XOMA Corporation (“XOMA” or the “Company”) is a biopharmaceutical company developing products to treat infections, infectious complications of traumatic injury and surgery, and immunologic and inflammatory disorders. The Company's current product development programs include:

Neuprex(TM) (rBPI21), a modified recombinantly-derived fragment of human bactericidal/permeability-increasing protein (“BPI”) and XOMA's lead BPI-derived product, which is currently in Phase III efficacy clinical trials in two indications and in earlier-stage clinical trials in three additional indications.

I-PREX(TM), a proprietary topical formulation of rBPI21 for the treatment of ophthalmic disorders, which is undergoing preclinical testing as a treatment for corneal injuries, including ulcers and transplants.
Mycoprex(TM), a fungicidal peptide compound derived from BPI that is currently in preclinical product development.

hu1124 (anti-CD11a), a humanized monoclonal antibody product being developed in collaboration with Genentech, Inc. ("Genentech"), which originally discovered the antibody and characterized it as anti-CD11a. The hu1124 product is in Phase II clinical trials for psoriasis. Other indications are under review.

In April 1997, XOMA and Pfizer Inc. ("Pfizer") decided to discontinue the U.S. clinical trial of the Company's E5(R) monoclonal antibody product as a treatment for gram-negative sepsis. In June 1997, the Company announced that Pfizer had decided to end its marketing arrangement for E5(R).

Product Areas

The following describes XOMA's more significant therapeutic product development and clinical activities:

The BPI Product Platform

The Company's current programs are primarily focused on developing novel therapeutic products from bactericidal/permeability-increasing protein ("BPI"). BPI is a naturally-occurring human host-defense protein found in white blood cells (neutrophils). BPI kills certain bacteria. It also binds to and neutralizes endotoxins, molecular components of the cell walls of gram-negative bacteria that can trigger severe complications in infected patients. Furthermore, BPI inhibits angiogenesis (growth of new blood vessels) by binding to and neutralizing heparin, a natural protein involved in blood vessel formation. Angiogenesis is an essential component of inflammation and solid tumor growth.

BPI was discovered in 1978 by Peter Elsbach, M.D., Professor of Medicine, and Jerrold Weiss, Ph.D., Professor of Microbiology, both at New York University School of Medicine. XOMA has collaborated with NYU since 1991 to extend and apply BPI-related research to the commercial development of pharmaceutical products. Since March 1993, the U.S. Patent and Trademark Office ("Patent Office") has issued four patents and a Notice of Allowance relating to BPI to NYU, and the Company is the exclusive licensee of these patents and the Notice of Allowance. See "Patents and Trade Secrets". XOMA has an agreement with New York University ("NYU") relating to its rBPI products. See "Research and License Agreements".

XOMA has adopted the BPI molecule as a platform for developing multiple pharmaceutical products. In 1991 XOMA scientists developed a modified recombinant fragment of the BPI molecule, called rBPI21, which is potent and stable and can be manufactured at commercially viable yields. This modified fragment is the basis for the Company's Neuprex(TM) and I-PREX(TM) products. In 1994 XOMA scientists discovered three functional domains in the BPI molecule with pharmacologically-desirable activities. Based on this discovery, XOMA is developing peptides from these domains into additional therapeutic products, including the Mycoprex(TM) antifungal peptide product.

Neuprex(TM)

In December 1992, XOMA submitted an investigational new drug application ("IND") to the U.S. Food and Drug Administration ("FDA") to begin Phase I human testing of Neuprex(TM). In March 1993, the Company began Phase I human safety and pharmacokinetic testing under the IND. Beginning in 1996, the Company initiated five clinical efficacy studies evaluating Neuprex(TM) as a treatment for primary infections and major complications of infectious diseases, traumatic injury and surgery. These indications are:


Hemorrhage due to trauma: accidents or injuries that cause acute blood loss may trigger serious complications in up to 40% of patients who survive the initial trauma and surgery. These patients may be infected by bacteria and their endotoxins translocated from the gastrointestinal tract into the bloodstream. A placebo-controlled, double-blinded Phase II study in 401 patients began in June
1995 and was completed in October 1996. A follow-on single-blinded Phase II pharmacokinetics study explored alternative dosing regimens in 169 patients. Based on data from the Phase II studies, XOMA initiated in the fourth quarter of 1997 a Phase III pivotal trial, designed to enroll 1650 patients in 40 centers, testing Neuprex(TM) to prevent serious pulmonary complications in trauma patients.

Partial hepatectomy: surgical removal of part of the liver, usually to remove an isolated tumor temporarily impairs liver function. Since the liver normally clears bacteria and their endotoxins, these patients are at risk for infectious complications. The double-blinded, placebo-controlled Phase II study in 35 patients began in mid-1995 and was concluded at the end of 1997. Review and analysis of results is in progress.

Severe intra-abdominal infections: in 1996, the Company began a Phase I/II open-label dose-ranging study testing Neuprex(TM) with conventional antibiotics to treat patients with serious abdominal infections that required surgery.

Cystic fibrosis (CF): in the third quarter of 1997, XOMA initiated a program to test Neuprex(TM) in CF patients whose genetic disorder predisposes them to recurring bacterial lung infections (exacerbations). Over repeated antibiotic treatments, the infecting bacteria often become resistant to antibiotic treatment. A natural history study in the second half of 1997 tested rBPI21, alone and in combina-

I-PREX(TM)

XOMA has developed a proprietary topical formulation of rBPI21 for the treatment of ophthalmic infections. Although standard antibiotics fight bacterial infections, they do not inhibit the growth of new blood vessels in the cornea that may be associated with these infections. This neovascularization can lead to scarring and permanently impaired vision. In preclinical testing, the I-PREX(TM) product has shown both anti-infective and anti-angiogenic (inhibition of blood vessel growth) properties in the treatment of corneal injury and associated infection. The use of I-PREX(TM) to treat corneal injuries, including ulcers and other corneal diseases, could eliminate the need for current anti-inflammatory therapies, such as corticosteroids, which have undesirable side effects.

Mycoprex(TM)

XOMA scientists discovered that certain peptide sequences derived from BPI display potent fungicidal activity. Further research demonstrated that many of these compounds not only kill strains of Candida, the most common fungi to cause systemic illness, but also show activity against other strains of fungi, including those resistant to the currently available drugs. Based on these findings, the Company is conducting a program to develop compounds with a broad spectrum of fungicidal activity and a better safety profile than currently-available fungicidals.

LBP Assay

In the first quarter of 1997, the Company granted to BioSite Diagnostics Incorporated of San Diego, California an exclusive U.S. license to make, use and sell certain non-automated, point-of-care diagnostic and prognostic products for measuring Lipopolysaccharide Binding Protein ("LBP") to detect bacterial endotoxin exposure in patients with endotoxemia or sepsis. A non-exclusive license was granted to SRL, Inc., a Japanese company, to make, use and sell certain automated diagnostic and prognostic products for centralized laboratory use in Japan.

hu1124 (anti-CD11a) Monoclonal Antibody Product

In April 1996, XOMA and Genentech entered into an agreement to co-develop Genentech's anti-CD11a humanized monoclonal antibody product (hu1124). In late 1996, the Company started a Phase I trial in moderate to severe psoriasis patients. In the second quarter of 1997, in response to findings that hu1124 was active at smaller doses, XOMA started additional Phase I studies at lower doses. XOMA announced a Phase II efficacy study in Canadian psoriasis patients in February 1998. Other indications are under review by XOMA and Genentech.

Additional Product Areas

XOMA continues to seek opportunities to realize value from products and technologies outside its core research efforts, including immunoconjugates,
immunofusions, mammalian and microbial cell expression technologies, osteoinductive proteins for bone repair, and non-cariogenic proteins for low-calorie flavor enhancement. Various licenses and sublicenses have been entered into in these areas. Discussions are ongoing with other entities that have expressed interest in these products and technologies. No assurance can be given that any agreement or agreements will be reached as a result of the ongoing discussions.

In 1996, XOMA received a $2.2 million payment related to the sale of its T-cell receptor ("TCR") technology to Connective Therapeutics, Inc., now called Connecitcs Corporation ("Connetics"). Connetics is using the technology in its TCR vaccines in development for treatment of multiple sclerosis (MS) and rheumatoid arthritis. XOMA is entitled to royalties on future sales of these products. In December 1997, Connetics successfully completed a Phase I/II study of their MS TCR vaccine.

In 1996, XOMA also received a $3.0 million payment for an exclusive license to Genentech, including a sublicense to IDEC Pharmaceuticals Corporation ("IDEC"), to intellectual property covering the use of chimeric IgG1 antibodies specific to the CD20 antigen on the surface of human B-cells. XOMA was entitled to royalties on the sale of products employing the anti-CD20 technology that are sold in the United States and in other countries where XOMA held relevant patents. In December 1997, XOMA assigned these anti-CD20 antibody patents and royalty rights to Pharmaceutical Partners, LLC for $17.0 million.

XOMA has granted licenses to a number of biotechnology and pharmaceutical companies for use of patented and proprietary technologies relating to a bacterial expression system used to manufacture recombinant pharmaceutical products. Licensees include Affymax Research Institute, Cantab Pharmaceuticals Research Ltd, Eli Lilly and Company, Enzon, Inc., the Hoechst Group, ICOS Corporation, Invitrogen Corporation, Pasteur Merieux Serums & Vaccine, and The Pharmacia & Upjohn Group.

Genimune(TM) is XOMA's humanized immunofusion product that targets T lymphocytes (white blood cells that attack foreign cells) in autoimmune disease therapy. For several years, the Company developed and evaluated several proprietary variants of genetically-engineered proteins and targeted immunofusions ("TIF"). In mid-1993 the Company selected a lead immunofusion compound designated Genimune(TM). In December 1993, XOMA entered into cross-license agreements with Research Development Foundation concerning recombinant DNA-derived gelonin ("r-gelonin"), a plant-derived cytotoxic enzyme used as a TIF component. In the fourth quarter of 1994, XOMA terminated further internal development of Genimune(TM) and is attempting to outlicense the product, but no assurance can be given that it will successfully do so.

Thaumatin, a flavor-enhancing protein developed by XOMA, was classified as generally recognized as safe ("GRAS") by the Flavor and Extract Manufacturer's Association ("FEMA"). GRAS designation permits the use of this ingredient as a flavor enhancer in food without additional regulatory approval. Thaumatin is the first flavoring ingredient produced through biotechnology to be granted GRAS status. The Company is seeking to outlicense this technology, but no assurance can be given that it will successfully do so.

Manufacturing

XOMA is currently producing its Neuprex(TM) and hu1124 products for clinical trial and other testing needs at its Berkeley manufacturing facility, pursuant to a drug manufacturing license obtained from the State of California.

The Company's manufacturing capability is based on recombinant DNA technology, with production of therapeutic proteins from either mammalian or microbial cells. XOMA has fermentation capacity for up to 5500 liters with associated isolation and purification systems in place. The Company does its own formulation for final sterile filling and finishing and has the capacity to do its own small-scale filling.

Development and Marketing Arrangements

The Company has developed a strategy of entering into arrangements with established pharmaceutical company partners in order to facilitate and finance the development and marketing of its products. Assuming timely regulatory approval, which cannot be assured, the successful commercialization of XOMA's products will be dependent to a large extent upon the marketing capabilities of any pharmaceutical partners.
The Company is seeking one or more strategic alliances with respect to its Neuprex(TM) product. Discussions have taken place with several entities regarding such a product alliance. The Company cannot predict whether or when any such alliance(s) will be consummated.

hu1124 (antiCD11a)

In April 1996, XOMA and Genentech entered into an agreement whereby XOMA agreed to co-develop Genentech's humanized monoclonal antibody product, originally called anti-CD11a. Under the terms of the agreement Genentech purchased 1.5 million shares of XOMA common stock at $5.90/share and is funding development through Phase II by making a series of convertible subordinated loans. XOMA is manufacturing the product, now called hu1124, for clinical trial use and managing clinical trials through Phase II. In April and December 1996 respectively, Genentech loaned $5.0 million and $8.5 million to fund 1996 and 1997 development costs. In December 1997, Genentech loaned an additional $10.0 million to fund 1998 development costs.

ES(R) Monoclonal Antibody Product

In 1987, XOMA and Pfizer entered into agreements relating to a potentially wide range of monoclonal antibody-based products for the treatment of gram-negative sepsis. Pfizer paid XOMA an initial license fee and made payments based on development progress. In June 1997, the Company announced that Pfizer had decided to end its development and marketing agreements with XOMA. See "Regulatory Process".

Other

From time to time, the Company reviews development opportunities with other biotechnology companies with a view toward providing process scale-up, regulatory and/or clinical services to them.

Competition

The biotechnology and pharmaceutical industries are subject to continuous and substantial technological change. Competition in the areas of recombinant DNA-based and monoclonal antibody-based technologies is intense and expected to increase as established biotechnology firms and large chemical and pharmaceutical companies advance in the field. A number of these large pharmaceutical and chemical companies have enhanced their capabilities by entering into arrangements with or acquiring biotechnology companies or entering into business combinations with other large pharmaceutical companies. Many of these companies have significantly greater financial resources, larger research and development and marketing staffs and larger production facilities than those of XOMA. Moreover, certain of these companies have extensive experience in undertaking preclinical testing and human clinical trials. These factors may enable other companies to develop products and processes competitive with or superior to those of the Company. In addition, a significant amount of research in biotechnology is being carried out in universities and other non-profit research organizations. These entities are becoming increasingly interested in the commercial value of their work and may become more aggressive in seeking patent protection and licensing arrangements. There can be no assurance that developments by others will not render the Company's products or technologies obsolete or uncompetitive.

The Company is aware of an agreement between Genentech and Incyte Pharmaceuticals, Inc. ("Incyte") pursuant to which Incyte claims to hold worldwide rights to all Incyte and Genentech technology related to BPI. In addition, it is possible that another company may be developing one or more products based on BPI, and there can be no assurance that such product(s) will not prove to be more effective than or receive regulatory approval prior to Neuprex(TM).

Regulatory Process

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

The FDA regulatory process is carried out in several phases. Prior to beginning clinical testing of a proposed new biologic product, an IND is filed with FDA. This document contains scientific information on the proposed product, including results of testing of the product in animal and in vitro or laboratory models. Also included is information on manufacture of the product and studies on toxicity in animals, and a clinical protocol outlining the initial
The initial stage of clinical testing, Phase I, ordinarily encompasses safety, pharmacokinetics and pharmacodynamic evaluations. Phase II testing encompasses investigation in specific disease states designed to provide preliminary efficacy data and additional information on safety. Phase III studies are designed to further establish clinical safety and efficacy and to provide information allowing proper labeling of the product following approval. Phase III studies are most commonly multicenter, randomized, placebo-controlled trials in which rigorous statistical methodology is applied to clinical results. Other designs may also be appropriate in specific circumstances.

Following completion of clinical trials, a BLA (Biologics License Application) is submitted to FDA to request marketing approval. Internal FDA committees are formed which evaluate the application, including scientific background information and in vitro or laboratory efficacy studies, toxicology, manufacturing facility and clinical data. During the review process, a dialogue between FDA and the applicant is established in which FDA questions are raised and additional information is submitted. During the final stages of the approval process, FDA generally requests presentation of clinical or other data before an FDA advisory committee. Also, during the later stages of review, FDA conducts an inspection of the manufacturing facility to establish that the product is made in conformity with good manufacturing practice. If all outstanding issues are satisfactorily resolved and labeling established, FDA issues a license for the product and for the manufacturing facility, thereby authorizing commercial distribution.

In December 1992, the Company filed an IND with FDA to begin Phase I human testing of its Neuprex(TM) product and, in March 1993, began the testing. Eighteen randomized, double-blind, placebo-controlled Phase I studies have been completed and three Phase II efficacy studies were initiated in 1995. Two other Phase II studies were initiated in 1996 and 1997.

In August 1996, the FDA granted XOMA a Subpart E designation for the Neuprex(TM) product for severe pediatric meningococcemia. Subpart E designation is intended to expedite the development, evaluation and marketing of new therapies for life-threatening and debilitating illnesses. In October 1996, XOMA started a Phase III pivotal clinical trial to test the drug for this indication in multiple medical centers in the United States and Canada. In January 1997, the trial was expanded to include sites in the United Kingdom. See "Product Areas - Neuprex(TM)".

In November 1997, XOMA initiated a randomized, placebo-controlled, double-blind Phase III pivotal trial to test Neuprex(TM) in patients suffering severe hemorrhage caused by traumatic injury and a Phase I study in CF patients who suffer recurring bacterial lung infections (exacerbations). See "Product Areas - Neuprex(TM)".

Other potential XOMA products will require significant additional development, including extensive clinical testing. There can be no assurance that any of the products under development by the Company will be developed successfully, obtain the requisite regulatory approval or be successfully manufactured or marketed.

XOMA's product for the treatment of gram-negative sepsis, E5(R), was a murine monoclonal antibody that binds and assists the body to clear bacterial endotoxins. XOMA completed two double-blind, placebo-controlled, Phase III studies of E5(R) involving nearly 1300 patients. In March 1989, XOMA filed a Product License Application ("PLA") for FDA licensure of E5(R). In June 1992, FDA informed XOMA that E5(R) was not approvable without further clinical testing. In June 1993, a third Phase III clinical trial began with narrower entry criteria than previous trials. In April 1997, XOMA and Pfizer decided to discontinue this trial. In June 1997, the Company announced that Pfizer had decided to end its marketing arrangement for E5(R).

FDA has substantial discretion in the product approval process and it is not possible to predict at what point, or whether, FDA will be satisfied with the Company's submissions or whether FDA will raise questions which may delay or preclude product approval. As additional clinical data are accumulated, they will be submitted to FDA and may have a material impact on the FDA product approval process. Given that regulatory review is an interactive and continuous process, the Company has adopted a policy of limiting announcements and comments upon the specific details of the ongoing regulatory review of its products, subject to its obligations under the securities laws, until definitive action is taken.

Patents and Trade Secrets

As a result of its ongoing activities, the Company holds and is in the process of applying for a number of patents in the United States and abroad to protect its products and important processes. The Company also has obtained or
has the right to obtain exclusive licenses to certain patents and applications filed by others. However, the patent position of biotechnology companies generally is highly uncertain and no consistent policy regarding the breadth of allowed claims has emerged from the actions of the Patent Office with respect to biotechnology patents. Accordingly, no assurance can be given that the Company's patents will afford protection against competitors with similar technologies, or that others will not obtain patents claiming aspects similar to those covered by the Company's patent applications.

During the period from September 1994 to December 1997, the U.S. Patent and Trademark Office (the "Patent Office") issued twenty-one patents to the Company related to its BPI-based products. These BPI-related patents include four directed to novel compounds and compositions, one directed to manufacturing methods, two directed to improved formulations and methods, three directed to BPI and LBP assays and one directed to therapeutic uses of BPI protein products, including uses of BPI in conjunction with antibiotics for the treatment of gram-negative and gram-positive bacterial infections. U.S. Patent No. 5,420,019 issued to the Company relates to novel recombinant amino terminal fragments and fragment analogs of BPI and methods for their recombinant production. The Company believes that this patent will provide comprehensive protection for the manufacture, use and sale of its BPI-derived Neuprex(TM) and I-PREX(TM) products in the U.S. The Company has received nine additional Notices of Allowance from the Patent Office and has more than twenty patent applications pending worldwide related to its BPI-based products.

In addition to the thirty BPI-related U.S. patents and Notices of Allowance issued to the Company, the Company is the exclusive licensee of BPI-related patents and applications owned by NYU. These include four issued U.S. patents and one additional U.S. Notice of Allowance, directed to novel BPI-related protein and DNA compositions, as well as their production and uses. U.S. Patent No. 5,198,541 issued to NYU relates to the recombinant production of BPI. The Company believes that this patent has substantial value because it covers certain production methodologies that allow production of commercial-scale quantities of BPI. In addition, the European Patent Office granted to NYU EP 375724, with claims to N-terminal BPI fragments and their use, alone or in conjunction with antibiotics, for the treatment of conditions associated with bacterial infections.

Between 1992 and 1996, the Patent Office issued six patents related to BPI to Incyte. Four of these patents originate from one initially-filed application and are directed to endotoxin-associated uses of BPI, one patent is directed to BPI/lipid carrier compositions and one patent relates to uses of BPI with polymannuronic acid. Based on the opinion of its U.S. patent counsel, Marshall, O'Toole, Gerstein, Murray & Borun, the Company believes that it does not infringe any valid claims of any of the Incyte patents. The Company is aware that the European Patent Office granted to Cornell and Rockefeller Universities EP 272489 related to certain neutrophil-derived antimicrobial proteins and the Company believes that Incyte may control this patent. The Company is aware of an agreement between Genentech and Incyte pursuant to which Incyte claims to hold worldwide rights to all Incyte and Genentech technology related to BPI.

During the period from July 1991 to December 1997, the Patent Office issued seven patents and one Notice of Allowance to the Company related to its bacterial expression technology, including claims to novel promoter sequences, secretion signal sequences, compositions and methods for expression and secretion of recombinant proteins from bacteria, including immunoglobulin gene products. U.S. Patent No. 5,028,530 issued to the Company is directed to expression vehicles containing an AraB promoter, host cells and processes for regulated expression of recombinant proteins. U.S. Patent No. 5,576,195 is related to DNA encoding a pectate lyase signal sequence, recombinant vectors, host cells and methods for production and externalization of recombinant proteins. U.S. Patent Nos. 5,595,898, 5,698,435 and 5,618,920 address secretable immunoglobulin chains, DNA encoding the chains and methods for their recombinant production. U.S. Patent Nos. 5,693,493 and 5,698,417 relate to methods for recombinant production/secretion of functional immunoglobulin fragments. Numerous foreign patents have been granted which, along with additional pending foreign patent applications, correspond to the patents issued and allowed in the U.S.

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

Research and License Agreements

XOMA has contracted with a number of academic and institutional collaborators to conduct certain research and development. Under these agreements the Company generally funds either the research and development or
evaluation of products, technologies or both, will own or obtain an exclusive license to products or technologies developed, and will pay royalties on sales of products covered by the license. The rates and durations of such royalty payments vary by product and institution, and range generally for periods from five years to indefinite duration. Aggregate expenses of the Company under all of its research agreements totaled $0.2 million, $0.3 million and $0.4 million in 1997, 1996 and 1995, respectively. The Company has entered into certain license agreements with respect to the following products:

**Bactericidal/Permeability Increasing Protein (BPI)**

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

**Recombinant Technology**

XOMA has obtained licenses under certain Stanford University and University of California patents relating to certain basic processes of recombinant DNA technology. The Stanford agreement provides that the Company will pay an annual fee and both agreements provide for royalties on sales of products should processes used in making those product(s) come under the licensed patents.

**E5(R) Monoclonal Antibody Product**

In conjunction with the decision to discontinue the Phase III E5(R) clinical trial and the termination of Pfizer's marketing agreement with XOMA, the Company's license agreement with the Regents of the University of California has been terminated.

**Employees**

As of December 31, 1997 XOMA employed 160 full-time employees at its Berkeley and Santa Monica, California facilities. The Company's employees are engaged in clinical, manufacturing, quality assurance and control, research and product development activities, and in executive, finance and administrative positions. The Company considers its employee relations to be excellent.

The Company was incorporated in Delaware in 1981. The principal executive offices of XOMA are located at 2910 Seventh Street, Berkeley, California 94710 (telephone 510-644-1170).

**Item 2. Properties**

XOMA's principal product development and manufacturing facilities are located in Berkeley, California. The Company leases 83,000 square feet of space in Berkeley including approximately 35,000 square feet of research and development laboratories, 32,000 square feet of production and production support facilities and 16,000 square feet of office space. An additional 3,000 square feet of office space has been subleased to a third party. Separately, a 16,500 square foot production facility in Berkeley is owned by XOMA.

XOMA also maintains offices, laboratories and a manufacturing facility occupying approximately 15,000 square feet in leased space in Santa Monica, California. An additional 6,000 square foot leased facility for scale-up of the Neuprex(TM) product was completed in May 1993. The Company also owns an approximately 6,750 square foot parking lot in Santa Monica.

**Item 3. Legal Proceedings**

In the securities class action lawsuit Warshaw, et al. v. XOMA Corporation, et al., the defendants and plaintiffs reached an agreement on March 14, 1997 to settle all claims for $3.75 million in cash and $2.25 million in XOMA common stock. By order entered September 8, 1997, the United States District Court for the Northern District of California approved the settlement. All of the cash portion of the settlement has been paid by insurance into a settlement fund administered by an escrow agent. The claims administration process was deemed complete as of December 16, 1997, and on January 7, 1998, XOMA directed its stock transfer agent to issue and distribute to authorized claimants 344,168 shares of XOMA common stock in accordance with the terms of the court-approved settlement agreement.
Item 4. Submission of Matters to a Vote of Security Holders

None.

Officers

The officers of the Company are as follows:

<table>
<thead>
<tr>
<th>Name</th>
<th>Age</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>John L. Castello</td>
<td>61</td>
<td>Chairman of the Board, President and Chief Executive Officer</td>
</tr>
<tr>
<td>Patrick J. Scannon, M.D., Ph.D.</td>
<td>50</td>
<td>Chief Scientific and Medical Officer and Director</td>
</tr>
<tr>
<td>Clarence L. Dellio</td>
<td>51</td>
<td>Senior Vice President, Operations</td>
</tr>
<tr>
<td>Stephen F. Carroll, Ph.D.</td>
<td>46</td>
<td>Vice President, Preclinical Research</td>
</tr>
<tr>
<td>Peter B. Davis</td>
<td>51</td>
<td>Vice President, Finance and Chief Financial Officer</td>
</tr>
<tr>
<td>Marvin J. Garrett</td>
<td>47</td>
<td>Vice President, Clinical and Regulatory Affairs</td>
</tr>
<tr>
<td>Bernardus Machielse</td>
<td>37</td>
<td>Vice President, Quality Assurance and Quality Control</td>
</tr>
<tr>
<td>Christopher J. Margolin</td>
<td>51</td>
<td>Vice President, General Counsel and Secretary</td>
</tr>
<tr>
<td>W. C. McGregor, Ph.D.</td>
<td>56</td>
<td>Vice President, Technical Development and Santa Monica Operations</td>
</tr>
</tbody>
</table>

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

PART II

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

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

<table>
<thead>
<tr>
<th>Price Range</th>
<th>Price</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>1996:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>First Quarter</td>
<td>$ 5-3/4</td>
<td>$ 3-3/8</td>
</tr>
<tr>
<td>Second Quarter</td>
<td>8-1/8</td>
<td>3-7/8</td>
</tr>
<tr>
<td>Third Quarter</td>
<td>7-5/8</td>
<td>4-1/16</td>
</tr>
<tr>
<td>Fourth Quarter</td>
<td>5-7/8</td>
<td>3-1/16</td>
</tr>
<tr>
<td>1997:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>First Quarter</td>
<td>$ 7-1/4</td>
<td>$4-15/16</td>
</tr>
<tr>
<td>Second Quarter</td>
<td>5-11/16</td>
<td>3-1/8</td>
</tr>
<tr>
<td>Third Quarter</td>
<td>8-1/2</td>
<td>4-5/8</td>
</tr>
<tr>
<td>Fourth Quarter</td>
<td>8-1/2</td>
<td>4-7/8</td>
</tr>
<tr>
<td>1998:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>First Quarter (through February 28, 1998)</td>
<td>$ 6-1/2</td>
<td>$ 4-7/8</td>
</tr>
</tbody>
</table>

On February 28, 1998, there were approximately 5,014 record holders of XOMA's Common Stock.

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

Item 6. Selected Financial Data

The following table contains selected financial information including statement of operations and balance sheet data of XOMA for the years 1993 through 1997. The selected financial information has been derived from the audited Financial Statements of XOMA. The selected financial information should be read in conjunction with the Financial Statements and notes thereto set forth beginning on page 22 of this report and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in Item 7 below.

<TABLE>
<CAPTIONS>
Year Ended December 31,
------------------------------------------------------------------
----                  ----                  ----                  ----                  ----                  ----
(In thousands, except per share amounts)
</TABLE>

Statement of Operations Data
Total revenues (1) $ 18,383 $ 3,604 $ 1,165 $ 1,729 $ 571
Total operating costs and expenses(2) 35,552 31,826 27,469 38,460 35,259
Other income or loss, net(3) (1,404) (888) 3,832 2,104 3,381
Net loss $ (15,765) $ (29,110) $ (22,472) $ (34,627) $ (31,307)
Basic and diluted loss per common share $ (0.44) $ (0.90) $ (0.97) $ (1.54) $ (1.46)
Balance Sheet Data
Cash(4) $ 55,146 $ 46,982 $ 26,633 $ 39,985 $ 70,787
Total assets 64,776 57,675 40,878 62,429 94,131
Long-term debt (5) 24,773 14,516 7,692 120 425
Accumulated deficit (354,526) (337,195) (307,905) (284,847) (249,439)
Stockholders' equity 31,240 34,748 26,836 43,461 78,397
</TABLE>

(1) In 1997, includes $17.0 million from the assignment of patent and royalty rights to Pharmaceutical Partners LLC.
(2) In 1994, includes $2.5 million related to employee termination benefits associated with a restructuring.
(3) In 1996, includes a non-recurring expense ($2.5 million) relating to a securities class action lawsuit settlement. Other income in 1995 principally consists of interest income ($1.9 million), a one-time gain of $4.3 million related to a modification of the funding arrangement with Pfizer for the E5(R) clinical trial, and a $2.4 million loss related to write-down of property and equipment.
(4) Includes cash, cash equivalents, short-term investments, and interest receivable.

Excludes current portion. In 1997 and 1996, includes $23.5 million and $13.5 million, respectively, aggregate principal amount of convertible subordinated notes due to Genentech in 2005. In 1995, includes $6.5 million aggregate principal amount of convertible debentures due 1998. As of December 31, 1996 all of the convertible debentures had been converted into 2,054,224 shares of Common Stock.

