in the discovery, development and manufacture of therapeutic antibodies, with a therapeutic focus that includes cancer and immune diseases. XOMA has royalty interests in RAPTIVA(r) (efalizumab), a monoclonal antibody product marketed worldwide (by Genentech, Inc. and Merck Serono S.A.) to treat moderate-to-severe plaque psoriasis, and LUCENTIS(r) (ranibizumab injection), a monoclonal antibody product marketed worldwide (by Genentech and Novartis AG) to treat neovascular (wet) age-related macular degeneration.

The company has built a premier antibody discovery and development platform that includes access to seven of the leading commercially available antibody phage display libraries and XOMA's proprietary Human Engineering(tm) and bacterial cell expression (BCE) technologies. More than 45 companies have signed BCE licenses. XOMA's development collaborators include Lexicon Pharmaceuticals, Inc., Novartis, Schering-Plough Research Institute and Takeda Pharmaceutical Company Limited. With a fully integrated product development infrastructure, XOMA's product development capabilities extend from preclinical sciences to product launch. For more information, please visit the company's website at www.xoma.com.

Certain statements contained herein that relate to future periods are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements are based on assumptions that may not prove accurate. Actual results could differ materially from those anticipated due to certain risks inherent in the biotechnology industry and for companies engaged in the development of new products in a regulated market. These risks, including those related to the results of discovery research and preclinical testing; the timing or results of pending and future clinical trials (including the design and progress of clinical trials; safety and efficacy of the products being tested; action, inaction or delay by the FDA, European or other regulators or their advisory bodies; and analysis or interpretation by, or submission to, these entities or others of scientific data); uncertainties regarding the status of biotechnology patents; uncertainties as to the cost of protecting intellectual property; changes in the status of the existing collaborative and licensing relationships; the ability of collaborators, licensees and other third parties to meet their obligations; market demand for products; scale up and marketing capabilities; competition; international operations; share price volatility; XOMA's financing needs and opportunities and risks associated with XOMA's status as a Bermuda company, are described in more detail in XOMA's most recent annual report on Form 10-K and in other SEC filings. Consider such risks carefully in considering XOMA's prospects.

CONTACT:

Greg Mann
XOMA - Investor Relations and Corporate Communications
510-204-7270
mann@xoma.com