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

Overview

XOMA is a biopharmaceutical company developing products to treat
infections, infectious complications of traumatic injury and surgery, and immunologic and inflammatory disorders. The Company's primary focus is on products derived from BPI. The first BPI-derived product, Neuprex(TM) is in Phase III pivotal trials in two indications, and earlier stage clinical trials in additional indications. Other BPI-derived products in preclinical testing include I-PREX(TM) a topical ophthalmic product, and Mycoprex(TM), a peptide product targeting systemic fungal infections.

XOMA is also developing the hu1124 humanized monoclonal antibody product under a collaboration agreement with Genentech. The product is in Phase II clinical testing for psoriasis. Other indications are under review. Genentech is providing funding for development and clinical trials through a series of long-term convertible loans.

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

Revenues

Total revenues were $18.4 million in 1997, compared with $3.6 million in 1996 and $1.2 million in 1995. Revenues for 1997 consisted of $17.0 million from the assignment of anti-CD20 antibody patents and royalty rights to Pharmaceutical Partners, LLC and $1.4 million for various licensing transactions. Revenues for 1996 included $3.0 million for licensing of intellectual property related to anti-CD20 antibodies to Genentech, and for 1995 included $0.8 million in partial consideration for the sale of the Company's T cell receptor technology.

Costs and Expenses

In 1997, research and development expenses increased by $3.5 million, (13%) versus 1996, following a $4.3 million (19%) increase from 1995 to 1996. These increases reflect higher spending on clinical trials and preparing for regulatory applications and inspections for Neuprex(TM) and the initiation of development work and clinical trials for hu1124. The Company anticipates research and development expenditures to continue at similar or higher levels throughout 1998.

General and administrative expenses increased by $0.2 million (4%) from 1996 to 1997, following an increase of $0.1 million (1%) from 1995 to 1996.

Annual investment income has essentially remained unchanged through the period 1995 - 1997, as improved average cash balances each successive year have been offset by lower prevailing interest rates. Other expense in 1997 included interest on the convertible notes due to Genentech in 2005, which accrues interest at six-months LIBOR plus 1%. Interest expense in 1996 included interest on the Genentech note and also on the Company's 4% Convertible Subordinated Debentures.

Other Income (Expense) in 1996 included a provision of $2.5 million for legal fees and settlement costs reflecting an agreement reached with plaintiff's attorney in a class action law suit. An offsetting gain of $0.3 million was realized in 1997 reflecting an adjustment to the value of the settlement. Other Income in 1995 included a one-time gain of $1.9 million related to a modification of the funding arrangement with Pfizer for the E5(R) clinical trial and a write-down of property and equipment. Due to the termination of E5(R) development, the contingent $22.4 million liability to Pfizer has been eliminated.

Liquidity and Capital Resources

Cash, cash equivalents and short-term investments increased by $8.2 million to $55.1 million at December 31, 1997. Financing activities of $21.7 million included a $30.0 million advance from Genentech under a long-term credit arrangement to fund 1998 development costs of hu1124, and $12.1 million net proceeds from a private placement partially offset by principal payments under capital lease obligations. The Company's cash, cash equivalents and short-term investments are expected to continue to decrease while the Company pursues FDA licensure, except to the extent the Company is able to secure additional funding.

Net cash used in operating activities was $12.0 million in 1997, compared with $22.4 million in 1996 and $24.7 million in 1995. The improvement in operating cash flows in 1997 and 1996 is due primarily to cash from licensing transactions, which there can be no assurance will continue. Capital expenditures for 1997, 1996 and 1995 were $1.5 million, $1.1 million and $0.4 million, respectively. A second 2750-liter fermentor train was added to XOMA's
Berkeley facility in 1997 to provide additional capacity for Neuprex(TM) and hu1124. The Company intends to continue to fund capital spending from internal cash resources supplemented by capital financing where appropriate and available.

The Company's cash position and resulting investment income are sufficient to finance the Company's currently anticipated needs for operating expenses, working capital, equipment and current research projects, for in excess of one year. The Company continues to evaluate strategic alliances, potential partnerships and financing arrangements which would further strengthen its competitive position and provide additional funding. The Company cannot predict whether or when any such alliance(s), partnership(s) or financing(s) will be consummated or whether additional funding will be available when required.

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

The Company is currently reviewing its computer systems in order to evaluate necessary modifications for the year 2000. The Company does not currently anticipate that it will incur material expenditures to complete any such modifications. The Company can provide no assurance that there will be no year 2000 impact through third parties, such as suppliers of raw materials for manufacturing and clinical research organizations.

Forward-Looking Statements

Certain statements contained herein that are not related to historical facts may constitute "forward-looking" information, as that term is defined in the Private Securities Litigation Reform Act of 1995. Such statements are based on the Company's current beliefs as to the outcome and timing of future events, and actual results may differ materially from those projected or implied in the forward-looking statements. Further, certain forward-looking statements are based upon assumptions of future events which may not prove accurate. The forward-looking statements involve risks and uncertainties including, but not limited to, results of pending or future clinical trials, actions by the U.S. Food and Drug Administration, changes in the status of the Company's collaborative relationships, and future actions by the U.S. Patent and Trademark Office, as well as more general risks and uncertainties related to regulatory approvals, product efficacy and development, the Company's financing needs and opportunities, scale-up and marketing capabilities, intellectual property protection, competition, stock price volatility and other risk factors referred to herein and in other of the Company's Securities and Exchange Commission filings.

Item 7a. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable until the Company's 1998 fiscal year.

Item 8. Financial Statements and Supplementary Data

The following consolidated financial statements of the registrant, related notes, and report of independent public accountants are set forth beginning on page 21 of this report.

Report of Independent Public Accountants
Balance Sheets
Statements of Operations
Statements of Stockholders' Equity
Statements of Cash Flows
Notes to Financial Statements

Item 9. Change in Accountants

On March 19, 1998, the Company appointed Ernst & Young, LLP ("Ernst & Young") to serve as the Company's independent accountants for 1998, the ratification of which appointment will be submitted to the stockholders at the Company's 1998 annual meeting.

From fiscal 1983 through fiscal 1997, Arthur Andersen, LLP ("Arthur Andersen") acted as the Company's independent accountants. Arthur Andersen was dismissed on March 19, 1998. The decision to change accountants was approved by the audit committee of the Board of Directors. The reports of Arthur Andersen on the financial statements of the Company for the two most recent fiscal years did not contain any adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles. During the Company's two most recent fiscal years and all subsequent interim periods preceding such dismissal, there were no disagreements with Arthur Andersen on
any matter of accounting principles or practices, financial statement
disclosure, or auditing scope or procedure, which disagreements, if not resolved
to the satisfaction of Arthur Andersen, would have caused it to make a reference
to the subject matter of disagreements in connection with its reports; nor has
Arthur Andersen ever presented a written report, or otherwise communicated in
writing to the Company or Board of Directors or the audit committee thereof the
existence of any "disagreement" or "reportable event" within the meaning of Item
304 of Regulation S-K.

The Company has authorized Arthur Andersen to respond fully to the
inquiries of Ernst & Young. The letter from Arthur Andersen addressed to the
Securities and Exchange Commission (the "SEC"), as required by Item 304 (a) (3)
of Regulation S-K, will be filed as an exhibit to this Annual Report on Form
10-K by amendment.

16

PART III

Item 10. Directors and Executive Officers of the Registrant

The section labeled "Proposal 1 -- Election of Directors" appearing in the
Company's proxy statement for the 1998 annual meeting of stockholders is
incorporated herein by reference. Information concerning the Company's executive
officers is set forth in Part I of this Report on Form 10-K.

Item 11. Executive Compensation

The section labeled "Compensation of Executive Officers" appearing in the
Company's proxy statement for the 1998 annual meeting of stockholders is
incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The section labeled "Stock Ownership" appearing in the Company's proxy
statement for the 1998 annual meeting of stockholders is incorporated herein by
reference.

Item 13. Certain Relationships and Related Transactions

The section labeled "Certain Transactions" appearing in the Company's proxy
statement for the 1998 annual meeting of stockholders is incorporated herein by
reference.

17

PART IV

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

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

(1) Financial Statements:

All financial statements of the registrant referred to in
Item 8 of this Report on Form 10-K.

(2) Financial Statement Schedules:

All financial statements schedules have been omitted because
the required information is included in the financial
statements or the notes thereto or is not applicable or
required.

(3) Exhibits:

See "Index to Exhibits".

(b) Reports on Form 8-K.

Current Report on Form 8-K filed with the SEC on August 18, 1997.
SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 19th day of March, 1998.

XOMA CORPORATION

By /s/ JOHN L. CASTELLO
--------------------------------------
John L. Castello,
Chairman of the Board, President
and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<TABLE>
<CAPTION>
Signature                                   Title                                 Date
- ---------                                   -----                                 ----
<s>                                         <C>                                   <C>
/s/ JOHN L. CASTELLO                        Chairman of the Board, President      March 19, 1998
- -----------------------------               and Chief Executive Officer
/s/ PATRICK J. SCANNON                      Chief Scientific and Medical          March 19, 1998
- -----------------------------               Officer and Director
/s/ PETER B. DAVIS                          Vice President, Finance and Chief      March 19, 1998
- -----------------------------               Financial Officer (Principal
                                          Financial and Accounting Officer)
/s/ JAMES G. ANDRESS                        Director                              March 19, 1998
- -----------------------------               (James G. Andress)
/s/ WILLIAM K. BOWES, JR.                   Director                              March 19, 1998
- -----------------------------               (William K. Bowes, Jr.)
/s/ ARTHUR KORNBERG                        Director                              March 19, 1998
- -----------------------------               (Arthur Kornberg)
/s/ STEVEN C. MENDELL                       Director                              March 19, 1998
- -----------------------------               (Steven C. Mendell)
/s/ W. DENMAN VAN NESS                      Director                              March 19, 1998
- -----------------------------               (W. Denman Van Ness)
</TABLE>

INDEX TO FINANCIAL STATEMENTS

<table>
<thead>
<tr>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Report of Independent Public Accountants................</td>
<td>21</td>
</tr>
<tr>
<td>Balance Sheets...........................................</td>
<td>22</td>
</tr>
<tr>
<td>Statements of Operations..................................</td>
<td>23</td>
</tr>
<tr>
<td>Statements of Stockholders' Equity.......................</td>
<td>24</td>
</tr>
<tr>
<td>Statements of Cash Flows..................................</td>
<td>25</td>
</tr>
<tr>
<td>Notes to Financial Statements............................</td>
<td>26</td>
</tr>
</tbody>
</table>

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To XOMA Corporation:
We have audited the accompanying balance sheets of XOMA Corporation (a Delaware corporation) as of December 31, 1997 and 1996 and the related statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of XOMA Corporation as of December 31, 1997 and 1996, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

San Francisco, California ARTHUR ANDERSEN LLP
February 3, 1998

<TABLE>
<CAPTION>
XOMA CORPORATION
BALANCE SHEETS
(In thousands, except par and share amounts)

ASSETS

<table>
<thead>
<tr>
<th></th>
<th>December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1997</td>
</tr>
<tr>
<td>CURRENT ASSETS:</td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$37,225</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>17,921</td>
</tr>
<tr>
<td>Related party receivables</td>
<td>263</td>
</tr>
<tr>
<td>Other receivables</td>
<td>88</td>
</tr>
<tr>
<td>Prepaid expenses and other</td>
<td>142</td>
</tr>
<tr>
<td>Total current assets</td>
<td>55,639</td>
</tr>
<tr>
<td>NON-CURRENT ASSETS:</td>
<td></td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>4,442</td>
</tr>
<tr>
<td>Assets held for sale</td>
<td>131</td>
</tr>
<tr>
<td>Deposits and other</td>
<td></td>
</tr>
<tr>
<td>Total non-current assets</td>
<td>$64,776</td>
</tr>
</tbody>
</table>

LIABILITIES AND STOCKHOLDERS' EQUITY

|                |       |       |
| CURRENT LIABILITIES: |      |      |
| Accounts payable | $1,644 | $1,778 |
| Accrued liabilities | 6,412 | 6,144 |
| Capital lease obligations due within one year | 707  | 489  |
| Total current liabilities | 8,763 | 8,411 |
| NON-CURRENT LIABILITIES: |      |      |
| Capital lease obligations due after one year | --   | 703  |
| Convertible notes | 24,773 | 13,813 |
| Total non-current liabilities | 24,773 | 14,516 |
| COMMITMENTS AND CONTINGENCIES (Note 6) |      |      |
| STOCKHOLDERS' EQUITY: |      |      |
| Preferred stock, $.05 par value, 1,000,000 shares authorized, 1,167 and 0 outstanding (liquidation preference $11,670 and $0) at December 31, 1997 and 1996, respectively | --   | --   |
| Common stock, $.0005 par value, 70,000,000 shares authorized, 39,891,104 and 39,605,275 outstanding at |      |      |
XOMA CORPORATION

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

<table>
<thead>
<tr>
<th>Years ended December 31</th>
<th>1997</th>
<th>1996</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>REVENUES:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product sales and royalties</td>
<td>$56</td>
<td>$61</td>
<td>$87</td>
</tr>
<tr>
<td>Research and development fees</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collaborative agreements</td>
<td>$250</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>License fees</td>
<td>18,077</td>
<td>3,543</td>
<td>1,078</td>
</tr>
<tr>
<td>Total revenues</td>
<td>18,383</td>
<td>3,604</td>
<td>1,165</td>
</tr>
<tr>
<td>OPERATING COSTS AND EXPENSES:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research and development</td>
<td>29,878</td>
<td>26,371</td>
<td>22,086</td>
</tr>
<tr>
<td>General and administrative</td>
<td>5,674</td>
<td>5,455</td>
<td>5,383</td>
</tr>
<tr>
<td>Total operating costs and expenses</td>
<td>35,552</td>
<td>31,826</td>
<td>27,469</td>
</tr>
<tr>
<td>Loss from operations</td>
<td>(17,169)</td>
<td>(28,222)</td>
<td>(26,304)</td>
</tr>
<tr>
<td>OTHER INCOME (EXPENSE):</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment income</td>
<td>2,120</td>
<td>2,011</td>
<td>1,934</td>
</tr>
<tr>
<td>Litigation settlement</td>
<td>--</td>
<td>(2,500)</td>
<td>--</td>
</tr>
<tr>
<td>Other income(expense)</td>
<td>(716)</td>
<td>(399)</td>
<td>1,898</td>
</tr>
<tr>
<td>Net loss</td>
<td>(15,765)</td>
<td>(29,110)</td>
<td>(22,472)</td>
</tr>
<tr>
<td>BASIC AND DILUTED NET LOSS PER COMMON SHARE</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shares</td>
<td>(0.44)</td>
<td>(0.90)</td>
<td>(0.97)</td>
</tr>
<tr>
<td>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING</td>
<td>39,679</td>
<td>32,493</td>
<td>23,671</td>
</tr>
</tbody>
</table>

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

XOMA CORPORATION

STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

<table>
<thead>
<tr>
<th>Stockholders' Equity</th>
<th>Common Stock</th>
<th>Preferred Stock</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Shares</td>
<td>Amount</td>
</tr>
<tr>
<td></td>
<td>(C)</td>
<td>(C)</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>BALANCE, DECEMBER 31, 1994</td>
<td>22,174 $11</td>
<td>26,836 $14</td>
<td>39,609 $20</td>
<td>39,891 $20</td>
<td>34,748 $14</td>
<td>31,240 $20</td>
</tr>
<tr>
<td>Exercise of stock options</td>
<td>25 --</td>
<td>72 --</td>
<td>53 --</td>
<td>53 --</td>
<td>43 --</td>
<td>31 --</td>
</tr>
<tr>
<td>Contributions to 401(k) and management incentive plans</td>
<td>149 --</td>
<td>90 --</td>
<td>57 --</td>
<td>57 --</td>
<td>57 --</td>
<td>57 --</td>
</tr>
<tr>
<td>Sale of common stock</td>
<td>471 1</td>
<td>2,123 1</td>
<td>7,914 4</td>
<td>2,054 1</td>
<td>10,936 1</td>
<td>3,270 1</td>
</tr>
<tr>
<td>Amortization of deferred compensation</td>
<td>-- --</td>
<td>-- --</td>
<td>-- --</td>
<td>-- --</td>
<td>-- --</td>
<td>-- --</td>
</tr>
<tr>
<td>Sale of preferred stock</td>
<td>-- -- 5</td>
<td>-- -- 7</td>
<td>-- -- 1</td>
<td>-- -- 1</td>
<td>-- -- 1</td>
<td>-- -- 1</td>
</tr>
<tr>
<td>Conversion of preferred stock</td>
<td>4,230 2 (13)</td>
<td>7,914 4 (15)</td>
<td>7,914 4</td>
<td>2,054 1</td>
<td>10,936 1</td>
<td>3,270 1</td>
</tr>
<tr>
<td>Exercise of warrants</td>
<td>1 --</td>
<td>3 --</td>
<td>2 --</td>
<td>2 --</td>
<td>3 --</td>
<td>2 --</td>
</tr>
<tr>
<td>Unrealized gain (loss) on investments</td>
<td>-- --</td>
<td>-- --</td>
<td>-- --</td>
<td>-- --</td>
<td>-- --</td>
<td>-- --</td>
</tr>
<tr>
<td>Dividends on preferred stock</td>
<td>253 --</td>
<td>53 --</td>
<td>53 --</td>
<td>53 --</td>
<td>53 --</td>
<td>53 --</td>
</tr>
<tr>
<td>Net loss</td>
<td>-- --</td>
<td>-- --</td>
<td>-- --</td>
<td>-- --</td>
<td>-- --</td>
<td>-- --</td>
</tr>
<tr>
<td>Conversion of debentures</td>
<td>2,054 1</td>
<td>5,920 1</td>
<td>10,936 1</td>
<td>10,936 1</td>
<td>10,936 1</td>
<td>10,936 1</td>
</tr>
<tr>
<td>Unrealized gain (loss) on investments</td>
<td>-- --</td>
<td>-- --</td>
<td>-- --</td>
<td>-- --</td>
<td>-- --</td>
<td>-- --</td>
</tr>
<tr>
<td>Dividends on preferred stock</td>
<td>253 --</td>
<td>53 --</td>
<td>53 --</td>
<td>53 --</td>
<td>53 --</td>
<td>53 --</td>
</tr>
<tr>
<td>Net loss</td>
<td>-- --</td>
<td>-- --</td>
<td>-- --</td>
<td>-- --</td>
<td>-- --</td>
<td>-- --</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
### XOMA CORPORATION
### STATEMENTS OF CASH FLOWS
**(In thousands)**

<table>
<thead>
<tr>
<th>Years ended December 31,</th>
<th>1997</th>
<th>1996</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CASH FLOWS FROM OPERATING ACTIVITIES:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net loss</td>
<td>$(15,765)</td>
<td>$(29,110)</td>
<td>$(22,472)</td>
</tr>
<tr>
<td>Adjustments to reconcile net loss to net cash used in operating activities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>2,032</td>
<td>2,131</td>
<td>2,920</td>
</tr>
<tr>
<td>Inventory reserve</td>
<td>--</td>
<td>--</td>
<td>4,170</td>
</tr>
<tr>
<td>Write-down of assets held for sale</td>
<td>--</td>
<td>--</td>
<td>2,400</td>
</tr>
<tr>
<td>Deferred compensation expense</td>
<td>--</td>
<td>37</td>
<td>214</td>
</tr>
<tr>
<td>Loss (gain) on retirement of property and equipment</td>
<td>21</td>
<td>2</td>
<td>(145)</td>
</tr>
<tr>
<td>Changes in assets and liabilities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decrease (increase) in related party and other receivables</td>
<td>450</td>
<td>1,742</td>
<td>(2,116)</td>
</tr>
<tr>
<td>Decrease (increase) in prepaid expenses</td>
<td>77</td>
<td>(9)</td>
<td>612</td>
</tr>
<tr>
<td>Decrease (increase) in deposits and other assets</td>
<td>2</td>
<td>--</td>
<td>1,350</td>
</tr>
<tr>
<td>Increase (decrease) in accounts payable</td>
<td>(134)</td>
<td>(342)</td>
<td>705</td>
</tr>
<tr>
<td>Increase (decrease) in accrued liabilities</td>
<td>1,331</td>
<td>3,124</td>
<td>(3,921)</td>
</tr>
<tr>
<td>Increase (decrease) in non-current liabilities</td>
<td>--</td>
<td>--</td>
<td>(8,465)</td>
</tr>
<tr>
<td>Total adjustments</td>
<td>3,779</td>
<td>6,685</td>
<td>(2,276)</td>
</tr>
<tr>
<td>Net cash used in operating activities</td>
<td>(11,986)</td>
<td>(22,425)</td>
<td>(24,748)</td>
</tr>
</tbody>
</table>

| **CASH FLOWS FROM INVESTING ACTIVITIES:** |      |      |      |
| Proceeds from sale of short-term investments | 105,195 | 89,675 | 61,942 |
| Payments for purchase of short-term investments | (77,389) | (129,073) | (31,641) |
| Purchase of property and equipment, net of proceeds | (1,519) | (1,050) | (350) |
| Net cash provided by (used in) investing | 26,287 | (40,448) | 29,951 |

| **CASH FLOWS FROM FINANCING ACTIVITIES:** |      |      |      |
| Proceeds from sale and leaseback | -- | -- | 1,800 |
| Principal payments under capital lease obligations | (485) | (546) | (488) |
| Proceeds from issuance of debentures | 9,992 | 13,545 | 5,858 |
| Proceeds from issuance of common or preferred stock | 12,204 | 30,687 | 4,451 |
| Net cash provided by financing activities | 21,711 | 43,686 | 11,621 |
| Net increase (decrease) in cash and cash equivalents | 36,012 | (19,187) | 16,824 |

| **Cash and cash equivalents at beginning of year** | 1,213 | 20,400 | 3,576 |
| **Cash and cash equivalents at end of year** | $37,225 | $ 1,213 | $20,400 |

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

### 1. OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Business**

XOMA Corporation ("XOMA" or the "Company") is a biopharmaceutical company developing products to treat infections, infectious complications of traumatic...
injury and surgery, and immunologic and inflammatory disorders. The Company’s products are presently in various stages of development and all are subject to regulatory approval before the Company can commercially introduce any products. There can be no assurance that any of the products under development by the Company will be developed successfully, obtain the requisite regulatory approval or be successfully manufactured or marketed.

The Company's cash position and resulting investment income are sufficient to finance the Company's currently anticipated needs for operating expenses, working capital, equipment and current research projects for in excess of one year. The Company continues to evaluate strategic alliances, potential partnerships, and financing arrangements which would further strengthen its competitive position and provide additional funding. The Company cannot predict whether or when any such alliance(s), partnership(s) or financing(s) will be consummated or whether additional funding will be available when required.

Estimates

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

Net Loss Per Common Share

Net loss per common share is based on the weighted average number of common shares outstanding in accordance with Financial Accounting Standard No. 128.

Reconciliation of the numerator and the denominator of basic and diluted net loss per share was derived as follows (in thousands, except per share amounts):

<table>
<thead>
<tr>
<th>Year ended December 31</th>
<th>Loss</th>
<th>Shares</th>
<th>Amount per share</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>&lt;C&gt;</td>
<td>&lt;C&gt;</td>
<td>&lt;C&gt;</td>
</tr>
<tr>
<td>1997</td>
<td>$(15,765)</td>
<td>39,679</td>
<td>$(0.44)</td>
</tr>
<tr>
<td>Net loss</td>
<td>$(15,765)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preferred stock dividends</td>
<td>(1,566)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic and diluted loss available to common shareholders</td>
<td>$(17,331)</td>
<td>39,679</td>
<td>$(0.44)</td>
</tr>
<tr>
<td>1996</td>
<td>$(29,290)</td>
<td>32,493</td>
<td>$(0.90)</td>
</tr>
<tr>
<td>Net loss</td>
<td>$(29,110)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preferred stock dividends</td>
<td>(180)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic and diluted loss available to common shareholders</td>
<td>$(29,290)</td>
<td>32,493</td>
<td>$(0.90)</td>
</tr>
<tr>
<td>1995</td>
<td>$(23,058)</td>
<td>23,671</td>
<td>$(0.97)</td>
</tr>
<tr>
<td>Net loss</td>
<td>$(22,472)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preferred stock dividends</td>
<td>(586)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic and diluted loss available to common shareholders</td>
<td>$(23,058)</td>
<td>23,671</td>
<td>$(0.97)</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Weighted average options for shares of common stock</td>
<td>3,627</td>
<td>3,162</td>
<td>2,992</td>
</tr>
<tr>
<td>Weighted average warrants for shares of common stock</td>
<td>295</td>
<td>29</td>
<td>983</td>
</tr>
<tr>
<td>Common shares issuable to satisfy obligations</td>
<td>344</td>
<td>--</td>
<td>--</td>
</tr>
</tbody>
</table>
Shares of convertible preferred stock 1,167 -- 7,807
Convertible notes, debentures, and related interest $24,773 $13,813 $6,500

Subsequent to December 31, 1997 the Company issued 344,168 shares of common stock in settlement of a securities class action lawsuit (see Note 6).

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Company considers all highly liquid debt instruments with maturities of three months or less at the time the Company acquires them to be cash equivalents, except when such debt instruments are part of a portfolio of investments managed by an independent, outside investment manager, in which case these instruments are classified as short-term investments.

Supplemental Cash Flow Information

Cash paid for interest was $0.1 million, $0.2 million, and $0.1 million during the years ended December 31, 1997, 1996, and 1995, respectively.

In addition, during the years ended December 31, 1997, 1996 and 1995, the Company had the following non-cash financing and investing activities (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th>1996</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock contribution to the 401(k) and management</td>
<td>$319</td>
<td>$395</td>
<td>$434</td>
</tr>
<tr>
<td>Stock issuance cost paid with common or preferred stock (Note 4)</td>
<td>--</td>
<td>--</td>
<td>8</td>
</tr>
<tr>
<td>Unrealized loss (gain) on investments</td>
<td>(42)</td>
<td>(45)</td>
<td>125</td>
</tr>
<tr>
<td>Conversion of debentures to common stock</td>
<td>--</td>
<td>59</td>
<td>--</td>
</tr>
<tr>
<td>Conversion of preferred stock to common stock</td>
<td>830</td>
<td>28,807</td>
<td>12,607</td>
</tr>
<tr>
<td>Dividends paid in common stock</td>
<td>15</td>
<td>180</td>
<td>781</td>
</tr>
</tbody>
</table>

Property and Equipment

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

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

<table>
<thead>
<tr>
<th></th>
<th>December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1997</td>
</tr>
<tr>
<td>Equipment</td>
<td>$15,545</td>
</tr>
<tr>
<td>Leasehold and building improvements</td>
<td>14,836</td>
</tr>
<tr>
<td>Construction-in-progress</td>
<td>97</td>
</tr>
<tr>
<td>Less accumulated depreciation and amortization</td>
<td>30,478</td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>$4,564</td>
</tr>
<tr>
<td>Assets held for sale</td>
<td>$4,442</td>
</tr>
</tbody>
</table>

The Company owns a facility originally intended for the production of CD5 Plus(TM) intermediates, which was re-classified as an asset held for sale in 1995 and written down to an estimated realizable value of $4.4 million resulting in a charge to Other income and expense of $2.4 million. The amount the Company will ultimately realize could differ materially from the amount assumed in
arriving at the realizable value.

28

Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th>1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued legal costs</td>
<td>$198</td>
<td>$661</td>
</tr>
<tr>
<td>Accrued dividends</td>
<td>810</td>
<td>586</td>
</tr>
<tr>
<td>Accrued payroll costs</td>
<td>1,986</td>
<td>1,573</td>
</tr>
<tr>
<td>Provision for litigation settlement</td>
<td>2,028</td>
<td>2,500</td>
</tr>
<tr>
<td>Clinical trial costs</td>
<td>1,203</td>
<td>521</td>
</tr>
<tr>
<td>Other</td>
<td>187</td>
<td>303</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$6,412</td>
<td>$6,144</td>
</tr>
</tbody>
</table>

Activities through December 31, 1997 affecting the provision for litigation settlement established in 1996 are as follows (in millions):

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Original amount</td>
<td>$2.5</td>
</tr>
<tr>
<td>Charges against the accrual</td>
<td>0.2</td>
</tr>
<tr>
<td>Adjustment to the accrual</td>
<td>0.3</td>
</tr>
</tbody>
</table>

In December 1997, the Company elected to settle the claim through the issuance of 344,168 shares of common stock which resulted in a $0.3 million reduction in the accrual. The liability was eliminated in January 1998 upon issuance of the shares.

Research and Development Fees

Research and development fees are recognized as revenues as research activities are performed or as development milestones are completed under the terms of research and development agreements. The excess of total research and development expense over revenues recognized under collaborative agreements amounted to $29.9 million, $26.4 million, and $22.1 million for the years 1997, 1996, and 1995, respectively.

Reclassifications

Certain reclassifications have been made to conform the prior years to the 1997 presentation.

New Accounting Standards

In June 1997, the Financial Accounting Standards Board issued a final statement on reporting comprehensive income. The adoption of the standard as required on January 1, 1998 will not have a material impact on the Company's financial statements.

2. CASH, CASH EQUIVALENCtS AND SHORT-TERM INVESTMENTS

On December 31, 1997 and 1996, cash and cash equivalents consisted mostly of money market mutual funds.

The Company follows a policy of investing only in marketable debt securities and holding them to maturity; however, since the Company has from time to time sold certain securities to meet cash requirements or improve investment diversification, the Company's short-term investments have been categorized as available-for-sale.

The aggregate fair values, amortized cost, gross unrealized holding gain, and gross unrealized holding loss of the major types of debt securities at December 31, 1997 were as follows (in millions):

<table>
<thead>
<tr>
<th></th>
<th>Fair Value</th>
<th>Amortized Cost</th>
<th>Gain</th>
<th>Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>&lt;C&gt;</td>
<td>&lt;C&gt;</td>
<td>&lt;C&gt;</td>
<td>&lt;C&gt;</td>
</tr>
</tbody>
</table>
The contractual maturities of the Company's debt securities as of December 31, 1997 were as follows (in millions):

<table>
<thead>
<tr>
<th>Maturity</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1 year</td>
<td>11.4</td>
</tr>
<tr>
<td>From 1 to 2 years</td>
<td>4.0</td>
</tr>
<tr>
<td>More than 2 years</td>
<td>2.5</td>
</tr>
</tbody>
</table>

During the year ended December 31, 1997, gross realized losses on available-for-sale securities were negligible and the net change in the unrealized gain or loss was negligible. Gross realized gains were negligible. Gains and losses are determined on a specific identification basis. As of December 31, 1997, short-term investments included $0.1 million in certificates of deposit which guaranteed a standby letter of credit.

3. RESEARCH AND DEVELOPMENT AGREEMENTS

In April 1996, the Company entered into a collaborative agreement with Genentech, Inc. ("Genentech") to jointly develop hull24 (anti-CD11a), for treatment of psoriasis and for organ transplant rejection. In connection therewith, Genentech purchased 1.5 million shares of common stock for approximately $9 million and has agreed to fund the Company's development costs for hull24 until the completion of Phase II clinical trials through a series of convertible subordinated notes. During 1996, Genentech made loans totaling $13.5 million ($5.0 and $8.5 million, respectively, for funding 1996 and 1997 clinical trials and development costs) to XOMA under this arrangement. An additional loan of $10.0 million was made in December 1997 to fund 1998 costs. Under the terms of the agreement, the Company will scale up and develop hull24 and bring it through Phase II clinical trials. After completion of Phase II trials, Genentech will determine the product's future development strategy.

In May 1996, the Company announced the granting of an exclusive license to Genentech, including a sublicense to IDEC Pharmaceuticals Corporation, to intellectual property covering the therapeutic use of chimeric IgG1 antibodies specific to the CD20 antigen on the surface of human B-cells. The Company received an initial cash payment of $3.0 million and the right to receive royalties on the sale of products employing the anti-CD20 technology that are sold in the United States and in other countries where the Company held relevant patents. In December 1997, the Company assigned the related patents and royalty rights to Pharmaceutical Partners, LLC for $17.0 million and recognized this amount as license fee revenue.

In June 1994, the Company assigned its exclusive worldwide rights in T cell receptor ("TCR") peptide technology to Connetics. The Company received a promissory note in the amount of $1.4 million and warrants to purchase 450,000 shares of Connetics stock, and will receive milestone payments and royalties on product sales. In 1995, the Company received an additional note in the amount of $0.8 million pursuant to the terms of the original assignment. The notes were paid in full in February 1996 and the warrants cancelled.

In 1995, XOMA and Pfizer modified the funding arrangement of the then current E5(R) clinical trial and of certain patent litigation costs. As a result, the Company recorded a $4.3 million gain in Other income.

In June 1997, the Company announced that Pfizer had ended its agreements with the Company relating to monoclonal antibody-based products for the treatment of gram-negative sepsis, which resulted in the elimination of the contingent $22.4 million liability to Pfizer.

XOMA has granted licenses to a number of biotechnology and pharmaceutical companies for use of patented and proprietary technologies relating to a bacterial expression system used to manufacture recombinant pharmaceutical products. Licensees include: Affymax Research Institute, Cantab Pharmaceuticals Research Ltd, Eli Lilly and Company, Enzon, Inc., the Hoechst Group, ICOS Corporation, Pasteur Merieux Serums & Vaccins, and The Pharmacia & Upjohn Group.

4. CAPITAL STOCK

Common Stock

In April 1996, Genentech purchased 1.5 million shares of common stock for approximately $5.90 per share in connection with the collaborative agreement to develop jointly Genentech's anti-CD11a monoclonal antibody product, hull24.

In March 1996, the Company completed a private placement exempt from registration under the Securities Act of 1933 in reliance on Regulation D thereunder, issuing 606,061 shares of Common Stock for net proceeds of $1.9
In June and July 1995, the Company issued 470,859 shares of Common Stock in reliance on Regulation S for net proceeds of $0.7 million.

Preferred Stock

In August 1997, the Company completed a private placement exempt from registration under the Securities Act of 1933 in reliance on Section 4(2) thereof, issuing 1,250 shares in the form of 5% Convertible Preferred Stock, Series G ("Series G Preferred") for proceeds of approximately $12.1 million net of cash issuance costs. The same investors have also committed to provide additional financing of up to $12.5 million at XOMA's option, subject to certain conditions.

Conversions of Series G Preferred will be based on the price of Common Stock at the time of conversion. There is no initial discount on the conversion price, but a discount of 2% will be added for each month the Series G Preferred is held, up to a maximum discount of 14%, for which an additional $1.3 million has been added to dividends and charged to Paid-in capital as of December 31, 1997. No conversions were permitted below a price of $7.80 for the first 60 days. The maximum conversion price for the first six months was $9.10. There are certain restrictions on the volume of sales of underlying Common Stock by the investors. The investors also received three-year warrants to purchase up to a total of 432,000 common shares at a price of $10.00 per share. The additional funding commitment also provides for limits on conversion price and trading, and additional warrants, all based on the market price of Common Stock at the time such funding is provided. Additional warrants to purchase 54,000 common shares at the $10.00 price were issued to the placement agents.

In September 1996, the Company completed a private placement exempt from registration under the Securities Act of 1933 in reliance on Regulation D thereunder, issuing 1,600 shares of its Convertible Preferred Stock, Series F ("Series F Preferred") for proceeds of approximately $15.0 million net of issuance costs. As of December 31, 1996, all of the Series F Preferred, plus accrued dividends, had been converted into 5,269,870 shares of Common Stock.

In March 1996, the Company completed a private placement exempt from registration under the Securities Act of 1933 in reliance on Regulation D thereunder, issuing 5,000 shares of its Convertible Preferred Stock, Series D ("Series D Preferred") for proceeds of $4.8 million net of issuance costs. As of September 30, 1996, all of the Series D Preferred, plus accrued dividends, had been converted into 1,048,610 shares of Common Stock.

In August 1995, the Company issued 4,799 shares of its Convertible Preferred Stock, Series C ("Series C Preferred") to foreign investors in an offering exempt from registration under the Securities Act of 1933 in reliance on Regulation S thereunder. The offering yielded proceeds to the Company of $4.1 million net of issuance costs. As of December 31, 1995, all of the Series C Preferred, plus accrued dividends, had been converted into 2,728,190 shares of Common Stock.

In December 1993, the Company issued 18,775 shares of Senior Convertible Preferred Stock, Series B ("Series B Preferred") to two investors for proceeds of $17.7 million net of issuance costs. Costs of the issue were approximately $1.1 million. An additional 250 shares of Series B Preferred were issued to the placement agent as part of the fee for investment banking services.

In May 1994, the placement agent converted all 250 of its shares of preferred stock into 47,595 shares of Common Stock. The amounts payable as dividends at December 31, 1994 were paid with 252,745 shares of common stock in January of 1995. 7,808 shares of the Series B Preferred had been converted into 1,501,731 shares of Common Stock. The remaining 7,807 shares were converted into 1,648,115 shares of Common Stock in 1996 prior to the June 1996 dividend date.

The Company has authorized 650,000 shares of Series A Cumulative Preferred Stock of which none were outstanding at December 31, 1997, 1996 and 1995. (See "Stockholder Rights Plan", below.)

Convertible Notes and Debentures

Under the arrangement with Genentech (see Note 3) the Company receives funding for development of huL24 in the form of convertible subordinated notes due 2005 at interest rates of LIBOR plus 1% compounded and reset at the end of June and December each year. Interest is payable at maturity. The Company has received $5.0 million and $8.5 million of these loans, respectively, in April and December of 1996, and a further $10.0 million in December 1997. The notes are convertible into one share of Series E Preferred Stock (7,500 shares are so designated) for each $10,000 in notes. The Series E Preferred Stock is convertible into common stock. The cumulative amount of interest accrued was
In November 1995, the Company issued $6.5 million aggregate principal amount of 4% Convertible Subordinated Debentures due in 1998 to foreign investors in an offering exempt from registration under the Securities Act of 1933 in reliance on Regulation S thereunder. The offering yielded net proceeds to the Company of $5.9 million net of issuance costs. During the first quarter of 1996 all of the Debentures, plus accrued interest, were converted into 2,054,224 shares of Common Stock. Unamortized issuance costs of $0.6 million were charged to Paid-in capital in connection with the conversions of the Debentures.

Management Incentive Compensation Plan

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

Awards under the Incentive Plan vest over a three-year period with 50% of each award payable on a date to be determined, expected to be in the first quarter of the following fiscal year, and 25% payable on each of the next two annual distribution dates, so long as the participant continues to participate in the Incentive Plan.

The amounts charged to expense under the Incentive Plan were $0.8 million, $0.7 million and $0.6 million for the plan years 1997, 1996 and 1995 respectively.

Stockholder Rights Plan

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

5. STOCK OPTIONS AND WARRANTS

At December 31, 1997, the Company had three stock-based compensation plans, which are described below. The aggregate number of shares of Common Stock that may be issued under these plans is 5,300,000 shares.

Stock Option Plan

Under the Company's amended 1981 Stock Option Plan (the "Option Plan"), qualified and non-qualified options of the Company's Common Stock may be granted to certain employees and other individuals as determined by the Board of Directors at not less than the fair market value of the stock at the date of grant. Options granted under the Option Plan may be exercised when vested and expire five years and two months to ten years from the date of grant or three months from the date of termination of employment. Options granted generally vest over five years. The Option Plan will terminate on November 15, 2001. As of December 31, 1997, options covering 3,132,386 shares of Common Stock were outstanding under the Option Plan.

Restricted Stock Plan

The Company also has a Restricted Stock Plan (the "Restricted Plan") which provides for the issuance of options or the direct sale of Common Stock to certain employees and other individuals as determined by the Board of Directors at not less than 85% of fair market value of the Common Stock on the grant date. Each option issued under the Restricted Plan will be a non-statutory option under the federal tax laws and will have a term not in excess of ten years from the grant date. Options granted generally vest over five years. The Restricted
Plan will terminate on December 15, 2003.

The Company has granted options with exercise prices at 85% of fair market value on the date of grant. Up to 1,200,000 shares are authorized for issuance under the Restricted Plan. As of December 31, 1997, options covering 537,479 shares of Common Stock were outstanding under the Restricted Plan.

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

Directors Stock Option Plan

In 1992, the stockholders approved a Directors Stock Option Plan (the "Directors Plan") which provides for the issuance of options to purchase shares of Common Stock to non-employee directors of the Company at 100% of the fair market value of the stock on the date of the grant. Up to 150,000 shares are authorized for issuance during the term of the Directors Plan. Options vest on the date of grant and have a term of up to ten years. As of December 31, 1997, options for 50,000 shares of Common Stock were outstanding under the Directors Plan.

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

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th>1996</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net loss</td>
<td>$(17,639)</td>
<td>$(30,213)</td>
<td>$(23,953)</td>
</tr>
<tr>
<td>Net loss per share</td>
<td>$(0.48)</td>
<td>$(0.94)</td>
<td>$(1.04)</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th>1996</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend yield</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Expected volatility</td>
<td>71%</td>
<td>73%</td>
<td>73%</td>
</tr>
<tr>
<td>Risk-free interest rate</td>
<td>6.3%</td>
<td>5.2%</td>
<td>7.6%</td>
</tr>
<tr>
<td>Expected life</td>
<td>7 years</td>
<td>7 years</td>
<td>6 years</td>
</tr>
</tbody>
</table>

A summary of the status of the Company's stock option plans as of December 31, 1997, 1996, and 1995, and changes during years ending on those dates is presented below:

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th>1996</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding at beginning of year</td>
<td>3,196,150</td>
<td>2,847,017</td>
<td>3,000,692</td>
</tr>
<tr>
<td>Granted</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1)</td>
<td>1,750</td>
<td>2,500</td>
<td>34,000</td>
</tr>
<tr>
<td>(2)</td>
<td>671,000</td>
<td>499,750</td>
<td>2,204,605</td>
</tr>
<tr>
<td>(3)</td>
<td>--</td>
<td>--</td>
<td>1,250</td>
</tr>
</tbody>
</table>

34
The following table summarizes information about stock options outstanding at December 31, 1997:

<table>
<thead>
<tr>
<th>Range of Exercise Prices</th>
<th>Options Outstanding</th>
<th>Options Exercisable</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1.70 - 2.38</td>
<td>329,646</td>
<td>184,472</td>
</tr>
<tr>
<td>2.55 - 3.81</td>
<td>1,561,058</td>
<td>1,193,839</td>
</tr>
<tr>
<td>4.06 - 5.94</td>
<td>620,413</td>
<td>281,273</td>
</tr>
<tr>
<td>6.06 - 7.50</td>
<td>976,083</td>
<td>472,739</td>
</tr>
<tr>
<td>7.56 - 13.25</td>
<td>75,700</td>
<td>28,033</td>
</tr>
<tr>
<td>16.36 - 22.75</td>
<td>154,965</td>
<td>154,965</td>
</tr>
<tr>
<td>26.50 - 26.50</td>
<td>2,000</td>
<td>2,000</td>
</tr>
<tr>
<td>$1.70 - 26.50</td>
<td>3,719,865</td>
<td>2,317,321</td>
</tr>
</tbody>
</table>

* Weighted-average Remaining Contractual Life
** Weighted-average Exercise Price
Due to the termination of E5(R) development in mid-1997, the contingent
$22.4 million in future reduced royalties from Pfizer has been eliminated.

Collaborative Agreements and Royalties

As of December 31, 1997, the Company has commitments under research
agreements with universities and other research institutions that require the
Company to fund research in the amount of $0.1 million through August 1998.
Research and development expenses include research agreement expenses of
approximately $0.2 million, $0.3 million, and $0.4 million for the years ended
December 31, 1997, 1996 and 1995, respectively. The Company is also obligated to
pay royalties, ranging generally from 1.5% to 5% of the selling price of the
licensed component and up to 25% of sublicense fee income, to various
universities and other research institutions based on future sales or licensing
of products that incorporate certain products and technologies developed by
those institutions.

Leases

As of December 31, 1997, the Company leased administrative, research
facilities, certain laboratory and office equipment under operating and capital
leases expiring on various dates through 2008.

<table>
<thead>
<tr>
<th>Future minimum lease commitments are as follows (in thousands):</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Leases</td>
</tr>
<tr>
<td>----------------</td>
</tr>
<tr>
<td>1998</td>
</tr>
<tr>
<td>1999</td>
</tr>
<tr>
<td>2000</td>
</tr>
<tr>
<td>2001</td>
</tr>
<tr>
<td>2002</td>
</tr>
<tr>
<td>Thereafter</td>
</tr>
<tr>
<td>Net minimum lease payments</td>
</tr>
<tr>
<td>Less--Amount representing interest expense</td>
</tr>
<tr>
<td>Present value of net minimum lease payments</td>
</tr>
<tr>
<td>Less--Current maturities</td>
</tr>
<tr>
<td>Long-term capital lease obligations</td>
</tr>
</tbody>
</table>

Total rental expense was approximately $2.0 million, $2.0 million, and $2.3
million for the years ended December 31, 1997, 1996, and 1995, respectively.

Legal Proceedings

In the securities class action lawsuit Warshaw, et al. v. XOMA Corporation,
et al., the defendants and plaintiffs reached an agreement on March 14, 1997 to
settle all claims for $3.75 million in cash and $2.25 million in Common Stock.
By order entered September 8, 1997, the United States District Court for the
Northern District of California approved the settlement. All of the cash portion
of the settlement has been paid by insurance into a settlement fund administered
by an escrow agent. The claims administration process was deemed complete as of
December 16, 1997, and on January 7, 1998, XOMA directed its stock transfer
agent to issue and distribute to authorized claimants 344,168 shares of Common
Stock in accordance with the terms of the court-approved settlement agreement.

Liability Insurance

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

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

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

<table>
<thead>
<tr>
<th>1997</th>
<th>1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property and equipment $2.3</td>
<td>$2.3</td>
</tr>
<tr>
<td>Purchased technology 5.0</td>
<td>5.7</td>
</tr>
<tr>
<td>Capitalized R&amp;D expense 62.8</td>
<td>50.8</td>
</tr>
<tr>
<td>Accrued liabilities and other 2.3</td>
<td>1.4</td>
</tr>
<tr>
<td>Net operating loss carryforwards 61.7</td>
<td>66.8</td>
</tr>
<tr>
<td>R&amp;D and other credit carryforwards 14.1</td>
<td>13.0</td>
</tr>
<tr>
<td>Valuation allowance (148.2)</td>
<td>(140.0)</td>
</tr>
<tr>
<td><strong>Total deferred tax asset</strong></td>
<td><strong>--</strong></td>
</tr>
</tbody>
</table>

The net change in the valuation allowance was a $8.2 million and a $13.1 million increase for the years ended December 31, 1997 and 1996, respectively.

XOMA's accumulated federal and state tax net operating losses ("NOLs") and credits as of December 31, 1997 are as follows:

<table>
<thead>
<tr>
<th>Amounts (in millions)</th>
<th>Expiration Dates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal</td>
<td></td>
</tr>
<tr>
<td>NOLs</td>
<td>$186.4</td>
</tr>
<tr>
<td>Credits</td>
<td>10.3</td>
</tr>
<tr>
<td>State</td>
<td></td>
</tr>
<tr>
<td>NOLs</td>
<td>26.5</td>
</tr>
<tr>
<td>Credits</td>
<td>3.8</td>
</tr>
</tbody>
</table>

For the year ended December 31, 1997 the Company had taxable income of $12.5 million and $11.1 million for Federal income tax and State tax, respectively. Except for the impact of Federal alternative minimum tax, which was not material, these taxable income amounts were offset by NOL and tax credit carryforwards. These amounts are subject to audit by federal and state tax authorities and could change.

Certain future changes in the ownership of significant shareholders could limit utilization of the Company's tax NOLs and credits.

8. RELATED PARTY TRANSACTIONS

In 1993, the Company granted a short-term, secured loan to an officer, director and stockholder of the Company.

9. DEFERRED SAVINGS PLAN

Under section 401(k) of the Internal Revenue Code of 1986, the Board of Directors adopted, effective June 1, 1987, a tax-qualified deferred compensation plan for employees of the Company. Participants may make contributions which defer up to 14% of their total salary, up to a maximum for 1997 of $9,500. The Company may, at its sole discretion, make contributions each plan year, in cash or in shares of the Company's Common Stock in amounts which match up to 50% of the salary deferred by the participants. The expense of these contributions was $233,000, $243,000, and $326,000, for the years ended December 31, 1997, 1996 and 1995, respectively.
and First Interstate Bank of California, as Rights Agent, including Certificate of Designation of Preferences and Rights of Series A Cumulative Preferred Stock (Exhibit 1).2

3.4 Certificate of Designation of Preferences and Rights of Senior Convertible Preferred Stock, Series B.

3.5 Certificate of Designation of Preferences and Rights of Convertible Preferred Stock, Series C (Exhibit 3.4).3

3.6 Certificate of Designations of Non-Voting Cumulative Convertible Preferred Stock, Series D (Exhibit 4.4).4

3.7 Certificate of Designation of Convertible Preferred Stock, Series E (Exhibit 4.5).4

3.8 Amended Certificate of Designation of Convertible Preferred Stock, Series E (Exhibit 4.7).1

3.9 Certificate of Designations of Non-Voting Cumulative Convertible Preferred Stock, Series F (Exhibit 4.8).1

3.10 Form of Common Stock Purchase Warrant issued in connection with offering of Series F Preferred Stock (Exhibit 4.9).1

3.11 Certificate of Designation of Convertible Preferred Stock, Series G (Exhibit 2).5

3.12 Form of Common Stock Purchase Warrant issued in connection with offering of Series G Preferred Stock (Exhibit 3).5

10.1 1981 Stock Option Plan as amended and restated.

10.1A Form of Stock Option Agreement for 1981 Stock Option Plan.

10.2 Restricted Stock Plan as amended and restated.

10.2A Form of Stock Option Agreement for Restricted Stock Plan.

10.2B Form of Restricted Stock Purchase Agreement for Restricted Stock Plan.

10.3 1985 Non-Qualified Stock Option Plan and form of Stock Option Agreement.

10.3A Form of Assumption Agreement for 1985 Non-Qualified Stock Option Plan.

10.3B Amendment to 1985 Non-Qualified Stock Option Plan.

10.4 1992 Directors Stock Option Plan as amended and restated.

10.4A Form of Stock Option Agreement for 1992 Directors Stock Option Plan (initial grants).

10.4B Form of Stock Option Agreement for 1992 Directors Stock Option Plan (subsequent grants).

10.5 Management Incentive Compensation Plan.

10.6 Form of indemnification agreement for officers.

10.7 Form of indemnification agreement for employee directors.

10.8 Form of indemnification agreement for non-employee directors.

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

10.10 Employment Agreement dated April 1, 1994 between the Company and Peter B. Davis (Exhibit 10.47).6

10.11 Employment Agreement dated March 29, 1997 between the Company and Patrick J. Scannon, M.D., Ph.D.

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

10.13 Lease of premises at Building E at Aquatic Park Center, Berkeley, California dated as of July 22, 1987 and amendment thereto dated as of April 21, 1988.

10.14 Lease of premises at Building C at Aquatic Park Center, Berkeley, California dated as of July 22, 1987 and amendment thereto dated as of
August 26, 1987.


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


10.19 Lease dated October 2, 1992, between the Company and Virginia Merritt, as Trustee of the Bowman Merritt and Virginia Merritt Trust.


10.20 License Agreement dated September 3, 1986 between the Company and the Regents of the University of California (with certain confidential information deleted).

10.21 Research, Development and Option Agreement, License Agreement, Supply Agreement, and Security Agreement all dated as of June 9, 1987 between the Company and Pfizer, Inc. (with certain confidential information deleted).

10.22 Manufacturing Agreement dated as of January 1, 1991 between the Company and Pfizer, Inc.

10.23 Letter Agreement dated July 14, 1993 between the Company and Pfizer, Inc. (with certain confidential information deleted) (Exhibit 10.41).

10.24 Letter Agreement dated November 7, 1995 between the Company and Pfizer, Inc. (with certain confidential information deleted) (Exhibit 10.48).

10.25 Settlement Agreement for Litigation with Centocor dated July 28, 1992 (with certain confidential information deleted).

10.26 Supply Agreement effective February 27, 1989 between the Company and Charles River Biotechnical Services, Inc. (with certain confidential information deleted).

10.26A Amendment Agreement dated as of October 17, 1991 between the Company and Charles River Laboratories, Inc. (with certain confidential information deleted).

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

10.28 Amended and Restated Research and License Agreement dated September 1, 1993 between the Company and New York University (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission).

10.28A Third Amendment to License Agreement dated June 12, 1997 between the Company and New York University (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission).

10.29 Cross License Agreement dated December 15, 1993 between Research Development Foundation and the Company (with certain confidential information deleted) (Exhibit 10.42).

10.30 Cross License Agreement dated December 15, 1993 between the Company and Research Development Foundation (with certain confidential information deleted) (Exhibit 10.43).

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

10.32 Collaboration Agreement, dated as of April 22, 1996, between the Company and Genentech, Inc. (with certain confidential information omitted, which omitted information is the subject of a confidential treatment
10.33   Common Stock and Convertible Note Purchase Agreement, dated as of April 22, 1996, between the Company and Genentech, Inc. (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 10.2).1

10.33   Convertible Subordinated Note Agreement, dated as of April 22, 1996, between the Company and Genentech, Inc. (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 10.3).1

10.33A  Amendment to Convertible Subordinated Note Agreement, dated as of June 13, 1996, between the Company and Genentech, Inc. (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 10.4).1

10.34   Form of Preferred Stock Subscription Agreement by and between the Company and the purchasers of Series F Preferred Stock (Exhibit 10.5).1

10.35   Form of Registration Rights Agreement by and between the Company and the purchasers of Series F Preferred Stock (Exhibit 10.6).1

10.36   Form of Convertible Preferred Stock Purchase Agreement by and between the Company and the purchasers of Series G Preferred Stock (Exhibit 4).5

10.37   Form of Registration Rights Agreement by and between the Company and the purchasers of Series G Preferred Stock (Exhibit 5).5

10.38   Patent and Exclusive License Purchase Agreement by and between Pharmaceutical Partners, L.L.C. and the Company dated as of December 30, 1997 (Exhibit 2).8

16.1    Letter re: change of certifying accountant.9

23.1    Consent of Independent Public Accountants.

27.1    Financial Data Schedule.

Footnotes

1    Incorporated by reference to the referenced exhibit to the Company's Registration Statement on Form S-3 filed June 28, 1996 (File No. 333-07263).

2    Incorporated by reference to the referenced exhibit to the Company's Current Report on Form 8-K dated October 27, 1993 (File No. 0-14710).

3    Incorporated by reference to the referenced exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1995 (File No. 0-14710).

4    Incorporated by reference to the referenced exhibit to the Company's Registration Statement on Form S-3 filed April 12, 1996 (File 333-02493).

5    Incorporated by reference to the referenced exhibit to the Company's Current Report on Form 8-K dated August 13, 1997 (File No. 0-14710).

6    Incorporated by reference to the referenced exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1994 (File No. 0-14710).

7    Incorporated by reference to the referenced exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1993 (File No. 0-14710).

8    Incorporated by reference to the referenced exhibit to the Company's Current Report on Form 8-K dated December 30, 1997 (File No. 0-14710).
To be filed by amendment.
Xoma Corporation, a corporation organized and existing under the laws of the State of Delaware, hereby certifies as follows:

1. The name of the corporation is XOMA CORPORATION. This name was adopted on May 14, 1981. Previously the Corporation had been called Zoma corporation. The original Certificate of Incorporation of the Corporation was filed with the Secretary of State of Delaware on February 24, 1981.

2. This Restated Certificate of Incorporation ("Certificate") was duly adopted by the Board of directors of the Corporation on December 18, 1986, and approved by the stockholders of the Corporation at the Corporation's Annual Meeting of Stockholders on May 13, 1987 in accordance with the provisions of Sections 242 and 245 of the General Corporation Law of the State of Delaware. The text of the Certificate of Incorporation as amended and restated shall be read in full as follows:

   I.
   NAME

   The name of the Corporation is XOMA CORPORATION.

   II.
   ADDRESS

   The address of its registered office in the State of Delaware is 1209 Orange Street, in the City of Wilmington, County of New Castle. The name of its registered agent at such address is The Corporation Trust Company.

   III.
   BUSINESS

   The nature of the business or purposes to be conducted or promoted is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware. The Corporation is to have perpetual existence.

   IV.
   STOCK STRUCTURE

   The Corporation shall be authorized to issue two classes of stock to be designated, respectively, "preferred stock" and "common stock": the total number of shares of both classes of stock authorized to be issued by the Corporation shall be Twenty-One Million (21,000,000) shares. Such shares shall have no preemptive or preferential rights of subscription concerning further issuance or authorization of any of the Corporation's shares.

   A. Common Stock

   The total number of shares of common stock authorized to be issued by the corporation shall be Twenty million (10,000,000) shares and each such share of common stock shall have a par value of $.0005. The common stock may be issued from time to time in one or more series.

   B. Preferred Stock

   The total number of shares of preferred stock authorized to be issued by the corporation shall be One Million (1,000,000) shares and each such share of preferred stock shall have a par value of $.05. The number of authorized shares of preferred stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the shares of preferred stock and common stock then outstanding, voting as a single class.

   V.
   RIGHTS, PREFERENCES, PRIVILEGES AND RESTRICTIONS OF PREFERRED STOCK

   The preferred stock may be issued from time to time in one or more series consisting of such number of shares (which number may be increased or decreased, but not below the number of shares thereof then outstanding) and with such distinctive serial designations as shall be stated and expressed in the resolution or resolutions creating such series adopted by the Board of Directors; and such series (a) may have such voting powers, full or limited, or may be without voting powers; (b) may be redeemable for cash, property or rights, and with such adjustment; (c) may be entitled to receive dividends (which may be cumulative or non-cumulative) at such rate or rates, on such
conditions, and at such times, and payable in preference and priority to the common stock and on a par with, or in such relation to, the dividends payable on any other class or classes or series of stock (but not in preference or priority to the preferred stock); (d) may have such rights upon the dissolution of, or upon any distribution of the assets of, the corporation, including the right to receive such distribution in preference to the common stock, and on a par with, or in such relation to, the distribution to any other class or classes or series of stock (but not in preference or priority to the preferred stock); (e) may be made convertible into, or exchangeable for, at the option of either the holder or the Corporation or upon the happening of a specified event, shares or any other class or classes or any other series or the same or any other class or classes of stock of the corporation, at such price or prices or at such rate or rates of exchange, and with such adjustment; and (f) may have such other powers, preferences and relative, participating, optional or special rights and qualifications, limitations or restrictions thereof, all as shall hereafter be stated and expressed in the resolution or resolutions providing for the creation of each such series of preferred stock from time to time adopted by the Board of Directors.

VI. LIMITATION ON DIRECTOR LIABILITY

A Director of this Corporation shall not be personally liable to this Corporation or its stockholders for monetary damages for breach of fiduciary duty as a Director, except for liability (i) for any breach of the director's duty of loyalty to this corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which the Director derived any improper personal benefit. If the Delaware General Corporation law is hereafter amended to authorize, with the approval of a corporation's stockholders, further reductions in the liability of the corporation's directors for breach of fiduciary duty, then a Director of this Corporation shall not be liable for any such breach to the fullest extent permitted by the Delaware General Corporation Law as so amended. Any repeal or modification of the foregoing provisions of this Article Sixth by the stockholders of this Corporation existing at the time of such repeal or modification.

A-2

VII. BYLAWS

In furtherance and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized to make, alter, or repeal the bylaws of the Corporation.

Elections of directors need not be by written ballot unless the bylaws of the Corporation shall so provide.

Meetings of stockholders may be held within or without the State of Delaware, as the bylaws may provide. The books of the Corporation may be kept (subject to any provision contained in the statutes) outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the bylaws of the Corporation.

VIII. AMENDMENT OF CERTIFICATE OF INCORPORATION

Subject to the provision of Section 242 of the General Corporation Law of the State of Delaware, the Corporation reserves the right to amend, alter, change, or repeal any provision contained in this Certificate in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

IN WITNESS WHEREOF, XOMA CORPORATION has caused its corporate seal to be hereunto affixed and this Certificate to be signed by Steven C. Mendell, its Chairman of the Board of Directors and Chief Executive officer, and attested by David G. Koncelik, its Secretary, this 7 day of April, 1988.

XOMA CORPORATION

By /s/ Steven C. Mendell
Steven C. Mendell
Chairman of the Board of Directors and Chief Executive Officer

Attest: /s/ David G. Koncelik
David C. Koncelik, Secretary
CERTIFICATE OF OWNERSHIP AND MERGER
MERGING
INTERNATIONAL GENETIC ENGINEERING, INC.
INTO
XOMA CORPORATION

XOMA CORPORATION, a corporation organized and existing under the laws of
the State of Delaware,

DOES HEREBY CERTIFY:

FIRST: That this corporation was incorporated on the 24th day of February,
1981, pursuant to the General Corporation Law of the State of Delaware.

SECOND: That this corporation owns all of the outstanding shares of the
stock of International Genetic Engineering, Inc., a corporation incorporated on
the 17th day of December, 1980, pursuant to the General Corporation Law of the
State of California.

THIRD: That this corporation, by the following resolutions of its Board of
Directors, duly adopted by the unanimous written consent of its members, filed
with the minutes of the Board of Directors, determined to and did merge into
itself said International Genetic Engineering, Inc.:

RESOLVED, that XOMA Corporation merge Inter national Genetic
Engineering, Inc. into itself, and assume all of its obligations; and

FURTHER RESOLVED, that the merger shall be effective upon the date of
filing with the Secretary of State of Delaware; and

RESOLVED FURTHER, that the proper officers of the corporation be and
they hereby are directed to make and execute a Certificate of Ownership and
Merger setting forth a copy of the resolutions to merge International
Genetic Engineering, Inc. and assume its liabilities and obligations, and
the date of adoption thereof, and to cause the same to be filed with the
Secretary of State and a certified copy recorded in the office of the
Recorder of Deeds of new Castle County and to do all acts and things
whatsoever, whether within or without the State of Delaware, which may be
in any way necessary or proper to effect said merger.

FOURTH: Anything herein or elsewhere to the contrary notwithstanding this
merger may be amended or terminated and abandoned by the board of directors
of XOMA Corporation at any time prior to the date of filing the merger with the
Secretary of State.

IN WITNESS WHEREOF, XOMA Corporation has caused this certificate to be
signed by Steven C. Mendell, its Chairman of the Board and chief Executive
officer, and attested by Martin H. Goldstein, its Vice President, General
Counsel and Secretary, this 15th day of May, 1990.

XOMA CORPORATION
By /s/ Steven C. Mendell
Steven C. Mendell,
Chairman of the Board and
Chief Executive Officer

ATTEST:
By /s/ Martin H. Goldstein
Martin H. Goldstein
Vice President, General
Counsel and Secretary

STATE OF DELAWARE
SECRETARY OF STATE
DIVISION OF CORPORATIONS
FILES 04:30 PM 02/22/191
731053049 - 908874
BK 1122 PG 0111

CERTIFICATE OF AMENDMENT OF
RESTATED CERTIFICATE OF INCORPORATION OF
XOMA CORPORATION

XOMA Corporation, a corporation organized and existing under and by virtue
of the General Corporation Law of the State of Delaware (the "Corporation"),
does hereby certify:

FIRST: That the Board of Directors of the Corporation, at a meeting duly
held, adopted the following resolution:

RESOLVED: that this Board deems it advisable to amend, and hereby does
amend, Article IV of the Corporation's Restated Certificate of Incorporation to
read in its entirety as follows:

IV
STOCK STRUCTURE

The Corporation shall be authorized to issue two classes of stock to be
designated, respectively, "preferred stock" and "common stock"; the
total number of shares of both classes of stock authorized to be issued
by the Corporation shall have no preemptive or preferential rights of
subscription concerning further issuance or authorization of any of the
Corporation's shares.

A. Common Stock.

The total number of shares of common stock authorized to be issued by
the Corporation shall be Forty Million (40,000,000) shares and each
such share of common stock shall have a par value of $.0005. The common
stock may be issued from time to time in one or more series.

B. Preferred Stock.

The total number of shares of preferred stock authorized to be issued
by the Corporation shall be One Million (1,000,000) shares and

- 1 -

each such share of preferred stock shall have a par value of $.05. The
number of authorized shares of preferred stock may be increased or
decreased (but not below the number of shares thereof then outstanding)
by the affirmative vote of the holders of a majority of the shares of
preferred stock and common stock then outstanding, voting as a class."

SECOND: That said amendment has been duly adopted by the stockholders of
this Corporation at a meeting duly held in accordance with the applicable
provisions of Sections 222 and 242 of the General Corporation Law of the State
of Delaware.

THIRD: That said amendment has been duly adopted in accordance with the
applicable provisions of Section 242 of the General Corporation Law of the State
of Delaware.

IN WITNESS WHEREOF, XOMA Corporation has caused this Certificate of
Amendment to be signed by Steven C. Mendell, its Chairman of the Board and Chief
Executive Officer, and Martin H. Goldstein, its Secretary, on this 22nd day of

XOMA CORPORATION

By /s/Steven C. Mendell
Steven C. Mendell
Chairman of the Board
Chief Executive Officer

Attest:

/s/Martin H. Goldstein
Martin H. Goldstein, Secretary

- 2 -
ARTICLE I
OFFICES

Section 1. The registered office shall be in the City of Wilmington, County of New Castle, State of Delaware.

Section 2. The corporation may also have offices at such other places both within and without the State of Delaware as the Board of Directors may from time to time determine or the business of the corporation may require.

ARTICLE II
MEETINGS OF STOCKHOLDERS

Section 1. All meetings of the stockholders, whether for the election of directors or for any other purpose, shall be held at such time and place, either within or without the State of Delaware, as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting or in a duly executed waiver of notice thereof.

Section 2. At annual meetings of stockholders, the stockholders shall elect by a plurality vote a Board of Directors, and transact such other business as may properly be brought before the meeting.

Section 3. Written notice of the annual meeting stating the place, date and hour of the meeting shall be given to each stockholder entitled to vote at such meeting not less than ten (10) nor more than sixty (60) days before the date of the meeting.

Section 4. The officer who has charge of the stock ledger of the corporation shall prepare and make, or cause to be prepared and made, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

Section 5. Special meetings of the stockholders, for any purpose or purposes, unless otherwise prescribed by statute or by the Certificate of Incorporation, may be held at any place, within or without the State of Delaware, and may be called by the Chief Executive Officer and shall be called by the Chief Executive Officer or Secretary at the request in writing of a majority of the Board of Directors. Such request shall state the purpose or purposes of the proposed meeting.

Section 6. Written notice of a special meeting stating the place, date and hour of the meeting and the purpose or purposes for which the meeting is called shall be given not less than ten (10) nor more than sixty (60) days before the date of the meeting, to each stockholder entitled to vote at such meeting.

Section 7. Business transacted at any special meeting of stockholders shall be limited to the purposes stated in the notice.

Section 8. The holders of a majority of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business except as otherwise provided by statute or by the Certificate of Incorporation. If, however, such quorum shall not be present or represented at any meeting of the
stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have the power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally notified. If the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 9. When a quorum is present at any meeting, the vote of the holders of a majority of the stock present in person or represented by proxy and entitled to vote thereat shall decide any question brought before such meeting, unless the question is one upon which by express provision of the statutes or of the Certificate of Incorporation, a different vote is required, in which case such express provision shall govern and control the decision of such question.

Section 10. Unless otherwise provided in the Certificate of Incorporation each stockholder shall at every meeting of the stockholders be entitled to one vote in person or by proxy for each share of the stock entitled to vote thereat held by such stockholder, but no proxy shall be voted on after three years from its date, unless the proxy provides for a longer period.

Section 11. Unless otherwise provided in the Certificate of Incorporation, any action required to be taken at any annual or special meeting of stockholders of the corporation, or any action which may be taken at any annual or special meeting of such stockholders, may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing.

Section 12. At each meeting of stockholders, the chairman of the meeting shall fix and announce the date and time of the opening and the closing of the polls for each matter upon which the stockholders will vote at the meeting and shall determine the order of business and all other matters of procedure. Except to the extent inconsistent with any such rules and regulations as adopted by the Board of Directors, the chairman of the meeting may establish rules to maintain order and safety and for the conduct of the meeting. Without limiting the foregoing, he may:

(a) restrict attendance at any time to bona fide stockholders of record and their proxies and other persons in attendance at the invitation of the chairman;

(b) restrict dissemination of solicitation materials and use of audio or visual recording devices at the meeting;

(c) establish seating arrangements;

(d) adjourn the meeting without a vote of the stockholders, whether or not there is a quorum present; and

(e) make rules governing speeches and debate including time limits and access to microphones.

The chairman of the meeting acts in his absolute discretion and his rulings are not subject to appeal.

Section 13. The Board of Directors, either directly or through its designees, shall, in advance of any meeting of stockholders, appoint one or more inspectors to act at the meeting and make a written report thereof. The Board of Directors may designate one or more persons as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate is able to act at a meeting of stockholders, the chairman of the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before entering upon the discharge of his duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his ability.
The inspectors shall:

(a) ascertain the number of shares outstanding and the voting power of each;
(b) determine the shares represented at a meeting and the validity of proxies and ballots;
(c) count all votes and ballots;
(d) determine and retain for a reasonable period a record of the disposition of any challenges made to any determination by the inspectors; and
(e) certify their determination of the number of shares represented at the meeting, and their count of all votes and ballots.

The inspectors may appoint or retain other persons or entities to assist them in the performance of their duties.

No ballot, proxies or votes, nor any revocations thereof or changes thereto, shall be accepted by the inspectors after the closing of the polls unless the Court of Chancery upon application by a stockholder shall determine otherwise.

In determining the validity and counting of proxies and ballots, the inspectors shall be limited to an examination of the proxies, any envelopes submitted with those proxies, any information provided in accordance with Section 212(c)(2) of the Delaware General Corporation Law, or a comparable provision thereof, as then in effect, ballots and the regular books and records of the corporation, except that the inspectors may consider other reliable information for the limited purpose of reconciling proxies and ballots submitted by or on behalf of banks, brokers, their nominees or similar persons which represent more votes than the holder of a proxy is authorized by the record owner to cast or more votes than the stockholder holds of record. If the inspectors consider other reliable information for the limited purpose permitted herein, they at the time they make their certification shall specify the precise information considered by them including the person or persons from whom they obtained the information, when the information was obtained, the means by which the information was obtained and the basis for the inspectors' belief that such information is accurate and reliable.

ARTICLE III
DIRECTORS

Section 1. The number of directors which shall constitute the whole board shall be eight (8). The directors shall be elected at the annual meeting of the stockholders, except as provided in Section 2 of this Article, and each director elected shall hold office until his successor is elected and qualified, unless sooner removed. Directors need not be stockholders. Nominations for the election of directors may be made by the Board of Directors or a committee or person appointed by the Board of Directors or by any stockholder entitled to vote in the election of directors generally. However, any stockholder entitled to vote in the election of directors generally may nominate one or more persons for election as directors at an annual meeting only pursuant to the corporation's notice of such meeting or if written notice of such stockholder's intent to make such nomination or

nominations has been received by the Secretary of the corporation not less than sixty nor more than ninety days prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is advanced by more than thirty days or delayed by more than sixty days from such anniversary, notice by the stockholder to be timely must be so received not earlier than the ninetieth day prior to such annual meeting and not later than the close of business on the later of (1) the sixtieth day prior to such annual meeting or (2) the tenth day following the day on which notice of the date of the annual meeting was mailed or public disclosure thereof was made by the corporation, whichever first occurs. Each such notice shall set forth:
(a) the name and address of the stockholder who intends to make the nomination and of the person or persons to be nominated; (b) a representation that the stockholder is a holder of record of stock of the corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) relating to the
nomination or nominations; (d) the class and number of shares of the corporation which are beneficially owned by such

stockholder and the person to be nominated as of the date of such stockholder's notice and by any other stockholders known by such stockholder to be supporting such nominee as of the date of such stockholder's notice; (e) such other information regarding each nominee proposed by such stockholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission; and (f) the consent of each nominee to serve as a director of the corporation if so elected. No person shall be eligible for election as a director of the Corporation unless nominated in accordance with the procedures set forth in this Article III, Section 1. The presiding officer of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the procedures prescribed by this Article III, Section 1, and if he or she should so determine, the defective nomination shall be disregarded.

Section 2. Vacancies and newly created directorships resulting from any increase in the authorized number of directors may be filled by a majority of the directors then in office, though less than a quorum, or by a sole remaining director, and the directors so chosen shall hold office until the next annual election and until their successors are duly elected and shall qualify, unless sooner removed. If there are no directors in office, then an election of directors may be held in the manner provided by statute. If, at the time of filling any vacancy or any newly created directorship, the directors then in office shall constitute less than a majority of the whole board (as constituted immediately prior to any such increase), the Court of Chancery may, upon application of any stockholder or stockholders holding at least ten percent (10%) of the total number of the shares at the time outstanding having the right to vote for such directors, summarily order an election to be held to fill any such vacancies or newly created directorships, or to replace the directors chosen by the directors then in the office.

Section 3. The business of the corporation shall be managed by or under the direction of its Board of Directors, which may exercise all such powers of the corporation and do all such lawful acts and things as are not by statute or by the Certificate of Incorporation or by these Bylaws directed or required to be exercised or done by the stockholders.

MEETINGS OF THE BOARD OF DIRECTORS

Section 4. The Board of Directors of the corporation may hold meetings, both regular and special, either within or without the State of Delaware.

Section 5. The first meeting of each newly elected Board of Directors shall be held at such time and place as shall be fixed by the vote of the stockholders at the annual meeting and no notice of such meeting shall be necessary to the newly elected directors in order legally to constitute the meeting, provided a quorum shall be present. In the event of the failure of the stockholders to fix the time or place of such first meeting of the newly elected Board of Directors, or in the event such meeting is not held at the time and place so fixed by the stockholders, the meeting may be held at such time and place as shall be specified in a notice given as hereinafter provided for special meetings of the Board of Directors, or as shall be specified in a written waiver signed by all of the directors.

Section 6. Regular meetings of the Board of Directors may be held without notice at such time and at such place as shall from time to time be determined by the Board of Directors.

Section 7. Special meetings of the Board of Directors may be called by the Chairman of the Board on five days' notice to each director by mail or one day's notice to each director either personally or by telegram or telecopier transmission; special meetings shall be called by the Chairman of the Board or Secretary in like manner and on like notice on the written request of the sole director.
Section 8. At all meetings of the Board of Directors, a majority of directors then in office shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board of Directors, except as may be otherwise specifically provided by statute or by the Certificate of Incorporation. If a quorum shall not be present at any meeting of the Board of Directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

Section 9. Unless otherwise restricted by the certificate of Incorporation or these Bylaws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all members of the Board of Directors or committee thereof, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board of Directors or a committee thereof.

Section 10. Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, members of the Board of Directors, or any committee designated by the Board of Directors, or any committee, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

COMMITTEES OF DIRECTORS

Section 11. The Board of Directors may, by resolution passed by a majority of the whole Board, designate one or more committees, each committee to consist of one or more of the directors of the corporation. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meetings of the committee.

In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member.

Any such committee, to the extent provided in the resolution of the Board of Directors, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the corporation, and may authorize the seal of the corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to: amending the Certificate of Incorporation (except that a committee may, to the extent authorized in the resolution or resolutions providing for the issuance of shares of stock adopted by the Board of Directors as provided in subsection (a) of Section 151 of the Delaware General Corporation Law, or a comparable provision, as then in effect, fix the designations and any of the preferences or rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the corporation or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the corporation or fix the number of shares of any series of stock or authorize the increase or decrease of the shares of any series); adopting an agreement of merger or consolidation under Section 251 or 252 of the Delaware General Corporation Law, or comparable provisions thereof, as then in effect; recommending to the stockholders the sale, lease or exchange of all or substantially all of the corporation's property and assets; recommending to the stockholders a dissolution of the corporation or a revocation of a dissolution; or amending these Bylaws of the corporation; and, unless the resolution or the Certificate of Incorporation expressly so provides, no such committee shall have the power or authority to declare a dividend, to authorize the issuance of stock or to adopt a certificate of ownership and merger pursuant to Section 253 of the Delaware General Corporation Law, or a comparable provision thereof, as then in effect. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the Board of Directors.
Section 12. There shall be a committee of the Board of Directors designated the "Compensation Committee." The Compensation Committee shall be comprised of one or more directors of the corporation. The Compensation Committee shall have the authority as a committee of the Board of Directors as provided in Section 11 including, but not limited to, administering all provisions of the corporation's Stock Option Plan and Restricted Stock Plan (the "Plans"), for so long as the membership of the Compensation Committee meet the requirements of the Plans, and issuing capital stock necessary to perform as the "Committee" and the "Plan Administrator" (as defined in the Plans). The Compensation Committee may administer such other plans as determined and authorized by the Board of Directors from time to time.

Section 13. Each committee shall keep regular minutes of its meetings and report the same to the Board of Directors when required.

COMPENSATION OF DIRECTORS

Section 14. Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, the Board of Directors shall have the authority to fix the compensation of directors. The directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors and may be paid a fixed sum for attendance at each meeting of the Board of Directors and/or a stated salary as director. No such payment shall preclude any director from serving the corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

ARTICLE IV
NOTICES

Section 1. Whenever, under the provisions of the statutes or of the Certificate of Incorporation or of these Bylaws, notice is required to be given to any director or stockholder, it shall not be construed to require personal notice, but such notice may be given in writing, by mail, addressed to such director or stockholder, at his address as it appears on the records of the corporation, with postage thereon prepaid, and such notice shall be deemed to be given at the time when the same shall be deposited in the United States mail. Notice to directors may also be given by telegram or telecopier transmission.

Section 2. Whenever any notice is required to be given under the provisions of the statutes or of the Certificate of Incorporation or of these Bylaws, a waiver thereof in writing, signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto.

Section 3. Timely written notice of any stockholder proposal (including for the election of directors) shall be given to the Board of Directors before any annual meeting of stockholders. To be timely, a stockholder's notice must be received not less than sixty days nor more than ninety days prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is advanced by more than thirty days or delayed by more than sixty days from such anniversary, notice by the stockholder to be timely must be so received not earlier than the ninetieth day prior to such annual meeting and not later than the close of business on the later of (1) the sixtieth day prior to such annual meeting or (2) the tenth day following the date on which notice of the date of the annual meeting was mailed or public disclosure thereof was made, whichever first occurs. Each such notice shall set forth as to each matter the stockholder proposes to bring before the annual meeting: (a) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the meeting, (b) the name and address, as they appear on the corporation's books, of the stockholder proposing such business, (c) the class, series and number of shares of the corporation which are beneficially owned by the stockholder and (d) any material interest of the stockholder in such business. To be properly brought before a special meeting, business must be (i) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors or (ii) otherwise properly brought before the meeting by or at the direction of the Board of Directors. No business shall
be conducted at any meeting of the stockholders except in accordance with the procedures set forth in this Article IV, Section 3. The presiding officer of the meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting and in accordance with the provisions of this Article IV, Section 3, and if he or she should so determine, any such business not properly brought before the meeting shall not be transacted. Nothing herein shall be deemed to affect any right of stockholders to request inclusion of proposals in the corporation’s proxy statement pursuant to Rule 14a-8 under the Securities Exchange Act of 1934, as amended.

ARTICLE V
OFFICERS

Section 1. The officers of the corporation shall be chosen by the Board of Directors and shall be a Chief Executive Officer, a Chairman of the Board, a President, a Secretary and a Treasurer. The Board of Directors may also choose one or more Executive Vice Presidents, Senior Vice Presidents, Vice Presidents, Assistant Secretaries and Assistant Treasurers. Any number of offices may be held by the same person, unless

the Certificate of Incorporation or these Bylaws otherwise provide.

Section 2. The Board of Directors at its first meeting after each annual meeting of stockholders shall choose a Chief Executive Officer, a Chairman of the Board, a President, a Secretary, and a Treasurer.

Section 3. The Board of Directors may appoint such other officers and agents as it shall deem necessary, including, but not limited to, a Chief Operating Officer, a Chief Financial Officer and a General Counsel, all of whom shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board of Directors.

Section 4. The salaries of all officers of the corporation shall be fixed by the Board of Directors.

Section 5. The officers of the corporation shall hold office until their successors are elected and qualify. Any officer elected or appointed by the Board of Directors may be removed at any time by the affirmative vote of a majority of the Board of Directors. Any vacancy occurring in any office of the corporation shall be filled by the Board of Directors.

THE CHIEF EXECUTIVE OFFICER

Section 6. The Chief Executive Officer shall have and may exercise such powers as are, from time to time, assigned to him by the Board of Directors and as may be provided by law, and shall preside at all meetings of the Board of Directors or stockholders in the event that the Chairman of the Board is absent.

Section 7. The Chief Executive Officer may execute bonds, mortgages and other contracts requiring a seal under the seal of the corporation, except where required by law or these Bylaws to be otherwise signed and executed and except where the signing and execution thereof shall be expressly delegated by the Board of Directors to some other officer or agent of the corporation.

THE CHAIRMAN OF THE BOARD

Section 8. The Chairman of the Board shall preside at all meetings of the Board of Directors and of the stockholders. The Chairman of the Board shall have and may exercise such powers as are, from time to time, assigned to him by the Board of Directors and as may be provided by law.

Section 9. The Chairman of the Board may execute bonds, mortgages and other contracts requiring a seal under the

THE PRESIDENT AND VICE PRESIDENTS

Section 10. In the absence of the Chief Executive Officer and the Chairman of the Board, the President shall preside at all meetings of the stockholders and the Board of Directors. In the absence of the Chairman of the Board and the
Chief Executive Officer, or in the event of their inability or refusal to act, the President shall perform the duties of the Chairman of the Board and the Chief Executive Officer and, when so acting, shall have all the powers of and be subject to all the restrictions upon the Chairman of the Board and the Chief Executive Officer. The President shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe.

Section 11. The President may execute bonds, mortgages and other contracts requiring a seal under the seal of the corporation, except where required by law or these Bylaws to be otherwise signed and executed and except where the signing and execution thereof shall be expressly delegated by

the Board of Directors to some other officer or agent of the corporation.

Section 12. In the absence of the President or in the event of his inability or refusal to act, the Executive Vice President, if any (or in the event there be more than one Executive Vice President, the Executive Vice Presidents in the order designated by the Board of Directors, or in the absence of any designation, then in the order of their election), shall perform the duties of the President and, when so acting, shall have all the powers of and be subject to all the restrictions upon the President. In the absence of the President and all the Executive Vice Presidents or in the event of their inability or refusal to act, the Senior Vice President, if any (or in the event there be more than one Senior Vice President, the Senior Vice President in the order designated by the Board of Directors, or in the absence of any designation, then in the order of their election), shall perform the duties of the President and, when so acting, shall have all the powers of and be subject to all the restrictions upon the President. In the absence of the President, all Executive Vice Presidents and all Senior Vice Presidents or in the event of their inability or refusal to act, the Vice President, if any (or in the event there be more than one Vice President, the Vice President, in the order designated by the Board of Directors, or in absence of any designation, then in order of their election), shall perform the duties of the President and, when so acting, shall have all the powers of and be subject to all the restrictions upon the President. The Executive Vice Presidents, the Senior Vice Presidents and Vice Presidents shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe.

THE SECRETARY AND ASSISTANT SECRETARY

Section 13. The Secretary shall attend all meetings of the Board of Directors and all meetings of the stockholders and record all the proceedings of the meetings of the corporation and of the Board of Directors in a book to be kept for that purpose and shall perform like duties for the standing committees when required. He shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the Board of Directors, and shall perform such other duties as may be prescribed by the Board of Directors or the Chairman of the Board, under whose supervision he shall be. He shall have custody of the corporate seal of the corporation and he, or an Assistant Secretary, if any, shall have the authority to affix the same to any instrument requiring it and, when so affixed, it may be attested by his signature or by the signature of such Assistant Secretary. The Board of Directors may give general authority to any other officer to affix the seal of the corporation and to attest the affixing by his signature.

Section 14. The Assistant Secretary, if any, or, if there be more than one, the Assistant Secretaries in the order determined by the Board of Directors (or if there be no such determination, then in the order of their election) shall, in the absence of the Secretary or in the event of his inability or refusal to act, perform the duties and exercise the powers of the Secretary and shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe.

THE TREASURER AND ASSISTANT TREASURER

Section 15. The Treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the corporation in such depositories as may be designated by the Board of Directors.

Section 15. He shall disburse the funds of the corporation as may be ordered by the Board of Directors, taking
proper vouchers for such disbursements, and shall render to the Chairman of the Board and the Board of Directors, at its regular meetings, or when the Board of Directors so requires, an account of all his transactions as Treasurer and of the financial condition of the corporation.

Section 16. If required by the Board of Directors, he shall give the corporation a bond (which shall be renewed every six years) in such sum and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of his office and for the restoration to the corporation, in case of his death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in his possession or under his control belonging to the corporation.

Section 17. The Assistant Treasurer, if any, or, if there shall be more than one, the Assistant Treasurers in the order determined by the Board of Directors (or if there be no such determination, then in the order of their election) shall, in the absence of the Treasurer or in the event of his inability or refusal to act, perform the duties and exercise the powers of the Treasurer and shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe.

ARTICLE VI
CERTIFICATES OF STOCK

Section 1. Every holder of stock in the corporation shall be entitled to have a certificate signed by, or in the name of the corporation by, the Chief Executive Officer or the Chairman of the Board or the President or an Executive Vice President, or a Senior Vice President or a Vice President, and by the Secretary or an Assistant Secretary or the Treasurer or an Assistant Treasurer of the corporation, certifying the number of shares owned by him in the corporation.

Certificates may be issued for partly paid shares and in such case upon the face or back of the certificates issued to represent any such partly paid shares the total amount of the consideration to be paid therefor and the amount paid thereon shall be specified.

If the corporation shall be authorized to issue more than one class of stock or more than one series of any class, the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate which the corporation shall issue to represent such class or series of stock, provided that, except as otherwise provided in Section 202 of the Delaware General Corporation Law, or a comparable provision, as then in effect, in lieu of the foregoing requirements, there may be set forth on the face or back of the certificate which the corporation shall issue to represent such class or series of stock a statement that the corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

Section 2. Any or all of the signatures on the certificate may be facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

LOST CERTIFICATES

Section 3. The Board of Directors, either directly or through the Secretary as its designee, may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen
or destroyed. When authorizing such issue of a new certificate or certificates, the Board of Directors or the Secretary may, in its or his discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or certificates, or his legal representative, to advertise the same in such manner as it or he shall require and/or to give the corporation a bond in such sum as it or he may direct as indemnity against any claim that may be made against the corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

TRANSFER OF STOCK

Section 4. Upon surrender to the corporation or the transfer agent of the corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, it shall be the duty of the corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books.

FIXING RECORD DATE

Section 5. In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

REGISTERED STOCKHOLDERS

Section 6. The corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

ARTICLE VII
GENERAL PROVISIONS

DIVIDENDS

Section 1. Dividends upon the capital stock of the corporation, subject to the provisions of the Certificate of Incorporation, if any, may be declared by the Board of Directors at any regular or special meeting, pursuant to law. Dividends may be paid in cash, in property, or in shares of capital stock, subject to the provisions of the Certificate of Incorporation.

Section 2. Before payment of any dividend, there may be set aside out of any funds of the corporation available for dividends such sum or sums as the directors from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the corporation, or for such other purpose as the directors shall think conducive to the interest of the corporation, and the directors may modify or abolish any such reserve in the manner in which it was created.

CHECKS

Section 3. All checks or demands for money and notes of the corporation shall be signed by such officer or officers or such other person or persons as the Board of Directors may from time to time designate.

FISCAL YEAR

Section 4. The fiscal year of the corporation shall be the calendar year unless another fiscal year is fixed by resolution of the Board of Directors.
SEAL

Section 5. The Board of Directors may adopt a corporate seal having inscribed thereon the name of the corporation, the year of its organization and the words "Corporate Seal, Delaware". The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

INDEMNIFICATION

Section 6. The corporation shall indemnify its officers, directors and employees to the full extent permitted by the Delaware General Corporation Law.

Expenses (including attorneys' fees) incurred by an officer or director of the corporation in defending any civil, criminal, administrative or investigative action, suit or proceeding shall be paid by the corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the corporation as authorized by relevant sections of the Delaware General Corporation Law.

The indemnification and advancement of expenses provided by this section shall not be deemed exclusive of any other rights which any person may have or hereafter acquire under any statute, provision of this corporation's Certificate of Incorporation, Bylaw, agreement, vote of stockholders or disinterested directors or otherwise.

NUMBER AND GENDER

Section 7. Words used herein, regardless of the number and gender specifically used, shall be deemed and construed to include any other number, singular or plural, and any other gender, masculine, feminine or neuter, as the context requires.

SEPARABILITY

Section 8. In case any provision of these Bylaws shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

ARTICLE VIII
AMENDMENTS

Section 1. These Bylaws may be altered, amended or repealed or new Bylaws may be adopted by the stockholders or by

the Board of Directors, when such power is conferred upon the Board of Directors by the Certificate of Incorporation, at any regular meeting of the stockholders or of the Board of Directors or at any special meeting of the stockholders or of the Board of Directors if notice of such alteration, amendment, repeal or adoption of new Bylaws be contained in the notice of such special meeting. If the power to adopt, amend or repeal Bylaws is conferred upon the Board of Directors by the Certificate of Incorporation, it shall not divest or limit the power of the stockholders to adopt, amend or repeal Bylaws.
CERTIFICATE OF DESIGNATION OF
PREFERENCES AND RIGHTS OF
SENIOR CONVERTIBLE PREFERRED STOCK, SERIES B
OF
XOMA CORPORATION

Pursuant to Section 151 of the
General Corporation Law of the
State of Delaware

XOMA CORPORATION, a corporation organized and existing under the General Corporation Law of the State of Delaware (the "Corporation"), does hereby certify that, pursuant to authority conferred upon the Board of Directors by the Amended and Restated Certificate of Incorporation, and pursuant to the provisions of Section 151 of the Delaware General Corporation Law, said Board of Directors duly adopted a resolution on October 27, 1993, which approved the filing of this Certificate of Designation and which resolution remains in full force and effect as of the date hereof.

Pursuant to such resolution and the authority conferred upon the Board of Directors by the Amended and Restated Certificate of Incorporation of the Corporation, there is hereby created a series of preferred stock of the Corporation, which series shall have the following powers, preferences, and relative, participating, optional or other special rights, and the qualifications, limitations or restrictions thereof, in addition to those set forth in the Amended and Restated Certificate of Incorporation of the Corporation:

1. Certain Definitions. As used herein, the following terms shall have the following meanings (with terms defined in the singular having comparable meanings when used in the plural and vice versa), unless the context otherwise requires:

"Affiliate" of any specified Person means any other Person which, directly or indirectly, controls, is controlled by or is under direct or indirect common control with, such specified Person. For the purposes of this definition, "control" when used with respect to any Person means beneficial ownership of 5.0% or more of the outstanding securities entitled to vote for the election of a member of the board of directors of a corporation or the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise, and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Board of Directors" means the Board of Directors of the Corporation.

"Business Day" means a day that is not a Saturday, a Sunday or a day on which banking institutions in the State of New York or California are not required to be open.

"Cash Redemption Price" means $1,000 per share of Series B Preferred Stock.

"Common Stock" means the Common Stock, par value $.0005 per share, of the Corporation.

"Conversion Price" means 91.5% of the average of the per share Quoted Prices for the Common Stock for the twenty (20) trading days subsequent to November 19, 1993.

"Convertible Securities" has the meaning specified in Section 6(C) hereof.

"Corporation" means XOMA Corporation, a Delaware corporation.

"Dividend Declaration Date" means a day preceding each Dividend Payment Date when the Board of Directors shall either (i) declare a dividend in cash or Dividend Shares or (ii) in the event no dividend is declared, determine whether a dividend is to accrue in cash or Dividend Shares.
"Dividend Payment Date" means December 31 and June 30 of each year beginning June 30, 1994, unless such day is not a Business Day in which case the Dividend Payment Date shall be the immediately succeeding Business Day.

"Dividend Record Date" means a day fifteen (15) days preceding the Dividend Payment Date.

"Dividend Shares" has the meaning specified in Section 3(B) hereof.

"Eligible Transferee" means a Person who is not, and who is not an Affiliate of, a Person who is (i) directly or indirectly, in any manner whatsoever engaged in or participating in, either alone or together with any other Person, the manufacturing, distribution, sale, research or development of pharmaceutical or medical products, whether diagnostic or therapeutic, (ii) a hospital or other provider of medical or healthcare services (other than a natural person who provides medical or healthcare services and is otherwise an Eligible Transferee), (iii) an educational or research institution (whether or not accredited and whether or not exempt from federal income taxation pursuant to section 501(c) of the Internal Revenue Code, as amended) or (iv) directly or indirectly, in any manner whatsoever engaged in or participating in, either alone or together with any other Person, the manufacturing, distribution, sale, research or development of products derived from, or as a result of, biotechnology.

"GDK" means GDK, Inc., a corporation organized under the laws of the British Virgin Islands and an original purchaser of the Series B Preferred Stock.

"Holder" means a registered holder of shares of Series B Preferred Stock.

"Liquidation Preference" means $1,000 per share of Series B Preferred Stock plus accrued and unpaid dividends, if any, thereon through the date such Liquidation Preference is paid.

"Options" has the meaning specified in Section 6(C) hereof.

"Ortelius" means Ortelius Trading L.P., a Delaware limited partnership and an original purchaser of the Series B Preferred Stock.

"Permitted Transfer" means the sale, assignment, conveyance, transfer, pledge, hypothecation or other disposition of at least 1000 shares of Series B Preferred Stock in a single transaction to a single Eligible Transferee.

"Person" means any natural person, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Quoted Price" has the meaning specified in Section 3(B) hereof.

"Redemption Date" means, with respect to any shares of Series B Preferred Stock, the date fixed by the Corporation for redemption of such shares of Series B Preferred Stock.

"Redemption Notice" has the meaning specified in Section 7(B) hereof.

"Redemption Consideration" has the meaning specified in Section 7(c) hereof.

"Registration Rights Agreement" means the Registration Rights Agreement made and entered into as of November 18, 1993 by and among the Corporation, Ortelius and GDK.

"Securities Act" has the meaning specified in Section 15 hereof.

"Series B Preferred Stock" has the meaning specified in Section 2 hereof.

"Series B Preferred Stock Certificate" has the meaning specified in Section 6 hereof.

2. Designation. The series of preferred stock established hereby shall be
designated the "Senior Convertible Preferred Stock, Series B" (and shall be referred to herein as the "Series B Preferred Stock") and the authorized number of shares of Series B Preferred Stock shall be 30,000 shares.

3. Dividends.

(A) Holders will be entitled to receive, when, as and if declared by the Board of Directors, out of funds legally available therefor, dividends at an annual rate of $50.00 per share. Dividends will be cumulative and will accrue from the date of issuance and be payable semi-annually in arrears on each Dividend Payment Date, commencing on June 30, 1994. Dividends, whether or not declared, will cumulate until declared and paid, when declaration and payment may be for all or part of the then-accumulated dividends. Dividends will be computed on the basis of a 360-day year comprised of twelve 30-day months. Each dividend shall be payable to Holders of record as they appear on the stock books of the Corporation on each Dividend Record Date. Accrued and unpaid dividends, if any, shall not bear interest. Dividends shall cease to accrue in respect of shares of Series B Preferred Stock on the Redemption Date.

(B) On any Dividend Payment Date, in lieu of payment in cash, the Corporation may, at its option, make all or any portion of any dividend payments (including accumulated dividends) by issuing to the Holders, in the aggregate, such number of fully paid and non-assessable shares (calculated to the nearest 1/100th of a share) of Common Stock ("Dividend Shares") as is obtained by dividing the cash amount (or portion thereof) that would otherwise be paid on such Dividend Payment Date by the average of the Quoted Prices for the Common Stock for the five (5) trading days preceding the Dividend Payment Date. The "Quoted Price" of the Common Stock at any date is (i) if the Common Stock is listed on a securities exchange, the last reported sales price per share of the Common Stock on the principal securities exchange, if any, on which the Common Stock is listed that shall be for consolidated trading, if applicable to such exchange, or (ii) if not so listed, the last reported sales price per share of the Common Stock as reported by the NASDAQ National Market System, or (iii) if neither so listed nor reported, the last reported bid price per share of the Common Stock as determined by an independent investment banking firm chosen by the Corporation and reasonably acceptable to the Purchasers.

(C) On each Dividend Declaration Date, the Board of Directors shall declare whether or not a dividend is to be paid. If a dividend is declared on such Dividend Declaration Date, the Board of Directors shall determine whether the dividend shall be paid in cash or Dividend Shares or a combination of cash and Dividend Shares, and in the event the dividend is to be paid in a combination of cash and Dividend Shares, the portion of the dividend to be so paid. If no dividend is declared on such Dividend Declaration Date, the Board of Directors shall determine whether the dividend shall accrue in cash or Dividend Shares or in a combination of cash and Dividend Shares, and if the dividend is to accrue in a combination of cash and Dividend Shares, the cash portion and Dividend Shares portion of such accrued dividend.

4. Ranking. The Series B Preferred Stock shall, with respect to dividend rights and rights on liquidation, winding-up and dissolution, rank senior to all classes of Common Stock and to any other class or series of any class of preferred stock of the Corporation, whether now outstanding or issued hereafter.

5. Voting Rights. Except as required by the General Corporation Law of the State of Delaware, the Holders shall not be entitled to vote on any matter submitted to a vote of stockholders of the Corporation.

6. Conversion. The Holder of each share of Series B Preferred Stock shall have the right at any time, or from time to time (except as otherwise herein provided if such share shall be called for redemption pursuant to Section 7), at the option of such Holder, to convert such shares into Common Stock, on and subject to the terms and conditions hereinafter set forth.

(A) Subject to the provisions for adjustment hereinafter set forth, each share of Series B Preferred Stock shall be convertible into such number of fully paid and nonassessable shares (calculated as to each conversion to the nearest 1/100th of a share) of Common Stock as is obtained by dividing 1,000 by the Conversion Price as last adjusted and in effect at the date any share or shares of Series B Preferred Stock are surrendered for conversion.

(B) In order to exercise the conversion privilege, the Holder of any shares of Series B Preferred Stock to be converted in whole or in part shall surrender
the certificate representing such shares of Series B Preferred Stock (the "Series B Preferred Stock Certificate") at the office or agency then maintained by the Corporation for the transfer of the Series B Preferred Stock, and shall give written notice of conversion in the form provided on the Series B Preferred Stock Certificate (or such other notice which is acceptable to the Corporation) to the Corporation at such office or agency that the Holder elects to convert such shares of Series B Preferred Stock represented by the Series B Preferred Stock Certificate so surrendered or the portion thereof specified in said notice. Such notice shall state the name or names (with addresses) in which the certificate or certificates for shares of Common Stock which shall be issuable upon such conversion shall be issued, and shall be accompanied by transfer taxes, if required. Each Series B Preferred Stock Certificate surrendered for conversion shall, unless the shares issuable on conversion are to be issued in the same name as the registration of such Series B Preferred Stock Certificate, be duly endorsed by, or be accompanied by instruments of transfer in form satisfactory to the Corporation duly executed by, the Holder or his duly authorized attorney.

As promptly as practicable after the surrender of such Series B Preferred Stock Certificate and the receipt of such notice and funds, if any, as aforesaid, the Corporation shall issue and shall deliver at such office or agency to such Holder, or on his written order, a certificate or certificates for the number of shares of Common Stock issuable upon the conversion of such shares of Series B Preferred Stock represented by the Series B Preferred Stock Certificate so surrendered or portion thereof in accordance with the provisions of this Section 6. In case less than all of the shares of Series B Preferred Stock represented by a Series B Preferred Stock Certificate surrendered for conversion are to be converted, the Corporation shall deliver to or upon the written order of the Holder of such Series B Preferred Stock Certificate a new Series B Preferred Stock Certificate representing the shares of Series B Preferred Stock not converted. If a Holder fails to notify the Corporation of the number of shares of Series B Preferred Stock which such Holder wishes to convert, such Holder shall be deemed to have elected to convert all shares represented by the certificate or certificates surrendered for conversion.

Each conversion shall be deemed to have been effected on the date on which such Series B Preferred Stock Certificate shall have been surrendered and such notice shall have been received by the Corporation, as aforesaid, and the person in whose name any certificate or certificates for shares of Common Stock shall be issuable upon such conversion shall be deemed to have become the record holder thereof for all purposes on the next succeeding day on which such stock books are open, but such conversion shall be at the Conversion Price as last adjusted and in effect on the date upon which such Series B Preferred Stock Certificate shall have been surrendered.

The dividends due on any Series B Preferred Stock surrendered for conversion during the period from the close of business on a Dividend Record Date to the opening of business on the corresponding Dividend Payment Date shall be paid to the Holder of Series B Preferred Stock, notwithstanding such conversion.

In the event any shares of Series B Preferred Stock shall be called for redemption, the right to convert such shares of Series B Preferred Stock into shares of Common Stock shall terminate at the close of business on the Redemption Date. Notwithstanding anything to the contrary contained in this paragraph (B), the Corporation may, at its option, be deemed to have purchased any shares of Series B Preferred Stock that are called for redemption and not surrendered for conversion prior to the close of business on the Redemption Date at a purchase price equal to the price that would have been paid had such shares been redeemed (including accrued and unpaid dividends to the date fixed for such redemption) and immediately sell such shares to any registered broker-dealer who has agreed to purchase such shares at a price at least equal to the price paid by the Corporation for such shares and to convert such shares into shares of Common Stock.

(C) Except as provided in subparagraph (ix) hereof and in paragraph (D) below, if and whenever the Corporation shall issue or sell or is deemed, in accordance with subparagraphs (i) through (xi) hereof, to have issued or sold any shares of Common Stock for a consideration per share less than the Conversion Price of the Common Stock as of the time of issuance then, forthwith upon such issuance or sale or deemed issuance or sale, the Conversion Price shall be reduced to the price determined by dividing (i) an amount equal to the
sum of (a) the number of shares of Common Stock outstanding immediately prior to such issuance or sale (including as outstanding all shares of Common Stock issuable upon conversion of all outstanding shares of Series B Preferred Stock) multiplied by the then existing Conversion Price, and (b) the consideration, if any, received by the Corporation upon such issuance or sale, by (ii) the total number of shares of Common Stock outstanding immediately after such issuance or sale (including as outstanding all shares of Common Stock issuable upon conversion of all outstanding shares of Series B Preferred Stock).

For purposes of this paragraph (C), the following subparagraphs (i) to (xi) inclusive shall be applicable:

(i) In case at any time the Corporation shall in any manner grant (whether directly or by assumption in a merger or otherwise) any rights to subscribe for or to purchase, or any options for the purchase of, Common Stock or any stock or securities convertible into or exchangeable for Common Stock (such rights or options being herein called "Options" and such convertible or exchangeable stock or securities being herein called "Convertible Securities") whether or not such Options, or the right to convert or exchange any such Convertible Securities are immediately exercisable, and the price per share for which Common Stock is issuable upon the exercise of such Options or upon conversion or exchange of such Securities is (determined by dividing (x) the total amount, if any, received or receivable by the Corporation as consideration for the granting of such Options, plus the minimum aggregate amount of additional consideration payable to the Corporation upon the exercise of all such options, plus, in the case of Convertible Securities, the minimum aggregate amount of additional consideration, if any, payable upon the issue or sale of such Convertible Securities and upon the conversion or exchange thereof, by (y) the total maximum number of shares of Common Stock issuable upon the exercise of such options or upon the conversion or exchange of all such Convertible Securities issuable upon the exercise of such Options) shall be less than the Conversion Price as in effect immediately prior to the time of granting of such Options, then the total maximum number of shares of Common Stock issuable upon the exercise of such Options or upon conversion or exchange of all such Convertible Securities shall be deemed to have been issued for such price per share as of the date of granting of such Options and thereafter shall be deemed to be outstanding. Except as otherwise provided in subparagraph (iii), no adjustment of the Conversion Price shall be made upon the actual issue of such Common Stock or of such Convertible Securities upon conversion or exchange of such Options or upon the actual issue of such Common Stock upon conversion or exchange of such Convertible Securities.

(ii) Issuance of Convertible Securities. In case the Corporation shall in any manner issue (whether directly or by assumption in a merger or otherwise) or sell any Convertible Securities, whether or not the rights to exchange or convert thereunder are immediately exercisable, and the price per share for which Common Stock is issuable upon such conversion or exchange (determined by dividing (x) the total amount received or receivable by the Corporation as consideration for the issue or sale of such Convertible Securities, plus the minimum aggregate amount of additional consideration, if any, payable to the Corporation upon the conversion or exchange thereof, by (y) the total maximum number of shares of Common Stock issuable upon the conversion or exchange of all such Convertible Securities) shall be less than the Conversion Price as in effect immediately prior to the time of granting of such Options, then the total maximum number of shares of Common Stock issuable upon the exercise of such Options or upon conversion or exchange of all such Convertible Securities shall be deemed to have been issued for such price per share as of the date of the date of granting of such Options and thereafter shall be deemed to be outstanding. Except as otherwise provided in subparagraph (iii), no adjustment of the Conversion Price shall be made upon the actual issue of such Common Stock or of such Convertible Securities upon exercise of such Options or upon the actual issue of such Common Stock upon conversion or exchange of such Convertible Securities.

(iii) Change in Option Price or Conversion Rate. Upon the happening of any of the following events, namely, if the purchase price provided for in any Option referred to in subparagraph (i), the additional consideration, issued
if any, payable upon the conversion or exchange of any Convertible Securities referred to in subparagraph (i) or (ii), or the rate at which any Securities referred to in subparagraph (i) or (ii) are convertible into or exchangeable for Common Stock shall change at any time (other than under or by reason of provisions designed to protect against dilution), the Conversion Price in effect at the time of such event shall forthwith be readjusted to the Conversion Price which would have been in effect at such time had such Options or Convertible Securities still outstanding provided for such changed purchase price.

additional consideration or conversion rate, as the case may be, at the time initially granted, issued or sold; and on the expiration of any such Option or termination of any such right to convert or exchange such Convertible Securities, the Conversion Price then in effect hereunder shall forthwith be increased to the Conversion Price that would have been in effect at the time of such expiration or termination had such Option or Convertible Securities, to the extent outstanding immediately prior to such expiration or termination, never been issued, and the Common Stock issuable thereunder shall no longer be deemed to be outstanding.

(iv) Stock Dividends. In case the Corporation shall declare a dividend or make any other distribution upon any stock of the Corporation payable in Common Stock, Options or Convertible Securities, any Common Stock, Options or Convertible Securities, as the case may be, issuable in payment of such dividend or distribution shall be deemed to have been issued or sold without consideration.

(v) Consideration for Stock. In case any shares of Common Stock, Options or Convertible Securities shall be issued or sold for cash, the consideration received therefor shall be deemed to be the amount received by the Corporation therefor, without deduction therefrom of any expenses incurred or any underwriting commissions or concessions paid or allowed by the Corporation in connection therewith. In case any shares of Common Stock, Options or Convertible Securities shall be issued or sold for a consideration other than cash, the amount of the consideration other than cash received by the Corporation shall be deemed to be the fair value of such consideration determined in good faith by the Board of Directors, without deduction of any expenses incurred or any underwriting commissions or concessions paid or allowed by the Corporation in connection therewith. In case any Options shall be issued in connection with the issue and sale of other securities of the Company, together comprising one integral transaction in which no specific consideration is allocated to such Options by the parties thereto, the consideration deemed to have been received by the Corporation shall be determined by the Board of Directors in good faith.

(vi) Record Date. In case the Corporation shall take a record of the holders of its Common Stock for the purpose of entitling them (i) to receive a dividend or other distribution payable in Common Stock, Options or Convertible Securities, or (ii) to subscribe for or purchase Common Stock, Options or Convertible Securities, then such record date shall be deemed to be the date of the issue or sale of the shares of Common Stock deemed to have been issued or sold upon the declaration of such dividend or the making of such other distribution or the date of the granting of such right of subscription or purchase, as the case may be.

(vii) Treasury Shares. The number of shares of Common Stock outstanding at any given time shall not include shares owned or held by or for the account of the Corporation, and the disposition of any such shares shall be considered an issue or sale of Common Stock for the purpose of this paragraph (C).

(viii) Subdivision or Combination of Common Stock. In case the Corporation shall at any time subdivide its outstanding shares of Common Stock into a greater number of shares, the Conversion Price in effect immediately prior to such subdivision shall be proportionately reduced, and conversely, in case the outstanding shares of Common Stock of the Corporation shall be combined into a smaller number of shares, the Conversion Price in effect immediately prior to such combination shall be proportionately increased.

(ix) Certain Issues of Common Stock Excepted. Anything herein to the contrary notwithstanding, the Corporation shall not be required to make any adjustment of the Conversion Price in the case of (i) the issuance of shares of Common Stock upon conversion or redemption of shares of Series B Preferred Stock in accordance with the terms thereof, (ii) the issuance of shares of Common Stock in payment of dividends upon the Series B Preferred
Stock in accordance with the terms thereof, (iii) the issuance of up to three (3) million shares of Common Stock (or the issuance of options therefor) reserved for issuance to employees of the Corporation pursuant to any employee benefit or compensation plan or arrangement which amount includes 872,075 shares of

Common Stock which are currently issuable under existing stock option plans, (iv) the issuance of shares of Common Stock upon the exercise of warrants granted by the Corporation to Ortelius and GDK, (v) the issuance of shares of Common Stock upon the exercise of Warrants pursuant to the Warrant Agreement dated as of June 3, 1993 between the Corporation and First Interstate Bank of California, as Warrant Agent or (vi) the issuance of shares of Common Stock in connection with preferred stock purchase rights relating to the Corporation's Series A Cumulative Preferred Stock, par value $.05 per share.

(x) Reorganization or Reclassification. If any capital reorganization or reclassification of the capital stock of the Corporation shall be effected in such a way (including, without limitation, by way of consolidation or merger or a sale of all or substantially all its assets) that holders of Common Stock shall be entitled to receive stock, securities or assets with respect to or in exchange for Common Stock, then, as a condition of such reorganization or reclassification, lawful and adequate provisions (in form satisfactory to Holders of at least a majority of the outstanding shares of Series B Preferred Stock) shall be made whereby each Holder of a share or shares of Series B Preferred Stock shall thereafter have the right to receive, upon the basis and upon the terms and conditions specified herein and in lieu of the shares of Common Stock of the Corporation immediately theretofore receivable upon the conversion of such share or shares of Series B Preferred Stock, such shares of stock, securities or assets as may be issued or payable with respect to or in exchange for a number of outstanding shares of such Common Stock equal to the number of shares of such stock immediately theretofore so receivable had such reorganization or reclassification not taken place, and in any such case appropriate provision shall be made with respect to the rights and interests of such Holder to the end that the provisions hereof (including without limitation provisions for adjustment of the Conversion Price) shall thereafter be applicable, as nearly as may be, in relation to any shares of stock, securities or assets thereafter deliverable upon the exercise of such conversion rights. In the event of a merger or consolidation of the Corporation as a result of which a greater or lesser number of shares of common stock of the surviving corporation are issuable to holders of Common Stock of the Corporation outstanding immediately prior to such merger or consolidation, the Conversion Price in effect immediately prior to such merger or consolidation shall be adjusted in the same manner as though there were a subdivision or combination of the outstanding shares of Common Stock of the Corporation.

(xi) Partial or Liquidating Distributions. In the event that the Corporation shall make any distribution of its assets upon or with respect to the Common Stock, as a liquidating or partial liquidating dividend, or other than as a dividend payable out of earnings, the Holder of each outstanding share of Series B Preferred Stock shall, upon the exercise of his or her right to convert after the record date for such distribution or, in the absence of a record date, after the date of such distribution, receive, in addition to the number of shares of Common Stock for which such shares of Series B Preferred Stock are then convertible, the amount of such assets (or, at the option of the Corporation, a sum equal to the value thereof at the time of distribution as determined by the Board of Directors in its sole discretion) that would have been distributed to such Holder if he had exercised his right to convert immediately prior to the record date for such distribution or, in the absence of a record date, immediately prior to the date of such distribution.

(D) Notwithstanding the foregoing provisions of this Section 6, (i) no adjustment in the number of shares of Common Stock into which any share of Series B Preferred Stock is convertible shall be required unless such adjustment would require an increase in such number of shares of at least 1% and (ii) no adjustment in the Conversion Price shall be required unless such adjustment would require an increase or decrease in the Conversion Price of at least $.01 per share; provided, however, that any adjustments which by reason of this paragraph (D) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this Section 6 shall be made to the nearest cent or the nearest 1/100th of a share, as the case may be.
(E) Whenever any adjustment is required in the shares into which any share of Series B Preferred Stock is convertible, the Corporation shall forthwith (i) file with each office or agency then maintained by the Corporation for the transfer of the Series B Preferred Stock a statement describing in reasonable detail the adjustment and the method of calculation used and (ii) cause a notice of such adjustment, setting forth the adjusted Conversion Price to be mailed to the Holders of record of shares of Series B Preferred Stock at their respective addresses as shown on the stock books of the Corporation.

(F) All shares of Series B Preferred Stock that shall have been surrendered for conversion as herein provided shall no longer be deemed to be outstanding and all rights with respect to such shares, including the rights, if any, to receive notices and to vote, shall forthwith cease, except only the right of the Holders thereof, subject to the provisions of this Section 6, to receive shares of Common Stock in exchange therefor.

(G) In the event that:

(i) the Corporation shall take action to make any distribution (other than cash dividends payable out of earnings) to the holders of its Common Stock;

(ii) the Corporation shall take action to offer for subscription pro rata to the holders of its Common Stock any securities of any kind;

(iii) the Corporation shall take action to accomplish any capital reorganization, or reclassification of the capital stock of the Corporation (other than a subdivision, split or combination of its Common Stock), or a consolidation or merger to which the Corporation is a party and for which approval of any stockholders of the Corporation is required, or the sale or transfer of all or substantially all of the assets of the Corporation; or

(iv) the Corporation shall take action looking to a voluntary or involuntary dissolution, liquidation or winding-up of the Corporation;

then the Corporation shall (A) in case of any such distribution or subscription rights, at least thirty (30) days prior to the date or expected date on which the stock books of the Corporation shall close or a record shall be taken for the determination of holders entitled to such distribution or subscription rights, and (B) in the case of any such reorganization, reclassification, consolidation, merger, sale, transfer, dissolution, liquidation or winding-up, at least thirty day's (30) prior to the date or expected date when the same shall take place, cause written notice thereof to be mailed to each Holder of shares of Series B Preferred Stock at his address as shown on the stock books of the Corporation. Such notice in accordance with the foregoing clause (A) shall also specify, in the case of any such distribution or subscription rights, the date or expected date on which the holders of Common Stock shall be entitled thereto, and such notice in accordance with the foregoing clause (B) shall also specify the date or expected date on which the holders of Common Stock shall be entitled to exchange their Common Stock for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, sale, transfer, dissolution, liquidation or winding-up, as the case may be.

(H) For the purposes of this paragraph (6), the term "Common Stock" shall mean (i) the class of stock designated as the Common Stock of the Corporation on the date of this Certificate or (ii) any other class of stock resulting from successive changes or reclassifications of such Common Stock consisting solely of changes in par value or from no par value to par value, or from par value to no par value. In the event that at any time as a result of an adjustment made pursuant to the provisions of paragraph (C) of this Section 6, the Holder of any share of Series B Preferred Stock surrendered for conversion shall become entitled to receive any shares of the Corporation other than shares of Common Stock, thereafter the number of such other shares so receivable upon conversion of any share of Series B Preferred Stock shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the Common Stock contained in paragraph (C) of this Section 6, and the other provisions of this Section 6 with respect to the Common Stock shall apply on like terms to any such other shares.

(I) The Corporation shall not be required to issue fractional shares of Common Stock upon the conversion of any Series B Preferred Stock. If more than one share of Series B Preferred Stock shall be surrendered for conversion at one time by the same Holder, the number of full shares of Common Stock issuable upon conversion thereof shall be com-
puted on the basis of the aggregate number of shares so surrendered. If any fractional interest in a share of Common Stock would be deliverable upon the conversion of any shares of Series B Preferred Stock, the Corporation may pay, in lieu thereof, in cash the Quoted Price thereof as of the Business Day immediately preceding the date of such conversion.

(J) The Corporation shall at all times reserve and keep available, free from preemptive rights, out of its authorized but unissued stock, for the purpose of effecting the conversion or redemption of the shares of Series B Preferred Stock, such number of its duly authorized shares of Common Stock (or treasury shares as provided below) as shall from time to time be sufficient to effect the payment of dividends on the Series B Preferred Stock in shares of Common Stock, the conversion of all outstanding shares of Series B Preferred Stock into Common Stock at any time and the redemption of all outstanding shares of Series B Preferred Stock for shares of Common Stock; provided, however, that nothing contained herein shall preclude the Corporation from satisfying its obligations in respect of the payment of dividends in shares of Common Stock or the conversion of the Series B Preferred Stock by delivery of shares of Common Stock that are held in the treasury of the Corporation. The Corporation shall, from time to time and in accordance with the General Corporation Law of the State of Delaware, cause the authorized number of shares of Common Stock to be increased if the aggregate of the number of authorized shares of Common Stock remaining unissued and the issued shares of such Common Stock in its treasury (other than any shares of such Common Stock reserved for issuance in any other connection) shall not be sufficient to permit the payment of dividends in shares of Common Stock, the conversion of all outstanding shares of Series B Preferred Stock into Common Stock or the redemption of all outstanding shares of Series B Preferred Stock for shares of Common Stock.

7. Optional Redemption.

(A) The Corporation's Right To Redeem the Series B Preferred Stock. The Series B Preferred Stock may be redeemed (subject to contractual and other restrictions with respect thereto and the legal availability of funds therefor) at the option of the Corporation in whole or, from time to time, in part (provided that no less than 25% of the shares of Series B Preferred Stock then outstanding may be redeemed at any one time) in the manner provided in Section

7(C) hereof (i) at any time after December 31, 1996 or (ii) on or prior to December 31, 1996 if the Quoted Price of the Common Stock is at least 175% of the Conversion Price (as last adjusted and in effect) for at least ten (10) trading days selected by the Corporation within a period of any twenty (20) consecutive trading days.

(B) Consideration for Shares of Series B Preferred Stock To Be Redeemed.

(i) If on the date prior to the determination of the Board of Directors to redeem Series B Preferred Stock, the Quoted Price of the Common Stock is equal to or greater than 105% of the Conversion Price (as last adjusted and in effect on such date) then the Series B Preferred Stock to be redeemed may be redeemed, at the option of the Corporation, for any combination of (x) shares of Common Stock, each share of Series B Preferred Stock to be redeemed for such number of fully, paid and non-assessable shares (as calculated to the nearest 1/100th of a share) as is obtained by dividing 1000 by the Conversion Price (as last adjusted and in effect on such date) and (y) the Cash Redemption Price.

(ii) If on the date prior to the determination of the Board of Directors to redeem Series B Preferred Stock, the Quoted Price of the Common Stock is less than 105% of the Conversion Price (as last adjusted and in effect on such date) then the Series B Preferred Stock to be redeemed shall be redeemed for the Cash Redemption Price.

(iii) In addition to (i) or (ii) above, the Corporation shall pay to each holder of shares of Series B Preferred Stock to be redeemed all accrued and unpaid dividends, if any, on such shares of Series B Preferred Stock to the Redemption Date payable in cash or shares of Common Stock or a combination thereof as determined in accordance with Section 3(B).

(iv) The aggregate amount of cash or shares of Common Stock or combination of cash and shares of Common Stock to be received by Holders of Series B Preferred Stock pursuant to subparagraphs (i), (ii) and (iii) above are referred to herein as the "Redemption Consideration".
(C) Procedure for Redemption.

(i) In the event of a redemption of less than all of the Series B Preferred Stock, the shares so redeemed will be determined by the Corporation pro rata according to the number of shares held by each Holder, except that the Corporation may redeem all of the shares held by any Holders of fewer than 100 shares (or all of the shares held by Holders who would hold less than 100 shares as a result of such redemption).

(ii) The Corporation shall send a written notice of redemption (the "Redemption Notice") by first-class mail, postage prepaid, not fewer than fifteen (15) days nor more than sixty (60) days prior to the Redemption Date to each Holder as of the record date fixed for such redemption of Series B Preferred Stock at such Holder's address as the same appears on the stock books of the Corporation; provided, however, that no failure to give such notice to any Holder or Holders nor any deficiency therein shall affect the validity of the procedure for the redemption of any shares of Series B Preferred Stock to be redeemed except as to the Holder or Holders to whom the Corporation has failed to give said notice or except as to the Holder or Holders whose notice was defective. The Redemption Notice shall state:

(A) whether all or less than all the outstanding shares of Series B Preferred Stock are to be redeemed and the total number of shares of Series B Preferred Stock being redeemed;

(B) the number of shares of Series B Preferred Stock held of record by that specific Holder that the Corporation intends to redeem;

(C) the Redemption Date;

(D) the Redemption Consideration;

(E) the manner and place or places at which payment for the shares called for redemption will, upon presentation and surrender to the Corporation of the Series B Preferred Stock Certificates evidencing the shares being redeemed, be made; and

(F) that dividends on the shares of Series B Preferred Stock being redeemed shall cease to accrue on the Redemption Date.

(iii) On the Redemption Date, the full Redemption Consideration shall become payable for the shares of Series B Preferred Stock being redeemed on the Redemption Date. As a condition of payment of the Redemption Consideration, each Holder of Series B Preferred Stock must surrender Series B Preferred Stock Certificates or Certificates representing the shares of Series B Preferred Stock being redeemed by the Corporation in the manner and at the place designated in the Redemption Notice. The full Redemption Consideration for such shares properly tendered for payment shall be paid to the person whose name appears on such certificate or certificates as the owner thereof, on and after the Redemption Date when and as certificates for the shares being redeemed are properly tendered for payment. Each surrendered Series B Preferred Stock Certificate shall be cancelled and retired. In the event that less than all of the shares represented by any such certificate are redeemed, a new certificate shall be issued representing the unredeemed shares.

(iv) On the Redemption Date, unless the Corporation defaults in the payment of the Redemption Consideration, dividends will cease to accrue with respect to the shares of Series B Preferred Stock called for redemption. All rights of Holders of such redeemed shares will terminate except for the right to receive the Redemption Consideration.

8. Payment on Liquidation.

(A) Upon any voluntary or involuntary liquidation, dissolution or winding-up of the Corporation, Holders of Series B Preferred Stock will be entitled to receive an amount in cash equal to the Liquidation Preference, before any distribution is made on any Common Stock or other preferred stock of the Corporation. After payment of the full amount of the Liquidation Preferences to which they are entitled, Holders of Series B Preferred Stock will not be entitled to any further participation in any distribution of assets of the Corporation.

(B) For the purposes of this Section 8, neither the voluntary sale, conveyance, exchange or transfer (for cash, shares of stock, securities or other
consideration) of all or substantially all the property or assets of the Corporation nor the consolidation or merger of the Corporation with one or more corporations shall be deemed a voluntary or involuntary liquidation, dissolution or winding-up of the Corporation, unless such sale, conveyance, exchange or transfer shall be in connection with a dissolution or winding-up of the business of the Corporation.

9. Exclusion of Other Rights. Except as may otherwise be required by the General Corporation Law of the State of Delaware, shares of the Series B Preferred Stock shall not have any preferences or relative, participating, optional or other special rights, other than those specifically set forth in this resolution and in the Certificate of Designation filed pursuant hereto (as such Certificate may be amended from time to time) and in the Corporation’s Certificate of Incorporation, as amended. No shares of Series B Preferred Stock shall have any preemptive or subscription rights whatsoever as to any securities of the Corporation.

10. Reissuance of Preferred Stock. Shares of Series B Preferred Stock that have been issued and reacquired in any manner, including shares purchased or redeemed, shall (upon compliance with any applicable provisions of the General Corporation Law of the State of Delaware) have the status of authorized and unissued shares of preferred stock undesignated as to series and may be redesignated and reissued as part of any series of preferred stock.

11. Business Day. If any payment or redemption shall be required by the terms hereof to be made on a day that is not a Business Day, such payment, redemption or exchange shall be made on the immediately succeeding Business Day.

12. Headings of Subdivisions. The headings of the various subdivisions hereof are for convenience of reference only and shall not affect the interpretation of any of the provisions hereof.

13. Severability of Provisions. If any right, preference or limitation of the Series Preferred Stock set forth in this resolution and in the Certificate of Designation filed pursuant hereto (as such Certificate may be amended from time to time) is invalid, unlawful or incapable of being enforced by reason of any rule or law or public policy, all other rights, preferences and limitations set forth in such Certificate of Designation (as so amended) which can be given effect without the invalid, unlawful or unenforceable right, preference or limitation shall, nevertheless, remain in full force and effect, and no right, preference or limitation herein set forth shall be deemed dependent upon any other such right, preference or limitation unless so expressed herein.

14. Notice. All notices and other communications provided for or permitted to be given to the Corporation hereunder shall be made by hand delivery, next day air courier or certified first-class mail to the Corporation at its principally executive offices (currently located on the date of the adoption of these resolutions at 2910 Seventh Street, Berkeley, California 94710, Attention: General Counsel; with a copy to: Cahill Gordon & Reindel, Attention: Roger Meltzer, Esq.

15. Transferability; Right of Transferees.

(A) From and after the date of original issuance of the Series B Preferred Stock, the Series B Preferred Stock may not be sold, assigned, conveyed, transferred, pledged, hypothecated or otherwise disposed of, and no Holder shall agree to sell, assign, convey, transfer, pledge, hypothecate or otherwise dispose of, any Series B Preferred Stock except in a Permitted Transfer. No Holder shall consummate or agree to consummate a Permitted Transfer or series of Permitted Transfers involving, individually or in the aggregate, 5,000 or more shares of Series B Preferred Stock to a single Eligible Transferee or a number of related or affiliated Eligible Transferees other than wholly-owned Affiliates of Ortelius and GDK, without the prior written consent of the Corporation, which consent shall not be unreasonably withheld.

(B) The Series B Preferred Stock Certificates representing all of the shares of Series B Preferred Stock to be transferred pursuant to a Permitted Transfer shall be duly endorsed by the transferring Holder or by his duly authorized attorney or representative, or accompanied by proper evidence of succession, assignment or authority to transfer. In all cases of a Permitted Transfer by an attorney, the original power of attorney, duly approved, or a copy thereof, duly certified, shall be deposited and remain with the Corporation. In case of a Permitted Transfer by executors, administrators, guardians or other legal representatives, duly authenticated evidence of their authority shall be produced, and may be required to be deposited and
to remain with the Corporation in its discretion. Upon any registration of a
Permitted Transfer, the Corporation shall deliver new Series B Preferred Stock
Certificates to the persons entitled to the shares of Series B Preferred Stock
represented thereby. The Series B Preferred Stock Certificates may be exchanged
at the option of the Holder thereof, when surrendered at the offices of the
Corporation, for other Series B Preferred Stock Certificates of different
denominations, of like tenor and representing in the aggregate a like number of
shares of Series B Preferred Stock. Any Series B Preferred Stock Certificate so
surrendered shall be promptly cancelled by the Corporation and retired. Each
Series B Preferred Stock Certificate issued in exchange as provided above shall
be substantially in the form of the Series B Preferred Stock Certificate being
exchanged and shall be subject to all of the terms and provisions hereof.

(C) The Series B Preferred Stock Certificates shall contain the following
legend:

THE SENIOR CONVERTIBLE PREFERRED STOCK, SERIES B (THE "SERIES B PREFERRED
STOCK") EVIDENCED HEREBY IS SUBJECT TO SIGNIFICANT RESTRICTIONS ON
TRANSFERABILITY AND HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS
AMENDED (THE "ACT"), OR ANY STATE SECURITIES LAWS AND THE SERIES B PREFERRED
STOCK AND THE SHARES OF COMMON STOCK OR OTHER SECURITIES ISSUABLE UPON
CONVERSION OR REDEMPTION OF THE SERIES B PREFERRED STOCK MAY NOT BE OFFERED OR
SOLD EXCEPT PURSUANT TO (i) AN EFFECTIVE REGISTRATION STATEMENT, OR (ii) AN
EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION
REQUIREMENTS OF THE ACT AND APPLICABLE STATE SECURITIES LAWS AND AN OPINION OF
COUNSEL REASONABLY SATISFACTORY TO COUNSEL FOR XOMA CORPORATION THAT AN
EXEMPTION FROM REGISTRATION UNDER THE ACT IS AVAILABLE.

16. Amendments. The Corporation shall amend this Certificate of Designation
as soon as practicable upon the determination of the Conversion Price in
accordance with the terms and conditions of a Securities Purchase Agreement of
even date herewith by and among Ortelius, GDK and the Corporation. This
Certificate of Designation may be amended without notice to or the consent of
any Holder to cure any ambiguity, defect or inconsistency provided that such
amendment does not adversely affect the rights of any Holder. Any provisions of
this Certificate of Designation may be amended by the Corporation with the
written consent of Holders representing a majority of the outstanding shares of
Series B Preferred Stock.

-24-

The Corporation will, so long as any shares of Series B Preferred Stock are
outstanding, maintain an office or agency where such shares may be presented for
registration or transfer and where such shares may be presented for conversion
and redemption.

-25-

IN WITNESS WHEREOF, XOMA Corporation has caused this Certificate of
Designation of Preferences and Rights of its Series B Preferred Stock to be
signed and attested by its duly authorized officers, this 18th day of November,
1993.

XOMA CORPORATION

By: /s/ John L. Castello
---------------------------------
John L. Castello
Chairman, President and
Chief Executive Officer

ATTEST:

By: /s/ Christopher J. Margolin
--------------------------------
Christopher J. Margolin
Secretary
1. PURPOSE OF THE PLAN

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

2. ADMINISTRATION OF THE PLAN

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

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

3. ELIGIBILITY FOR OPTION GRANTS

(a) Key employees (including officers and directors) of the Corporation (or its subsidiaries) and consultants (other than non-employee directors) who provide valuable services to the Corporation (or its subsidiaries) are eligible to receive options under the Plan. Directors who are not employees of the Corporation (or its subsidiaries) are not eligible to receive such options or to participate otherwise in the Plan.

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

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

4. STOCK SUBJECT TO THE PLAN

(a) The stock issuable under the Plan shall be shares of the Corporation's authorized but unissued or reacquired common stock ("Common Stock"). The maximum number of shares issuable under the Plan shall not exceed 5,150,000 shares, subject to adjustment as provided in Section 4(c). The maximum number of
shares of Common Stock authorized for issuance under the Plan shall, however, be reduced, on a one-for-one basis, for each share of Common Stock issued under the Corporation's Restricted Stock Plan (the "Stock Plan").

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

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

(c) If any change is made to the Common Stock issuable under the Plan by reason of any stock dividend, stock split, combination of shares, recapitalization, or other change affecting the outstanding common stock as a class without receipt of consideration, then appropriate adjustments will be made to (i) the maximum number of shares issuable under the Plan and (ii) the number and/or class of shares and the option price per share of the Common Stock subject to each outstanding option in order to prevent the dilution or enlargement of benefits thereunder. The adjustments determined by the Plan Administrator will be final, binding and conclusive.

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

5. TERMS AND CONDITIONS OF OPTIONS

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

(a) Option Price.

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

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

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

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

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

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

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

rectives to the Corporation to deliver the certificates for the purchased shares directly to such broker-dealer.

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

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

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

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

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

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

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

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

(d) Effect of Termination of Employment.

(1) Should an optionee cease to be an employee of the Corporation for any reason (including death or permanent disability as defined in Section 22(e)(3) of the Internal Revenue Code) while the holder of one or more outstanding options granted to such optionee under the Plan, then such option or options shall not remain exercisable (except as otherwise specifically authorized under Section 11) for more than a twelve (12) month period (or such shorter period as is determined by the Plan Administrator and set forth in the option agreement) following the date of such cessation of employee status, and each such option shall, during such twelve (12) month or shorter period, be exercisable only to the extent of the number of shares (if any) for which the option is exercisable on the date of such cessation of employee status. Under no circumstances, however, shall any such option be exercisable after the specified expiration date of the option term. Upon the expiration of such twelve (12) month or shorter period or (if earlier) upon the expiration of the option term, the option shall terminate and cease to be exercisable.

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

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

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

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

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

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

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

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

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

6. SPECIAL LIMITATIONS ON INCENTIVE OPTIONS

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

(a) Prior Outstanding Option. Under no circumstances may an Incentive Option that is granted before January 1, 1987 be exercised while there remains outstanding (within the meaning of Section 422A(c)(7) of the Internal Revenue Code) any other pre-1987 Incentive Option that was granted at an earlier date to the option holder to purchase stock in the Corporation or any other entity which is on the date of grant of the later option either a subsidiary corporation of the Corporation or any predecessor of any of any such corporation.

(b) Dollar Limitations.

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

(2) Dollar Limitation for Incentive Options Granted Before January 1, 1987. The aggregate fair market value (determined as of the respective date or dates of grant) of the Common Stock which may be made the subject of Incentive Options granted under the Plan (or any other option plan of the Corporation or its parent or subsidiary corporations) to any employee in any one calendar year prior to the 1987 calendar year shall not exceed the sum of One Hundred Thousand Dollars ($100,000), plus any unused Carryover to such pre-1987 calendar year. For purposes of the preceding limitation, the term "Carryover" means one-half (1/2) of the amount by which the sum of One Hundred Thousand Dollars ($100,000) exceeds the aggregate fair market value (determined as of the respective date or dates of grant) of the Common Stock for which the employee was previously granted Incentive Options under the Plan (or any other option plan of the Corporation or its parent or subsidiary corporations) in each calendar year after 1980 and prior to 1987. The unused Carryover shall be available for each of the three (3) pre-1987 calendar years immediately following the calendar year in which the Carryover arises and shall increase the basic $100,000 limitation otherwise applicable to the employee for each such pre-1987 calendar year by an amount equal to the Carryover, less the portion thereof used in prior calendar years. Incentive Options granted the employee during any pre-1987 calendar year
shall first be applied against the basic $100,000 limitation in effect for such calendar year and then applied against any of the employee's unused Carryovers to such calendar year, in the order in which such Carryovers arose in prior calendar years.

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

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

7. STOCK APPRECIATION RIGHTS

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

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

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

8. SALE, MERGER, REORGANIZATION, ETC.

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

(i) a merger or acquisition in which the Corporation is not the surviving entity, except for a transaction the principal purpose of which is to change the State of the Corporation’s incorporation;

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

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

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

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

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

(d) In connection with any Corporate Transaction, the exercise of any
accelerated pre-1987 Incentive Option shall remain subject to the applicable
limitations of Section 6(a) and the exercisability as an incentive stock option
under the Federal tax laws of any accelerated post-1986 option shall be subject
to the applicable dollar limitation of Section 6(b)(1).

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

9. [RESERVED]

10. LOANS OR GUARANTEE OF LOANS

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

11. EXTENSION PERIODS

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

12. AMENDMENT OF THE PLAN AND OPTIONS

(a) The Board has complete and exclusive power and authority to amend or modify the Plan in any or all respects whatsoever; provided, however, that, except to the extent necessary to qualify any or all options under the Plan as Incentive Options, no such amendment or modification may adversely affect rights and obligations of an option holder with respect to options at the time outstanding under the Plan unless the option holder consents to such amendment. In addition, the Board may not, without the approval of the Corporation's shareholders, amend the Plan to (i) materially increase the maximum number of shares issuable under the Plan (except for permissible adjustments under Section 4(c)), (ii) materially increase the benefits accruing to individuals who participate in the Plan, or (iii) materially modify the class of individuals eligible to receive options thereunder.

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

13. EFFECTIVE DATE AND TERM OF PLAN

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

(b) The provisions of this restated and amended Plan shall apply only to options granted under the Plan from and after October 30, 1996. All options issued and outstanding under the Plan immediately prior to October 30, 1996 shall continue to be governed by the terms and conditions of the Plan (and the respective instruments evidencing each such option) as in effect on the date each such option was previously granted, and nothing in this restatement shall be deemed to affect or otherwise modify the rights or obligations of the holders of such options with respect to the acquisition of shares of Common Stock thereunder.

(c) Unless sooner terminated in accordance with Section 8, the Plan will terminate upon the earlier of (i) March 21, 2000 or (ii) the date on which all shares available for issuance under the Plan have been issued or cancelled pursuant to the exercise or surrender of options granted hereunder. If the date of termination is determined under clause (i) above, then options outstanding on such date shall not be affected by the termination of the Plan and will thereafter continue to have force and effect in accordance with the provisions of the stock option agreements evidencing such options.

14. USE OF PROCEEDS

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

15. WITHHOLDING

The Corporation's obligation to deliver shares upon the exercise of any option or the surrender of any option granted under the Plan is subject to the option holder's satisfaction of all applicable Federal, State and local income
16. SPECIAL TAX WITHHOLDING ELECTION

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

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

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

(ii) The election shall be irrevocable.

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

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

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

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

17. REGULATORY APPROVALS

The implementation of the Plan, the granting of any option under the Plan, and the issuance of Common Stock upon the exercise or surrender of any such option is subject to the Corporation's procurement of all approvals and permits required by regulatory authorities having jurisdiction over the Plan, the options granted under it, and the Common Stock issued pursuant to it.
XOMA Corporation (the "Company") has granted you an option to purchase the number of shares of Common Stock 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 Stock Option Plan, as amended and restated through October 30, 1996 (the "Plan") and to the terms and conditions set forth in this Stock Option Agreement under the XOMA Corporation 1981 Stock 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-statutory stock 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 stock 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(e) hereof), the option granted herein will become exercisable in accordance with the following schedule:

(a) This option will become exercisable with respect to 20% of the Optioned Shares after the expiration of one year from the Grant Date;

(b) This option will become exercisable with respect to an additional 20% of the Optioned Shares after the expiration of two years from the Grant Date;

(c) This option will become exercisable with respect to an additional 20% of the Optioned Shares after the expiration of three years from the Grant Date;

(d) This option will become exercisable with respect to an additional 20% of the Optioned Shares after the expiration of four years from the Grant Date; and,

(e) This option will become exercisable with respect to the remaining 20% of the Optioned Shares after the expiration of five years from the Grant Date.

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

(a) Except as otherwise provided in Subsections (b), (c) and (d) below, if you cease to be an employee of the Company at any time during the option term, 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 while this option is outstanding, then the personal representative of your estate or the person or persons to whom the option is transferred pursuant to your will, in accordance with the laws of descent and distribution, or pursuant to Section 1 above, will have the right to exercise this option, but only with respect to the number of Optioned Shares (if any) for which it is exercisable at the date of your death. Such right will lapse, and this option will cease to be exercisable, upon the earlier of (i) the expiration of the one-year period measured from the date of your death or (ii) the 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) 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.

(e) 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 corporation will be deemed to be a subsidiary of the Company if it is a member of an unbroken chain of corporations beginning with the Company, provided that each such corporation in the chain (other than the last corporation) owns, at the time of determination, stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

4. Adjustment in Option Shares.

(a) If any change is made to the Common Stock issuable under the Plan,
whether by reason of any stock dividend, stock split, combination of shares, recapitalization or other change affecting the outstanding Common Stock 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 entity in any merger or other business combination, then this option, if outstanding under the Plan immediately after such merger 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 shares of Common Stock as are subject to this option immediately prior to such merger or other business combination would have been entitled to receive in the consummation of such merger 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 or acquisition in which the Company is not the surviving entity, except for a transaction the principal purpose of which is to change the State of the Company's incorporation, (ii) the sale, transfer or other disposition of all or substantially all of the assets of the Company, or (iii) any other corporate reorganization or business combination in which fifty percent (50%) or more of the Company's outstanding voting stock is transferred to different holders in a single transaction or a series of related transactions, then the exercisability of this option will automatically be accelerated so that such option may be exercised simultaneously with consummation of such Corporate Transaction for any or all of the Optioned Shares. No such acceleration of this option will occur, however, if and to the extent: (x) the terms of the agreement 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 corporation or parent thereof or are to be replaced with the comparable options to purchase shares of capital stock of the successor corporation 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 corporation or its parent company, terminate and cease to be exercisable.

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

(c) 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, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

6. Privilege of Stock 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 stock 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 shares of Common Stock of the Company valued at fair market value on the exercise date (as such terms are defined below); (C) full payment in combination of shares of Common Stock of the Company [held for at least six months1 and] 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 share of Common Stock 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 Stock is 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 stock 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 stock 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 Stock is 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 stock on such date on the stock exchange determined by the Plan Administrator to be the primary market for such stock, as such price is officially quoted on such exchange. If there is no reported closing selling price of such stock 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 Stock is 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 stock, the fair market value will be determined by the Plan Administrator after taking into account such factors as the Plan Administrator deems appropriate.
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 shares of the Company's Common Stock 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 stock 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 shares of Common Stock 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 shares of Common Stock 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 Stock pursuant to this option will relieve the Company of any liability in respect of the non-issuance or sale of such stock 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 corporate offices. Any notice required to be given or delivered to you will be in writing and addressed to you at the address indicated below your signature line herein. All notices will be deemed to be given or delivered upon personal delivery or upon deposit in the U.S. mail, postage prepaid and properly addressed to the party to be notified.

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 Paralegal Assistant in the Legal Department.

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 Stock Option. In the event this option is an incentive stock 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 stock 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 Stock 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 Stock for which this option or one or more other post-1986 incentive stock options granted to you prior to the Grant Date (whether under the Plan or any other option plan of the Company or its parent or subsidiary corporations) 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 stock 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 Stock 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 Stock for which this option or one or more other post-1986 incentive stock 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 corporations) 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 stock 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. Additional Terms Applicable to a Non-Statutory Stock Option. In the event this option is a non-statutory stock option, 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.
I hereby agree to be bound by the terms and conditions of this Agreement and the Plan.

By:

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:

Dated:
ARTICLE I

GENERAL

1. PURPOSE OF THE PLAN

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

2. STRUCTURE OF THE PLAN

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

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

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

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

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

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

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

3. ADMINISTRATION OF THE PLAN

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

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

4. OPTION GRANTS AND SHARE ISSUANCES

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

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

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

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

5. STOCK SUBJECT TO THE PLAN

(a) The stock issuable under the Plan shall be shares of the Corporation's authorized but unissued or reacquired common stock ("Common Stock"). The maximum number of shares issuable over the term of the Plan shall not exceed 1,250,000 shares, subject to adjustment as provided in Section 5(c) of this Article I. In no event, however, shall more than 5,150,000 shares (subject to adjustment under Section 5(c) of this Article I) be issued in the aggregate over the term of this Plan and the Corporation's 1981 Stock Option Plan ("1981 Plan").

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

(b) Should an option under the Plan be terminated for any reason prior to exercise or surrender in full, the shares subject to the portion of the option not so exercised or surrendered shall be available for subsequent option grant or stock issuance under the Plan or for subsequent option grant under the 1981 Plan.
Plan. Shares subject to an option (or portion of an option) surrendered under the Plan in connection with a Control Acquisition (as defined in Article II, Section 2(d)) shall not be available for subsequent option grant or stock issuance under the Plan or for subsequent option grant under the 1981 Plan. Shares issued under the Stock Issuance Program (whether as vested or unvested shares) which are repurchased by the Corporation shall not be available for subsequent reissuance under this Plan or the 1981 Plan.

(c) If any change is made to the Common Stock issuable under the Plan by reason of any stock dividend, stock split, combination of shares, recapitalization or other change affecting the outstanding Common Stock as a class without receipt of consideration, then appropriate adjustments shall be made to (i) the number of shares issuable under the Plan, (ii) the number of shares issuable in the aggregate under this Plan and the 1981 Plan and (iii) the number and/or class of shares and the option price per share of the Common Stock subject to each outstanding option in order to prevent the dilution or enlargement of benefits thereunder. The adjustments determined by the Plan Administrator shall be final, binding and conclusive.

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

ARTICLE II
OPTION GRANT PROGRAM

1. TERMS AND CONDITIONS OF OPTIONS

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

(a) Option Price.

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

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

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

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

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

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

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

-5-

-6-
such purchase and (II) shall provide written directives to the Corporation to deliver the certificates for the purchased shares directly to such broker-dealer. For purposes of this subsection (a)(3), the Exercise Date is the date on which written notice of the exercise of the option is given to the Corporation. Except to the extent the sale and remittance procedure of clause (D) above is utilized, payment of the option price for the purchased shares shall accompany such notice.

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

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

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

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

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

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

(c) Effect of Termination of Employment.

(1) Should an Optionee cease to be an employee of the Corporation for any reason (including death or permanent disability as defined in Section 22(e)(3) of the Internal Revenue Code) while the holder of one or more outstanding options granted to such Optionee under the Plan, then such option or options shall in no event remain exercisable for more than a twelve (12) month period
(or such shorter period as is determined by the Plan Administrator and set forth in the option agreement) following the date of such cessation of employee status, and each such option shall, during such twelve (12) month or shorter period, be exercisable only to the extent of the number of shares (if any) for which the option is exercisable on the date of such cessation of employee status. Under no circumstances, however, shall any such option be exercisable after the specified expiration date of the option term. Upon the expiration of such twelve (12) month or shorter period or (if earlier) upon the expiration of the option term, the option shall terminate and cease to be exercisable.

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

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

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

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

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

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

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

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

2. STOCK APPRECIATION RIGHTS

(a) One or more Optionees may, upon such terms and conditions as the Plan Administrator may specify in the instrument evidencing such right, grant a Stock Appreciation Right ("SAR") to another person ("Participants") who is an employee, consultant, or other person engaged by the Corporation, and only if the Corporation shall have authorized the grant of such SAR. The SAR shall be evidenced by a certificate or other instrument approved by the Plan Administrator and shall provide the Participant with the right to receive, upon the occurrence of specified events, a cash payment equal to the excess of the Fair Market Value of the Common Stock over the Fair Market Value on the date of grant at the time of the occurrence of such event. The Plan Administrator shall have the discretion to establish the terms and conditions of the SAR including, but not limited to, the events triggering the payment of such excess, the amount of such payment, the vesting schedule, and the restrictions on the Participant's ability to sell or otherwise dispose of the shares acquired upon the exercise of the SAR.
Administrator may establish at the time of the option grant or at any time thereafter, be granted the right to surrender all or part of an unexercised option in exchange for a distribution from the Corporation in an amount equal to the excess of (i) the fair market value (at date of surrender) of the number of shares in which the Optionee is at the time vested under the surrendered option or portion thereof over (ii) the aggregate option price payable for such vested shares. No surrender of an option, however, shall be effective unless it is approved by the Plan Administrator. If the surrender is so approved, then the distribution to which the option holder shall accordingly become entitled under this subsection 2(a) may be made in shares of Common Stock valued at fair market value at date of surrender, in cash, or partly in shares and partly in cash, as the Plan Administrator shall in its sole discretion deem appropriate.

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

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

3. SALE, MERGER, REORGANIZATION, ETC.

(a) In the event of one or more of the following transactions ("Corporate Transaction"): (i) a merger or acquisition in which the Corporation is not the surviving entity, except for a transaction the principal purpose of which is to change the State of incorporation; (ii) the sale, transfer or other disposition of all or substantially all of the assets of the Corporation; or (iii) any other business combination in which fifty percent (50%) or more of the Corporation's outstanding voting stock is transferred to different holders in a single transaction or a series of related transactions,

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

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

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

-13-

4. [RESERVED]

ARTICLE III

STOCK ISSUANCE PROGRAM

1. TERMS AND CONDITIONS OF STOCK ISSUANCES

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

(a) Share Price

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

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

(A) cash or cash equivalents;

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

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

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

(b) Vesting Schedule

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

(2) As used in this Article III, the term "transfer" shall include (without limitation) any sale, pledge, encumbrance, gift or other disposition of such shares. However, the Participant shall have the right to make a gift of one or more shares acquired under the Stock Issuance Program, whether vested or unvested and whether or not subject to the subsection (d)(1) right of first refusal, to his spouse, parents or children or to a trust established for such spouse, parents or children, provided the donee of such shares delivers to the Corporation a written agreement to be bound by all the provisions of the Plan and other instruments executed by the Participant to evidence his prior acquisition of the gifted shares. Any gift made in accordance with the foregoing limitations shall not trigger the exercise of the Corporation's repurchase rights under subsection (b)(3) or the Corporation's first refusal rights under subsection (d)(1).

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

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

(5) The Plan Administrator may in its discretion elect not to exercise, in whole or in part, its repurchase rights with respect to any unvested Common Stock or other as-

sets which would otherwise at the time be subject to repurchase pursuant to subsection (b)(3). Such an election shall result in the immediate vesting of the Participant's interest in the shares of Common Stock as to which the election applies.

(c) Stock Legends

(1) Each certificate representing unvested shares of Common Stock (or other securities) issued under the Plan shall bear a restrictive legend substantially
The securities represented by this certificate are subject to repurchase by the Corporation pursuant to the provisions of the Restricted Stock Purchase Agreement between the Corporation and the registered holder of the securities (or his predecessor in interest). Such agreement grants certain repurchase rights to the Corporation in the event the registered holder (or his predecessor in interest) terminates his employment or service with the Corporation. A copy of such agreement is on file at the principal office of the Corporation.

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

(d) Permanent Right of First Refusal

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

\[ X = M - D, \]

where

- \( X \) is the price at which the Corporation or its assigns may repurchase the shares,
- \( M \) is the fair market value of the shares on the date of repurchase, determined in accordance with the provisions of Article II, Section 1(a)(4), without regard to the Corporation's permanent right of first refusal, and
- \( D \) is the appropriate price differential determined by the Plan Administrator in its sole discretion at the time the shares are issued and set forth in the written instrument evidencing such right.

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

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

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

ARTICLE IV

MISCELLANEOUS

1. INVESTMENT PURPOSE

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

2. LOANS OR GUARANTEE OF LOANS

The Plan Administrator may, in its discretion, assist any Optionee or Participant (including an Officer or Participant who is an officer or director of the Corporation) in the exercise of one or more options granted to such Optionee under the Article II Option Grant Program or the purchase of one or more shares issued to such Participant under the Article III Stock Issuance Program, including the satisfaction of any Federal and State income and employment tax obligations arising therefrom, by (i) authorizing the extension of a loan from the Corporation to such Optionee or Participant, (ii) permitting the Optionee or Participant to pay the option price or purchase price for the purchased Common Stock in installments over a period of years, or (iii) authorizing a guarantee by the Corporation of a third-party loan to the Optionee or Participant. The terms of any loan, installment method of payment or guarantee (including the interest rate and terms of repayment) shall be upon such terms as the Plan Administrator specifies in the stock option agreement or restricted stock purchase agreement. Such loans, installment payments and guarantees may be granted with or without security or collateral, but the maximum credit available to the Optionee or Participant may not exceed (A) the aggregate option price or purchase price for the shares (less their par value, which must in all events be paid in cash) plus (B) any Federal and State income and employment tax liability incurred by the Optionee or Participant in connection with such exercise or purchase.

3. AMENDMENT OF THE PLAN AND AWARDS

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

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

4. EFFECTIVE DATE AND TERM OF PLAN

(a) The Plan as initially implemented became effective on December 23, 1983, upon the issuance of 92,000 shares of Common Stock subject to the Corporation's permanent rights refusal under Article III, Section 1(d). The Plan was restated in April 1987 and approved by the Corporation's shareholders at the 1987 Annual Meeting. At the 1989 Annual Meeting, the Corporation's shareholders approved an increase in the number of shares of Common Stock issuable over the term of the Plan from 200,000 shares to 300,000 shares. The Plan was restated in 1990 and approved in 1991 to extend its term to December 15, 2003 and to increase the number of shares of Common Stock issuable over the term of the Plan to 550,000 shares, again in 1992 to increase the number of shares to 1,000,000 shares, and again in 1996 to increase the number of shares to 1,250,000 shares. This new restatement of the Plan was adopted by the Board on October 30, 1996 and was approved by the Corporation's shareholders at the 1997 Annual Meeting.
(b) The provisions of this restated and amended Plan shall apply only to option grants and share issuances effected under the Plan from and after the October 30, 1996 effective date. All option grants and share issuances effected under the Plan prior to such effective date shall continue to be governed by the terms and conditions of the Plan (and the respective instruments evidencing each such grant or issuance) as in effect on the date the option grant or share issuance was previously made, and nothing in this October 30, 1996 restatement shall be deemed to affect or otherwise modify the rights or obligations of the holders of such option grants or share issuances with respect to the shares of Common Stock subject thereto.

(c) Unless sooner terminated in accordance with Section 3 of Article II, the Plan shall terminate upon the earlier of (i) December 15, 2003 or (ii) the date on which all shares available for issuance under the Plan have been issued or cancelled pursuant to the exercise or surrender of options granted under Article II or pursuant to the issuance of shares under Article III. If the date of termination is determined under clause (i) above, then all options outstanding on such date under Article II and all shares issued and outstanding on such date under Article III shall not be affected by the termination of the Plan and will thereafter continue to have force and effect in accordance with the provisions of the stock option agreements evidencing such Article II options and the stock purchase agreements evidencing the issuance of such Article III shares.

5. USE OF PROCEEDS

Any cash proceeds received by the Corporation from the issuance of shares of Common Stock hereunder shall be used for general corporate purposes.

6. WITHHOLDING

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

7. REGULATORY APPROVALS

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

Under the XOMA Corporation

Restricted Stock Plan

(A) Optionee:                     (E) Payroll Number:

(B) Grant Date:                   (F) Expiration Date:

(C) Shares:                       (G) Exercise Price:

(D) Share Installments:           (H) Option Type:

shares -
shares -
shares -
shares -

XOMA Corporation (the "Company") has granted you a non-qualified option to purchase the number of shares of Common Stock 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 Stock Plan, as amended and restated through October 30, 1996 (the "Plan") and to the terms and conditions set forth in this Non-Qualified Stock Option Agreement Under the XOMA Corporation Restricted Stock 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 the Company (as determined in accordance with Subsection 3(e) hereof), the option granted herein will become exercisable in accordance with the following schedule:

   (a) This option will become exercisable with respect to 20% of the Optioned Shares after the expiration of one year from the Grant Date;

   (b) This option will become exercisable with respect to an additional 20% of the Optioned Shares after the expiration of two years from the Grant Date;

   (c) This option will become exercisable with respect to an additional 20% of the Optioned Shares three years from the Grant Date;

   (d) This option will become exercisable with respect to an additional 20% of the Optioned Shares four years from the Grant Date; and,

   (e) This option will become exercisable with respect to the remaining 20% of the Optioned Shares after the expiration of five years from the Grant Date.

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

-2-
(a) Except as otherwise provided in Subsections (b), (c) and (d) below, if you cease to be an employee of the Company at any time during the option term, 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 in no event will 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 it is exercisable at the date of your cessation of employee status. Upon the expiration of such limited period of exercisability or (if earlier) upon the Expiration Date, this option will terminate and cease to be outstanding.

(b) If you die while this option is outstanding, then the personal representative of your estate or the person or persons to whom the option is transferred pursuant to your will, in accordance with the laws of descent and distribution, or pursuant to Section 1 above, will have the right to exercise this option, but only with respect to the number of Optioned Shares (if any) for which it is exercisable at the date of your death. Such right will lapse, and this option will cease to be exercisable, upon the earlier of (i) the expiration of the one-year period measured from the date of your death or (ii) the specified Expiration Date of the option term.

(c) If you become permanently disabled and cease by reason thereof to be an employee of 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 status) 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 status. 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) Should (i) your status as an employee be terminated for cause (including, but not limited to, any act of dishonesty, willful misconduct, fraud or embezzlement or any unau-

thorized 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 status or such unauthorized use or disclosure of confidential or secret information or attempt thereat.

(e) For purposes of this Agreement, you will be deemed to be an employee of the Company in the employ of the Company or one or more of its subsidiaries. A corporation will be deemed to be a subsidiary of the Company if it is a member of an unbroken chain of corporations beginning with the Company, provided that each such corporation in the chain (other than the last corporation) owns, at the time of determination, stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

4. Adjustment in Option Shares.

(a) If any change is made to the Common Stock issuable under the Plan, whether by reason of any stock dividend, stock split, combination of shares, recapitalization or other change affecting the outstanding Common Stock as a class within, 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 entity in any merger or other business combination, then this option, if outstanding under the Plan immediately after such merger 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 shares of Common Stock as are subject to this option immediately prior to such merger or other business combination would have been entitled to receive in the consummation of such merger 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 or acquisition in which the Company is not the surviving entity, except for a transaction the principal purpose of which is to change the State of the Company's incorporation, (ii) the sale, transfer or other disposition of all or substantially all of the assets of the Company, or (iii) any other corporate reorganization or business combination in which fifty percent (50%) or more of the Company's outstanding voting stock is transferred to different holders in a single transaction or a series of related transactions,

then the exercisability of this option will automatically be accelerated so that such option may be exercised simultaneously with consummation of such Corporate Transaction for any or all of the Optioned Shares. No such acceleration of this option will occur, however, if and to the extent: (x) the terms of the agreement 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 corporation or parent thereof or are to be replaced with the comparable options to purchase shares of capital stock of the successor corporation 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 corporation or its parent company, terminate and cease to be exercisable.

(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, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

6. Privilege of Stock 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 stock 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 shares of Common Stock of the Company valued at fair market value on the exercise date (as such terms are defined below); (C) full payment in combination of shares of Common Stock 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 share of Common Stock 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 Stock is 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 stock 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 stock 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 Stock is 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 stock on such date on the stock exchange determined by the Plan Administrator to be the primary market for such stock. If there is no closing selling price of such stock 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 Stock is 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 stock, 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 shares of the Company's Common Stock 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 stock 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 shares of Common Stock 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 shares of Common Stock 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 Stock pursuant to this option will relieve the Company of any liability in respect of the non-issuance or sale of such stock as to which such approval will not have been obtained.

12. No Employment Contract. Nothing in this Agreement or in the Plan will confer upon you any right to continue in the employ 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 you) or you, which rights are hereby expressly reserved by each, to terminate your employee status, 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 corporate offices. Any notice required to be given or delivered to you will be in writing and addressed to you at the address indicated below your signature line herein. All notices will be deemed to be given or delivered upon personal delivery or upon deposit in the U.S. mail, postage prepaid and properly addressed to the party to be notified.

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 Paralegal Assistant in the Legal Department.

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 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 CORPORATION

By: __________________________
John L. Castello
Chairman of the Board,
President & Chief Executive Officer

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

By: __________________________

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: __________________________

Dated: _______________________


EMPLOYEE

REPURCHASE RIGHT AND
PERMANENT RIGHT OF
FIRST REFUSAL

XOMA CORPORATION

RESTRICTED STOCK PLAN
RESTRICTED STOCK PURCHASE AGREEMENT

Agreement made as of the day of __________, 19 by and among XOMA Corporation, a Delaware corporation (the "Corporation"), __________, a key employee (the "Purchaser") of the Corporation and a participant in the Corporation's Restricted Stock Plan (the "Plan"), and __________, the Purchaser's spouse.

I. PURCHASE OF SHARES

1.1 Purchase. The Purchaser hereby purchases, and the Corporation hereby sells to the Purchaser, __________ shares of the Corporation's common stock (the "Purchased Shares") at a purchase price of $ per share (the "Purchase Price") pursuant to the provisions of the Plan.

1.2 Payment. Concurrently with the execution of this Agreement, the Purchaser shall deliver to the Corporation the full amount of the Purchase Price, payable (i) in cash or cash equivalent; (ii) in shares of common stock held by the Purchaser; (iii) payment effected through a broker-dealer sale and remittance procedure pursuant to which the Purchaser (A) shall provide irrevocable written instructions to the designated broker-dealer to effect the immediate sale of the Purchased Shares and remit to the Corporation, out of the sale proceeds, an amount equal to the aggregate Purchase Price plus all applicable Federal and State income and employment taxes required to be withheld by the Corporation by reason of such purchase and (B) shall provide written directives to the Corporation to deliver the certificates for the Purchased Shares directly to such broker-dealer; or (iv) by promissory note authorized by the Plan Administrator and payable to the Corporation's order.

1.3 Stockholder Rights. As soon as reasonably practicable following receipt of the Section 1.2 payment, the Corporation shall issue a stock certificate for the Purchased Shares to the Purchaser. Upon such issuance and until such time as the Corporation actually exercises its repurchase rights under this Agreement, Purchaser (or any successor in interest) shall have all the rights of a stockholder (including voting and dividend rights) with respect to the Purchased Shares, subject, however, to the transfer restrictions of Article II.

II. TRANSFER RESTRICTIONS

2.1 Restriction on Transfer. Purchaser shall not transfer, assign, encumber or otherwise dispose of any of the Purchased Shares which are subject to the Corporation's Repurchase Right under Article III or the Corporation's First Refusal Right under Article IV. Such restrictions on transfer, however, shall not be applicable to (i) a gratuitous transfer of the Purchased Shares made to the Purchaser's spouse or issue, including adopted children, or to a trust for the exclusive benefit of the Purchaser or the Purchaser's spouse or issue, (ii) a transfer of title to the Purchased Shares effected pursuant to the Purchaser's will or the laws of interstate succession, or (iii) a transfer to the Corporation in pledge as security for any purchase-money indebtedness incurred in the acquisition of the Purchased Shares.

2.2 Transferee Obligations. Each person (other than the Corporation) to whom the Purchased Shares are transferred by means of one of the permitted transfers specified in Section 2.1 must, as a condition precedent to the validity of such transfer, acknowledge in writing to the Corporation that such person is bound by the provisions of this Agreement and that the transferred shares are subject to both the Corporation's Repurchase Right and the Corporation's First Refusal Right created hereunder, to the same extent such shares would be so subject if retained by the Purchaser.

2.3 Definition of Owner. For purposes of Articles III and IV, the term "Owner" shall include the Purchaser and all subsequent holders of the Purchased Shares who derive their chain of ownership through a permitted transfer from the
III.  REPURCHASE RIGHT

3.1 Grant. The Corporation is hereby granted the right (the "Repurchase Right"), exercisable at any time during the sixty (60)-day period following the date the Purchaser ceases for any reason to be an Employee of the Corporation or (if later) during the sixty (60)-day period following the date of this Agreement, to repurchase at the lesser of (i) the Purchase Price or (ii) the fair market value of the Purchased Shares (adjusted to reflect the formula price restrictions of Section 4.4) any or all of the Purchased Shares in which the Purchaser has not acquired a vested interest in accordance with the vesting provisions of Section 3.3 (such shares to be hereinafter called the "Unvested Shares"). For purposes of this Agreement, the Purchaser shall be deemed to be an Employee of the Corporation for so long as the Purchaser remains an active employee of the Corporation or any subsidiary corporation (as defined in Section 5.4).

3.2 Exercise of the Repurchase Right. The Repurchase Right shall be exercisable by written notice delivered to the Owner of the Unvested Shares prior to the expiration of the sixty (60)-day period specified in Section 3.1. The notice shall indicate the number of Unvested Shares to be repurchased and the date on which the repurchase is to be effected, such date to be not more than thirty (30) days after the date of notice. Prior to the close of business on the date specified for the repurchase, the Owner shall deliver to the Secretary of the Corporation the certificates representing the Unvested Shares to be repurchased, each certificate to be properly endorsed for transfer. The Corporation shall concurrently with the receipt of such stock certificates pay to the Owner, in cash or cash equivalents (including the cancellation of any outstanding purchase-money indebtedness), an amount equal to the Purchase Price previously paid for the Unvested Shares which are to be repurchased. Such Unvested Shares shall thereupon be canceled and cease to be issued and outstanding shares of the Corporation's common stock.

3.3 Termination of the Repurchase Right. The Repurchase Right shall terminate, and the Owner shall accordingly vest in the Purchased Shares, in accordance with the following provisions:

(a) The Repurchase Right shall terminate with respect to any Unvested Shares for which it is not timely exercised under Section 3.2.

(b) The Repurchase Right shall terminate, and cease to be exercisable, with respect to any and all Purchased Shares in which the Purchaser vests in accordance with the schedule below. Accordingly, provided the Purchaser continues to be an Employee of the Corporation, the Purchaser shall acquire a vested interest in, and the Repurchase Right shall lapse with respect to, one or more Purchased Shares in accordance with the following vesting provisions:

(i) The Purchaser shall not acquire any vested interest in, nor shall the Repurchase Right lapse with respect to, any Purchased Shares during the initial ________ (_) calendar month period measured from the Grant Date of the Option.

(ii) Upon the expiration of such initial ________ (_) -month period, the Purchaser shall acquire a vested interest in, and the Repurchase Right shall lapse with respect to, that number of Purchased Shares equal to ________ (_) percent (%) of the Total Purchasable Shares under the Option (without adjustment for shares already Purchased pursuant to such Option).

(iii) The Purchaser shall acquire a vested interest in, and the Repurchase Right shall lapse with respect to, the remaining Purchased Shares in a series of ________ (_) consecutive monthly installments, each equal to ________ (_) of the Purchased Shares, with the first such installment to vest at the end of the ________ (_) calendar month period measured from the Grant Date.

3.4 Fractional Shares. No fractional shares shall be repurchased by the Corporation. Accordingly, should the Repurchase Right extend to a fractional share (in accordance with the vesting computation provisions of Section 3.3) at the time the Purchaser ceases to be an Employee of the Corporation, then such fractional share shall be added to any fractional share in which the Purchaser is then vested in order to make one whole vested share no longer subject to the Repurchase Right.

3.5 Additional Shares or Substituted Securities. Should any change be made to the Corporation's outstanding Common Stock by reason of any stock dividend, stock split, combination of shares, recapitalization or other transaction...
affecting the Corporation's outstanding Common Stock as a class without receipt of consideration, then any new, substituted or additional securities or other property (including money paid other than as a regular cash dividend) which is by reason of any such transaction distributed with respect to the Purchased Shares shall be immediately subject to the Repurchase Right, but only to the extent the Purchased Shares are at the time covered by such right, and appropriate adjustments to reflect the distribution of such securities or property shall be made to the number of Purchased Shares for all purposes relating to the Repurchase Right, and the Corporation (or its successor) may require the establishment of an escrow account for any money (other than cash dividends) distributed with respect to the Purchased Shares covered by the Repurchase Right in order to facilitate the exercise of such right. Appropriate adjustments shall also be made to the price per share to be paid upon the exercise of the Repurchase Right in order to reflect the effect of any such transaction upon the Corporation's capital structure; provided, however, that the aggregate purchase price shall remain the same.

3.6 Permanent Right of First Refusal. Any shares in which the Purchaser acquires a vested interest under this Article III may not be transferred, assigned, encumbered or otherwise made the subject of disposition in contravention of the Corporation's First Refusal Right under Article IV.

IV. PERMANENT RIGHT OF FIRST REFUSAL

4.1 Grant. The Corporation is hereby granted a permanent right of first refusal ("First Refusal Right") with respect to each and every proposed disposition of the Purchased Shares by the Purchaser, other than a permitted transfer under Section 2.1. The First Refusal Right shall be a permanent restriction on the Purchased Shares and shall accordingly bind the Purchaser, any other Owner of the Purchased Shares and each and every other holder of record of the Purchased Shares, all of whom shall be collectively referred to in this Article IV as the "Holder."

4.2 Notice of Intended Disposition. In the event the Holder desires to sell or otherwise transfer for value any or all of the Purchased Shares which are vested pursuant to the provisions of Section 3.3 (the vested shares which are the subject of such offer to be hereinafter called, solely for purposes of this Article IV, the "Target Shares"), the Holder shall promptly deliver to the Secretary of the Corporation written notice of such intention, including the number of Purchased Shares the Holder wishes to sell and a summary of the terms and conditions of any bona fide third-party offer received for the shares (the "Disposition Notice").

4.3 Exercise of Right. The Corporation (or its assigns) shall, for a period of sixty (60) days following receipt of the Disposition Notice under paragraph 4.2, have the right to repurchase all of the Target Shares specified in the Disposition Notice at a price per share determined in accordance with the Section 4.4 formula. Such right shall be exercisable by written notice delivered to the Holder prior to the expiration of the sixty (60) day exercise period. If such right is exercised, the Corporation (or its assigns) shall effect the repurchase of the Target Shares, including payment of the formula price, not more than sixty (60) days thereafter; and at such time the Holder shall deliver to the Corporation the certificates representing the Target Shares to be repurchased, each certificate to be properly endorsed for transfer.

4.4 Formula Price. The price per share at which the Corporation may exercise its First Refusal Right under Section 4.3 shall be determined in accordance with the following formula:

\[
X = M - $2, \\
X = \text{the price per share at which the Corporation may repurchase the Target Shares, and} \\
M = \text{the fair market value per share of the Target Shares (determined under Section 4.7 without regard to the Corporation's permanent First Refusal Right) on the date immediately preceding the date such right is exercised.}
\]

4.5 Non-Exercise of Right. In the event the Exercise Notice is not given to the Holder within sixty (60) days following the date of the Corporation's receipt of the Disposition Notice, the Holder shall have a period of fifteen (15) days thereafter in which to sell or otherwise dispose of the Target Shares (I) at a price not less than that, and on terms no more favorable than those, set forth in the Disposition Notice or, if no terms are set forth in the Disposition Notice, (II) for a current cash payment equal to the fair market value per share of the Target Shares as of the date of the Holder's receipt of the Disposition Notice.
value (adjusted to reflect the First Refusal Right) of the Target Shares. The third-party purchaser and all subsequent purchasers of the Target Shares shall acquire the Target Shares subject to the First Refusal Right under this Article IV. In the event the Holder does not effect an authorized sale or other disposition of the Target Shares within the specified fifteen (15) day period, the Holder must once again provide the requisite Section 4.2 notice prior to any subsequent disposition of the Purchased Shares.

4.6 Recapitalization. In the event of any stock dividends stock split, recapitalization or other transaction affecting the Corporation's outstanding securities without receipt of consideration, then any new, substituted or additional securities or other property (including money paid other than as a cash dividend) which is by reason of such transaction distributed with respect to the Purchased Shares shall be immediately subject to the Corporation's First Refusal Rights under this Article IV, but only to the extent the Shares are at the time covered by such right.

4.7 Valuation. For purposes of determining the Section 4.4 formula price, the fair market value per share of the Target Shares or the relevant valuation date shall be determined as follows:

(i) If the Corporation's common stock is not at the time listed or admitted to trading on any stock exchange, but is traded in the over-the-counter market, the fair market value shall be the closing selling price of one share of such common stock on the valuation date in the over-the-counter market, as such price is quoted on the NASDAQ National Market System. If there are no reported closing selling price for the valuation date, then the closing selling price on the last date preceding the valuation date for which such price is granted shall be determinative of fair market value.

(ii) If the Corporation's common stock is at the time listed or admitted to trading on any stock exchange, the fair market value shall be the closing selling price of one share of common stock on the valuation date on the stock exchange determined by the Plan Administrator to be the primary market for the common stock, as such price is officially quoted on such exchange. If there is no reported sale of common stock on such exchange on the valuation date, then the fair market value shall be the closing selling price on the exchange on the last date preceding the valuation date for which such quotation exists.

4.8 Nonlapse. The First Refusal Right under this Article IV is intended to be a "restriction which by its terms will never lapse" within the meaning of Section 83(d) of the Internal Revenue Code and shall accordingly be binding upon each and every Holder of the Purchased Shares.

4.9 Transferee Obligations. Each person to whom the Target Shares are transferred by means of a transfer effected in accordance with this Article IV must as a condition precedent to the validity of such transfer acknowledge in writing to the Corporation that such person is bound by the provisions of this Agreement and that the transferred shares shall remain subject to the Corporation's First Refusal Right hereunder.

V. GENERAL PROVISIONS APPLICABLE TO REPURCHASE RIGHT AND FIRST REFUSAL RIGHT.

5.1 Assignment. The Corporation may assign its Repurchase Right under Article III and/or its First Refusal Right under Article IV to any person or entity selected by the Corporation's Board of Directors, including (without limitation) one or more shareholders of the Corporation.

If the assignee of the Repurchase Right is other than a subsidiary corporation of the Corporation, then such assignee must make a cash payment to the Corporation, upon the assignment of the Repurchase Right, in an amount equal to the excess (if any) of the fair market value of the Unvested Shares at the time subject to the Repurchase Right and the aggregate repurchase price payable for such Unvested Shares.

5.2 Notices. Any notice required in connection with the exercise of the Corporation's Repurchase Right or First Refusal Right shall be given in writing and shall be deemed effective upon personal delivery or upon deposit in the United States mail, registered or certified, postage prepaid and addressed to the party entitled to such notice at the address indicated below such party's signature line on this Agreement or at such other address as such party may designate by 10 days advance written notice under this Section 5.2 to all other parties to this Agreement.
5.3 No Waiver. The failure of the Corporation (or its assigns) in any instance to exercise the Repurchase Right granted under Article III or the First Refusal Right under Article IV shall not constitute a waiver of any other repurchase rights or rights of first refusal that may subsequently arise under the provisions of this Agreement or any other agreement with the Corporation. No waiver of any breach or condition of this Agreement shall be deemed to be a waiver of any other or subsequent breach or condition, whether of like or different nature.

5.4 Definitions. For purposes of this Agreement, each corporation (other than the Corporation) in an unbroken chain of corporations beginning with the Corporation shall be considered to be a subsidiary of the Corporation, provided each such corporation (other than the last corporation) in the unbroken chain owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

5.5 Cancellation of Shares. If the Corporation (or its assigns) shall make available, at the time and place and in the amount and form provided in this Agreement, the consideration for the Purchased Shares to be repurchased in accordance with the provisions of this Agreement, then from and after such time, the person from whom such shares are to be repurchased shall no longer have any rights as a holder of such shares (other than the right to receive payment of such consideration in accordance with this Agreement) and such shares shall be deemed purchased in accordance with the applicable provisions hereof and the Corporation (or its assigns) shall be deemed the owner and holder of such shares, whether or not the certificates therefor have been delivered as required by this Agreement.

5.6 Legend. All certificates representing the Purchased Shares shall be endorsed with the following legend:

"THIS CERTIFICATE AND THE SHARES REPRESENTED HEREBY MAY NOT BE SOLD, ASSIGNED, TRANSFERRED, ENCUUMBERED, OR IN ANY MANNER DISPOSED OF EXCEPT IN CONFORMITY WITH THE TERMS OF A WRITTEN AGREEMENT, DATED , 19 , BETWEEN THE COMPANY AND THE REGISTERED HOLDER OF THE SHARES (OR THE PREDECESSOR IN INTEREST TO THE SHARES). SUCH AGREEMENT GRANTS THE CORPORATION (AND ITS ASSIGNS) CERTAIN REPURCHASE RIGHTS AND RIGHTS OF FIRST REFUSAL TO REPURCHASE THE SHARES UPON ANY PROPOSED SALE, ASSIGNMENT, TRANSFER, ENCUMBERANCE OR OTHER DISPOSITION OF THE SHARES OR UPON TERMINATION OF SERVICE WITH THE CORPORATION. THE FIRST REFUSAL RIGHTS ARE PERMANENT AND WILL BE BINDING UPON EACH AND EVERY HOLDER OF THE SHARES. THE CORPORATION WILL UPON WRITTEN REQUEST FURNISH A COPY OF SUCH AGREEMENT TO THE HOLDER HEREOF WITHOUT CHARGE."

VI. MISCELLANEOUS PROVISIONS

6.1 Purchaser Undertaking. Purchaser hereby agrees to take whatever additional action and execute whatever additional documents the Corporation may in its judgment deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on either the Purchaser or the Purchased Shares pursuant to the express provisions of this Agreement.

6.2 Agreement is Entire Contract. This Agreement constitutes the entire contract between the parties hereto with regard to the subject matter hereof. This Agreement is made pursuant to the provisions of the Plan and shall in all respects be construed in conformity with the express terms and provisions of the Plan.

6.3 No Employment Contract. Nothing in this Agreement or in the Plan shall confer upon the Purchaser any right to continue in the employ of the Corporation (or any subsidiary corporation of the Corporation employing Purchaser) for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Corporation (or any subsidiary corporation of the Corporation employing Purchaser) or the Purchaser, which rights are hereby expressly reserved by each, to terminate the Employee status of Purchaser at any time for any reason whatsoever, with or without cause.

6.4 Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of California, as such laws are applied to contracts entered into and performed in such State.

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

6.6 Successors and Assigns. The provisions of this Agreement shall inure to the benefit of, and be binding upon, the Corporation and its successors and assigns and the Purchaser and the Purchaser's legal representatives, heirs, legatees, distributees, assigns and transferees by operation of law, whether or not any such person shall have become a party to this Agreement and have agreed in writing to join herein and be bound by the terms and conditions hereof.

6.7 Power of Attorney. Purchaser's spouse hereby appoints Purchaser his or her true and lawful attorney in fact, for him or her and in his or her name, place and stead, and for his or her use and benefit, to agree to any amendment or modification of this Agreement and to execute such further instruments and take such further actions as may reasonably be necessary to carry out the intent of this Agreement. Purchaser's spouse further gives and grants unto Purchaser as his or her attorney in fact full power and authority to do and perform every act necessary and proper to be done in the exercise of any of the foregoing powers as fully as he or she might or could do if personally present, with full power of substitution and revocation, hereby ratifying and confirming all the Purchaser shall lawfully do and cause to be done by virtue of this power of attorney.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first written above.

XOMA CORPORATION

By

Address:

______________________________

______________________________

______________________________

______________________________

, Purchaser

Address:

______________________________

______________________________

______________________________

, Purchaser Spouse
1. ESTABLISHMENT, PURPOSE, AND DEFINITIONS.

(a) There is hereby established the 1985 Nonqualified Stock Option Plan (the "Plan") of International Genetic Engineering, Inc. (the "Company"). The Plan permits the granting to "significant employees or consultants," (as hereinafter defined) of stock options ("Options"). These Options are not intended to qualify as incentive stock options under Section 422A of the Internal Revenue Code of 1954, as amended (the "Code").

(b) The purpose of this Plan is to provide a means by which significant employees and consultants of the Company or its affiliates may be given an opportunity to purchase shares of the Common Stock of the Company (the "Stock") pursuant to Options.

(c) In the absence of contrary action by the Board of Directors of the Company (the "Board"), any action taken by the Board, or by the committee of directors appointed by the Board to administer the Plan (such committee being hereinafter referred to as the "Committee") with respect to the implementation, interpretation or administration of the Plan shall be final, conclusive and binding. The Committee shall have authority to grant options, to establish the terms and conditions thereof and otherwise to act for the Company with respect to the Plan, except as provided in Paragraph 9.

(d) The term "affiliates" as used in the Plan means parent or subsidiary corporations of the Company, as defined in section 425 of the Code (but substituting "Company" for "employer corporation"), including parent or subsidiaries which become such after adoption of the Plan. The term "significant employees and consultants" shall mean one or more employees, officers, consultants or directors of the Company or its affiliates who, in the judgment of the Committee or the Board (as hereinafter defined), render those types of services which tend to contribute materially to the success of the Company or which may reasonably be anticipated to contribute materially to the future success of the company.

2. STOCK SUBJECT TO THE PLAN.

(a) Options may be granted under this Plan from time to time to significant employees and consultants to purchase an aggregate of no more than 550,000 shares of Stock. As the Committee or the Board may determine from time to time, the shares may consist either in whole or in part of shares of authorized but unissued Stock, or shares of authorized and issued Stock reacquired by the Company and held in its treasury. If an Option ceases to be exercisable in whole or in part, the shares which were subject to such Option, but as to which the Option had not been exercised, shall continue to be available for granting under the Plan.

(b) It there shall be any change in the Stock subject to this Plan or the Stock subject to any Option granted hereunder, through merger, consolidation, reorganization, recapitalization, reincorporation, stock split, stock dividend, or other change in the corporate or capital structure of the Company (including a liquidating dividend but not an ordinary and reasonable dividend), that event shall simultaneously, and without any further action by the Committee or the Board, cause appropriate adjustments to be made in (i) the number of shares and the price per share subject to outstanding Options in order to preserve, but not to increase, the benefits of the optionee, so that immediately after such event each holder of an Option shall be entitled, upon payment to the Company of the aggregate amount of money provided in the Option, to receive that number of shares or other property that he would have received it he had exercised the Option in full (without regard to any provisions relating to the dates on which the Option becomes exercisable) immediately prior to such event; and (ii) the aggregate number of shares subject to this Plan. Provided, however, that subject to any required action by the stockholders of the Company, if there shall be a dissolution or liquidation of the Company or if the Company shall not be the surviving corporation in any merger, consolidation or reorganization or if eighty percent (80%) or more of the Company's then outstanding voting stock is acquired by another corporation or if the Company agrees to sell substantially all of its assets and property to another person (a "Terminating Event"), each optionee shall have the right immediately prior to such dissolution, liquidation, merger, consolidation, reorganization, acquisition or sale of assets to exercise his Option(s) to the extent not theretofore
exercised, whether or not they are then exercisable in the ordinary course of events, unless there is a surviving corporation or a parent or subsidiary corporation thereof that shall assume (with appropriate changes) the outstanding Options or replace them with new options of comparable value. The Company shall give reasonable notice of any Terminating Event. Thirty (30) days after delivery of such notice, every Option or any portion thereof outstanding hereunder shall thereupon terminate, unless there is a surviving corporation or a parent or subsidiary corporation thereof that shall assume (with appropriate changes) the outstanding Options or replace them with new options of comparable value.

3. ELIGIBILITY.

The significant employees and consultants who shall be eligible to have Options granted to them are defined to be those employees and consultants as the Committee or the Board, in its absolute discretion, shall designate from time to time.

4. ADMINISTRATION OF THE PLAN.

(a) The Plan shall be administered by the Committee. The Board may from time to time remove members from, or add members to, the Committee. Vacancies on the Committee, however caused, shall be filled by the Board. The Committee shall hold meetings at such times and places as it may determine. A majority of the Committee shall constitute a quorum. A majority of the members present may act at any meeting at which a quorum is present. Any action that may be taken at a meeting may be taken without a meeting if reduced to and approved in writing by all the members of the Committee. Options may be granted to significant employees who are members of the Committee, provided that they are approved by a majority of the members of the whole Committee with the person to whom Options are to be issued voting, unless the Company's shares become subject to the Securities and Exchange Act of 1934. If the Company becomes subject to the Securities and Exchange of 1934, no options may be granted to any member of the Committee during the term of his or her membership on the Committee. No person shall be eligible to serve on the Committee unless he or she is then a "disinterested person" within the meaning of paragraph (b) of Rule 16B-3, which has been adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, if and as such rule is then in effect.

(b) Subject to and consistent with the provisions of this Plan, either the Board or the Committee may from time to time determine which significant employees and consultants shall be granted Options, the terms and conditions thereof, and the number of shares for which an Option or Options shall be granted to an optionee.

(c) In addition to any other authority it may have, either the Board or the Committee shall have authority, subject to and consistent with the provisions of this Plan:

(1) To substitute Options with different terms for previously granted Options;

(2) To amend the terms of any Option or Options previously granted, including the authority to reduce the Option exercise price from time to time, but not to reduce the price below the price as determined under Paragraph 5; and

(3) To accept, upon exercise of Options, consideration other than cash, including without limitation, a promissory note or notes of the Optionee, shares of the Company's Stock valued at its fair market value at the time of the surrender of options to purchase Stock, valued at the difference between fair market value at the time of the Stock subject to the Option and the exercise price thereof.

If the Stock is neither listed nor admitted to trading on any stock exchange nor actively traded in the over-the-counter market at the time an Option is granted, then the Committee or the Board shall in good faith determine the fair market value of the Stock on the basis of such criteria as may appear to it to be reasonable at the time. If the Stock is listed or admitted to trading on a stock exchange or is actively traded over-the-counter at the time the Option is granted, the fair market value shall be the mean between the highest reported bid price and the lowest reported asked price of the Stock in the over-the-counter market on the last business day prior to the date the Option is granted, as reported by any publication selected by the Company which
regularly reports the market price of the Stock in such market. If the Stock is then listed or admitted to trading on any stock exchange, the fair market value shall be the last reported sales price on the last business day prior to the date the Option is granted on the principal stock exchange on which the Stock is then listed or admitted to trading as reported by any publication selected by the Company which regularly reports the market price of the Stock on such exchange, or, if no sale takes place on such day on such principal stock exchange, then the closing bid price of the Stock on such exchange on such day. Such price shall be subject to adjustment as provided in Paragraph 2(b) hereof.

(d) The Board or the Committee shall report to the Secretary of the Company the names of persons to whom Options have been granted, the number of shares covered by each Option, and the terms and conditions of each such Option.

(e) Subject to the terms and conditions of the Plan, either the Board or the Committee shall have full power to adopt, amend, and rescind roles and regulations relating to its administration of this Plan; to construe and interpret this Plan, such rules and regulations, and the instruments evidencing Options; and to make all other determinations deemed necessary or advisable for the administration of this Plan. All decisions, determinations, and interpretations of the Board of Directors and the Committee shall be final and binding.

5. THE OPTION EXERCISE PRICE.

(a) the exercise price of the Stock covered by each Option shall be not less than 100 percent of the fair market value of such stock, as determined in good faith by the Committee or the Board (as the case may be), on the date the Option is granted. For all purposes hereof, the date on which an Option is granted shall be the date on which the Committee or the Board determines to make the grant and establishes the price thereof, without regard to subsequent delays in approvals of other terms and conditions or preparation of documents.

(b) The Option price shall be paid in full at the time of exercise of the Option in cash, by check, or, at the discretion of the Committee or the Board, by delivering stock of the Company already owned by the Optionee, or also at the discretion of the Committee or the Board, by the promissory note or notes of the Optionee, or at the discretion of the Committee or the Board by a combination of these methods. The value of any stock delivered in payment shall, prior to the stock's being publicly traded, be the fair market value of the stock as determined by the Committee or the Board and, after the stock is publicly traded, be the fair market value of the Company's stock, as defined in Section 4(c) but using market quotations on the last business day prior to delivery. Any promissory notes shall bear a rate of interest not less than the rate, as it may change from time to time, required under federal tax law to prevent any imputation of interest, unless the rate exceeds the maximum rate permissible under California law, in which case the rate shall be the maximum permitted under California law. Such promissory notes shall be secured by a security interest in the shares issued upon exercise and such other security, if any as the Committee or the Board may require. All other terms of such loan shall be determined solely by the Committee, and all terms and conditions, including whether the loan shall become due upon cessation of employment, shall be set forth in the promissory note or notes executed by the Optionee. The Committee shall furnish the Optionee with a Truth-in-Lending Statement showing the terms of the loan, including the amount financed, total payments of interest, total payments of principal and annual percentage rate. The Board or Committee may in its discretion, during any time in which any portion of the loan is outstanding, provide for forgiveness of the loan, on such terms and conditions as the Board or Committee shall determine.

6. TERMS AND CONDITIONS OF OPTIONS.

(a) Each Option granted pursuant to this Plan shall be evidenced by a written Stock Option Agreement executed by the Company and the person to whom such Option is granted, in such form and on such terms as the Board or the Committee shall approve from time to time, but subject to the following subparagraphs (b) and (c) of this Paragraph 6.

(b) Each Stock Option Agreement entered into pursuant to this Plan shall contain at least the following provisions:

(1) The number of shares that may be purchased upon exercise of the
Option and such exercise price as the Board of Directors or the Committee may determine, but which is not less than the price determined in accordance with Paragraph 5;

(2) A prohibition against the transfer of any Option to purchase Stock other than a transfer by will or the laws of descent and distribution and a limitation that the Option is exercisable during the optionee's lifetime only by him or after his death by his legal representative;

(3) Provisions for termination of the Option thirty days after termination of employment except for cause or for death or permanent and total disability of the Option holder, one year in the event of termination of employment by reason of death or permanent and total disability, and immediate termination of the Option in the event of termination for cause; and

(4) Such term for any Option, which is not in excess of a period of ten years and one day from the date it is granted as the Committee or the Board may determine and a schedule under which at least 20% of the shares granted under this Option shall become exercisable each year.

(c) Each Stock Option Agreement may also contain:

(1) Such provisions as are necessary to render the issuance of Stock in compliance with all applicable requirements of law and to relieve the Company of any obligation to issue or deliver Stock unless and until, in the opinion of the Company's counsel, there has been full compliance with all applicable requirements of the securities laws and all applicable listing requirements of any national securities exchange on which shares of the same class are then listed;

(2) Such restrictions on sale or other disposition of the Stock purchased upon exercise of the Option as may be determined by the Board or the Committee; and

(3) Such other terms and conditions not inconsistent with this Plan as may be determined by the Board or the Committee.

7. USE OF PROCEEDS.

Proceeds realized from the sale of Stock pursuant to Options granted under this Plan shall constitute general funds of the Company.

8. AMENDMENT, SUSPENSION, OR TERMINATION OF PLAN.

The Board may at any time suspend or terminate this Plan, and may amend it from time to time in such respects as the Board may deem advisable; provided, however (except as provided in Paragraph 2(b) hereof), the Board shall not amend the Plan in the following respects without shareholder approval:

(a) To increase the maximum number of shares subject to the Plan; or

(b) To change the designation of class of persons eligible to receive Options under the Plan.

No amendment, suspension, or termination of this Plan shall, without the optionee's consent, alter or impair any rights or obligations under any Option theretofore granted to him under this Plan.

9. EFFECTIVE DATE AND TERMINATION OF PLAN.

(a) The Plan was adopted by the Board and became effective on December 19, 1985. The Plan was approved by the shareholders of the Company on November 20, 1985.

(b) Unless sooner terminated by the Board, the Plan shall terminate ten years and one day after the date of Board approval as stated in Paragraph 9(a).
STOCK OPTION AGREEMENT UNDER THE 1985
NONQUALIFIED STOCK OPTION PLAN

THIS AGREEMENT is dated as of the (blank) day of (blank), 19 (blank) by and
between International Genetic Engineering, Inc. (the "Company") and (blank)
("Optionee").

WHEREAS, pursuant to the 1985 Nonqualified Stock Option Plan of the Company
(the "Plan") of the Board of Directors (the "Board") of the Company or the Stock
Incentive Committee (the "Committee") of the Board has authorized granting to
Optionee a Non-Qualified Stock Option (the "Option") to purchase shares of
common stock of the Company in accordance with and on the terms and conditions
hereinafter stated;

NOW, THEREFORE, it is hereby agreed:

1. Grant of Option. Subject to the terms and conditions of the Plan, which
is incorporation herein by reference and a copy of which is available to
Optionee upon request, and pursuant to the action of the Board of the Committee
and in accordance with authorizations granted by all appropriate regulatory and
governmental agencies, the Company hereby grants to Optionee the Option to
purchase all or any part of (blank) shares of common stock of the Company at the
price of $(blank) per share, which price has been determined by the Board or the
Committee. The date of grant of this Option is the date first above set forth.

2. Exercise.

(a) This Option shall be exercisable as follows:

(b) This Option shall remain exercisable as to all of such shares until ten
years and one day from the date of grant of this Option, unless this Option has
expired or terminated earlier in accordance with the provisions hereof. Shares
as to which this Option becomes exercisable pursuant to the foregoing provision
may be purchased at any time prior to expiration of this Option.

(c) Notwithstanding the preceding provisions of this paragraph, upon
delivery of notice from the Company of the pendency of dissolution or
liquidation of the Company or a reorganization, merger, consolidation of the
Company with one or more corporations as a result of which the Company will not
be the surviving corporation, or the acquisition of eighty percent (80%) or more
of the Company's then outstanding voting stock by another corporation, a sale of
substantially all of the assets and property of the Company to another person (a
"Terminating Event"), this Option shall be exercisable in full and not merely as
to those shares with respect to which installments, if any, have then accrued,
unless there is a

3. Exercise of Option. This Option may be exercised only in 100-share lots,
or, if less than 100 shares remain to be purchased upon exercise of any vested
installments of this Option, then to the extent of the remaining shares which
may be

4. Cessation of Employment (Other Than Death or Total Disability). Except
as provided in Paragraph 5 hereof, if Optionee shall cease to be employed by the
Company or a subsidiary corporation for any reason other than Optionee's
permanent and total disability or death, this Option shall expire thirty (30) days after the date on which the Optionee ceases employment or on the date specified in Paragraph 2 hereof, whichever is earlier. Before such expiration, Optionee shall have the right to exercise this Option only as to those shares with respect to which installments, if any, had accrued under Paragraph 2 hereof at the date of termination of employment.

5. Termination of Employment for Cause. If Optionee's employment by the Company or a subsidiary corporation is terminated for cause, this Option shall expire immediately. Termination for cause shall include termination for malfeasance or gross misfeasance in the performance of duties or conviction of a felony or any conduct intentionally detrimental to the interests of the Company or a parent or subsidiary corporation, or any other cause as specified in any employment agreement between the Company and the Optionee, and in any event, determination of the Board with respect thereto shall be final and conclusive.

6. Nontransferability; Death or Total Disability of Optionee. This Option shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable during Optionee's lifetime only by Optionee. If Optionee dies, or is permanently and totally disabled, while employed by the Company or a subsidiary corporation, this Option shall expire one(1) year after the date of Optionee's death, or permanent and total disability, or on the day specified in paragraph 2 hereof, whichever is earlier. After Optionee's death but before such expiration, the persons to whom Optionee's rights under this Option shall have passed by will or by the applicable laws of descent and distribution, or a person lawfully entitled to act for him, shall have the right to exercise this Option only as to those shares, if any, for which installments had accrued under Paragraph 2 hereof as of the date on which Optionee ceased to be employed by the Company or subsidiary corporation. Shares purchased by such persons shall be subject to all of the terms and provisions of this Agreement.

7. Employment. This agreement shall not obligate the Company or a subsidiary corporation to employ Optionee for any period, nor shall it interfere in any way with the right of the Company or a subsidiary corporation to reduce Optionee's compensation or to terminate the employment of Optionee.

8. Privileges and Restrictions of Stock Ownership.

(a) Optionee shall have no rights as a stockholder with respect to common stock of the Company subject to this Option until the date of issuance of stock certificates to him. Except as provided in Section 3(b) of the Plan, no adjustment will be made for dividends or other rights for which the record date is prior to the date such stock certificates are issued.

(b) By accepting this Option, Optionee, for himself and his transferees by will or the laws of descent and distribution, agrees that any and all shares purchased upon exercise of this Option shall be acquired for investment and not for sale or for distribution, that each notice of the exercise of any portion of this Option shall be accompanied by a representation and agreement in writing, signed by the person entitled to exercise the same, that the shares are being acquired in good faith for investment and not for sale or for distribution and that any and all certificates presenting shares purchased on the exercise of this Option may have affixed thereto an appropriate legend indicating that such shares have not been registered under the Securities Act of 1933, as amended, and are subject to certain restrictions on transfer, and shall be subject to such restrictions on transfer, and related legends, as in the opinion of counsel may be reasonably prudent under the circumstances. Provided, however, that if the shares subject to this Option are registered under the Securities Act of 1933, as amended, and if other applicable laws do not require similar restrictions at the time, the requirements set forth in this Section 8 shall be of no force and effect, and the Optionee may acquire such shares without giving such a representation.

9. Modification and Termination. The rights of Optionee are subject to adjustment, modification and termination as provided in Paragraph 2 (relating to adjustments to reflect reorganizations, recapitalizations and like transactions), 4 (relating to authority in administration of the Plan) and 9 (relating to amendment, termination and suspension of the Plan) of the Plan.

10. Notification of Sale. Optionee agrees that Optionee, or any person acquiring shares upon exercise of this Option, will notify the Company not more than five (5) days after any sale or disposition of such shares.

11. Withholding Taxes. Whenever shares are to be issued in satisfaction of this Option, the Company shall have the right to require Optionee to remit to the Company an amount sufficient to satisfy any federal, state and local withholding tax requirements prior to the delivery of any certificate or certificate of such shares.
12. Notices. Notices delivered under this Agreement shall be delivered to the Company, at its principal office (Attention: President), and to the Optionee at such address as Optionee shall designate to the Company.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement.

OPTIONEE: INTERNATIONAL GENETIC ENGINEERING, INC.

By (blank)

-7-
This Agreement is made as of November 13, 1989, by and between XOMA Corporation, a Delaware Corporation ("XOMA") and (blank) ("Employee").

WHEREAS:

1. International Genetic Engineering, Inc. ("INGENE"), XOMA, and XOMA Acquisition Corporation, a wholly owned subsidiary of XOMA ("Sub"), entered into the First Amended and Restated Agreement and Plan of Reorganization dated as of August 10, 1989 and an Agreement of Merger dated as of November 13, 1989.

2. Effective November 13, 1989 ("Merger Effective Date"), pursuant to the Agreement of Merger, Sub was merged with and into INGENE.

3. Employee is the holder of an outstanding option granted prior to the Merger Effective Date, to purchase shares of INGENE Common Stock under the International Genetic Engineering, Inc. 1985 Nonqualified Stock Option Plan ("Plan").

4. Employee's outstanding option is evidenced by an option agreement ("Original Option Agreement") specifying the terms and conditions upon which the outstanding option may be exercised.

5. Pursuant to Section 4.03(a) of the Agreement of Merger and Section 2(b) of the Plan, XOMA has agreed to assume the obligations of INGENE under all options outstanding under the Plan on the Merger Effective Date.

NOW THEREFORE, effective as of the Merger Effective Date, the parties agree as follows:

A. Employee warrants and represents that Employee is the holder of an option to purchase the number of shares of INGENE Common Stock indicated in the table below ("TABLE"), at the specified exercise price per share ("INGENE Option").

B. The terms and conditions of the INGENE Option are amended as follows:

(1) The shares purchasable under the Original Option Agreement shall be shares of XOMA Common Stock.

(2) All references to the Company in the Plan and the Original Option Agreement shall be references to XOMA.

(3) The number of XOMA shares purchasable under the INGENE Option assumed by XOMA, and the exercise price of those shares are adjusted as indicated in the TABLE to reflect the exchange ratio at which shares of INGENE Common Stock were converted into shares of XOMA Common Stock under the Agreement of Merger.

<table>
<thead>
<tr>
<th>Date Granted</th>
<th>Number of INGENE Shares Unexercised</th>
<th>Exercise Price Per Share</th>
<th>Number of XOMA Shares</th>
<th>Exercise Price Per Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>(blank)</td>
<td>&lt;C&gt;</td>
<td>&lt;C&gt;</td>
<td>&lt;C&gt;</td>
<td>&lt;C&gt;</td>
</tr>
</tbody>
</table>

C. With the exception of the above amendments, the terms and conditions of the INGENE Options, as set forth in the Plan and the Original Option Agreement, remain in full force and effect.

D. With respect to the INGENE Option, XOMA assumes all obligations of INGENE and agrees to issue up to the number of shares of XOMA Common Stock indicated in the TABLE upon exercise of the INGENE Option in accordance with provisions of the Plan and the Original Option Agreement (as amended by this Agreement) and payment of the adjusted exercise price per share specified in the TABLE.

E. This Agreement shall be binding upon, and inure to the benefit of, the successors and assigns of XOMA and the executors, administrators, heirs and legatees of the Employee's estate.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first set forth above.

(blank)
Employee

XOMA Corporation

By (blank)
Title (blank)
Effective as of October 30, 1996, pursuant to Board action on such date, the International Genetic Engineering 1985 Nonqualified Stock Option Plan (the "Ingene Plan") is hereby amended as follows:

1. Section 4(a) of the Ingene Plan is amended by adding the following at the end thereof:

"Notwithstanding anything in the Plan to the contrary, effective October 30, 1996, the Plan will be administered by either the full Board of Directors (without regard to the number of "non-employee directors" (as defined below) on the Board) or, if appointed by the Board, a committee thereof comprised of at least two (2) "non-employee directors." "Non-employee director" has the meaning set forth in Rule 16b-3(b)(3) of the Securities and Exchange Commission as amended in 1996 (or any successor provision thereto). Such director will not be required to be a "disinterested person" within the meaning of previous Rule 16b-3. However, the mere fact that a Committee member shall fail to qualify as a non-employee director shall not invalidate any options granted by the Committee which are otherwise validly granted under the Plan."
XOMA CORPORATION

1992 DIRECTORS STOCK OPTION PLAN

(As Amended and Restated Through October 30, 1996)

1. General. The XOMA Corporation 1992 Directors Stock Option Plan (the "Plan") was adopted on February 20, 1992 (the "Adoption Date") by the Board of Directors of XOMA Corporation (the "Company"), subject to the approval of the Company's stockholders at its 1992 annual meeting. A total of 150,000 shares of the Company's Common Stock, par value $.0005 per share ("Common Stock"), have been reserved for issuance hereunder. The Plan provides for the granting to non-employee directors of the Company of non-qualified options ("Options" or "Option") to purchase Common Stock.

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

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

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

5. Grants under the Plan. All Options granted under the Plan shall be non-statutory options, not entitled to special tax treatment under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"). The number of shares of Common Stock available for grants under the Plan shall not exceed 150,000 shares, subject to adjustment as provided in Section 7. The shares with respect to which particular Option has been granted are hereinafter referred to as "Optioned Shares." The written agreement evidencing each Option granted under the Plan (the "Agreement") shall be dated as of the applicable date of grant. Each Director accepting an Option grant shall execute and return a copy of the Agreement to the Company. If any outstanding Option shall terminate for any reason without having been exercised in full, the shares applicable to the unexercised portion of such Option shall again become available under the Plan. Either authorized and unissued shares or treasury shares may be delivered under the Plan.


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

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

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

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

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

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

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

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

(A) With respect to Options granted pursuant to the first sentence of Section 6(a) hereof, each such Option shall become exercisable with respect to 20% of the Optioned Shares on the date of grant;

(B) Each Option shall become exercisable with respect to 20% (or, in the case of Options referred to in clause (A) above, an additional 20%) of the Optional Shares after the expiration of one year from the date of grant;

(C) Each Option shall become exercisable with respect to an additional 20% of the Optional Shares after the expiration of two years from the date of grant;

(D) Each Option shall become exercisable with respect to an additional 20% of the Optioned Shares after the expiration of three years from the date of grant;

(E) Each Option shall become exercisable with respect to an additional 20% (or, in the case of Options referred to in clause (A) above, the remaining 20%) of the Optional Shares after the expiration of four years from the date of grant;

(F) With respect to Options other than those referred to in clause (A) above, each such Option shall become exercisable with respect to the remaining 20% of the Optioned Shares after the expiration of five years from the date of grant; and

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

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

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

(ii) Should Optionee die while such Option is outstanding, then the personal representative of Optionee's estate or the person or persons to whom the Option shall be transferred shall have the right to exercise this Option, but only with respect to that number of Optioned shares (if any) for which Option is exercisable on the date of Optionee's death. Such right shall lapse and the Option shall cease to be exercisable upon the earlier of (A) the expiration of the one (1) year period measured from the date of Optionee's death or (B) the specified Expiration Date of the Option term.

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

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

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

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

7. Adjustment Upon Changes in Capitalization

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

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

8. Corporate Transaction.

(a) In the event of one or more of the following transactions ("Corporate
Transaction"): (i) a merger or acquisition in which the Company is not the surviving
entity, except for a transaction the principal purpose of which is to
change the State of the Company's incorporation,

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

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

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

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

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

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

11. Effective Date. The Plan shall, subject to the approval of the
stockholders at the 1992 annual meeting, be effective as of February 20, 1992
the "Effective Date".
This document is to be used for initial grants to new directors

Stock Option Agreement

Under the XOMA Corporation

1992 Directors Stock Option Plan

(A) Optionee:

(B) Grant Date:                  (E) Expiration Date:

(C) Shares:                      (F) Exercise Price:
     10,000 shares                          $   per share

(D) Share Installments:          (G) Option Type:
     Option becomes exercisable in five equal, annual installments, beginning 1 year from
     Grant Date

Subject to the terms of the XOMA Corporation 1992 Directors Stock Option Plan, as amended and restated through October 30, 1996 (the "Plan") and to the terms and conditions set forth in this agreement (the "Agreement"), XOMA Corporation (the "Corporation") has granted you, as of the Grant Date shown in item (B) above, a non-qualified stock option (not entitled to special tax treatment under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code")) to purchase the number of shares of the Corporation's Common Stock shown in item (C) above (the "Optioned Shares") at the Exercise Price shown in item (F) above.

The details of your option are as follows:

1. Term. This option has a maximum term of ten years measured from the Grant Date and will, unless sooner terminated in accordance with Section 4 or Subsection 6(a) hereof, expire on the Expiration Date shown in item (E) above. Upon the Expiration Date or upon the sooner termination of this option under Section 4 or Subsection 6(a), this option will cease to be exercisable and have no further force or effect whatsoever.

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

3. Exercise Schedule. Provided that you remain a member of the Board of Directors of the Corporation who is not a full or part-time employee of the Corporation or of any subsidiary or affiliate of the Corporation (a "Director"), and except as otherwise provided in Section 6(a), the option granted herein will become exercisable in accordance with the following schedule:

   (a) This option is exercisable with respect to 20% of the Optioned Shares after the expiration of one year from the Grant Date;

   (b) This option is exercisable with respect to an additional 20% of the Optioned Shares after the expiration of two years from the Grant Date;

   (c) This option is exercisable with respect to an additional 20% of the Optioned Shares after the expiration of three years from the Grant Date;

   (d) This option is exercisable with respect to an additional 20% of the Optioned Shares after the expiration of four years from the Grant Date; and

   (e) This option is exercisable with respect to the remaining 20% of the Optioned Shares after the expiration of five years from the Grant Date.

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.

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

(a) Except as otherwise provided in Subsections (b), (c) and (d) below, if you cease to be a Director at any time during the option term, then you will have up to three months commencing with the date of such cessation of Director status in which to exercise this option, but in no event will this option be exercisable at any time after the Expiration Date. During 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 Director status. Upon the expiration of such limited period of exercisability or (if earlier) upon the Expiration Date, this option will terminate and cease to be outstanding.

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

(c) If you become permanently disabled and cease by reason thereof to be a Director at any time during the option term, then you will have a period of twelve months (commencing with the date of such cessation of Director status) during which to exercise this option; provided, however, that in no event will this option be exercisable at any time after the Expiration Date. 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 Director status. 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

12 consecutive months or more, unable to perform your usual duties as a Director of the Corporation.

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

5. Adjustment Upon Changes in Capitalization.

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

(b) If the Corporation is the surviving entity in any merger or other business combination, then this option will be appropriately adjusted to apply and pertain to the number and class of securities which the holder of the number of shares of the Corporation's Common Stock subject to this option immediately prior to such merger or other business combination would have been entitled to receive in the consummation of such merger or other business combination, and an appropriate adjustment will be made to the Exercise Price payable per share, provided the aggregate Exercise Price will remain the same.

6. Corporate Transaction.

(a) In the event of one or more of the following transactions: "Corporate
(i) a merger or acquisition in which the Corporation is not the surviving entity, except for a transaction the principal purpose of which is to change the State of the Corporation's incorporation,

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

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

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

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

7. Privilege of Stock Ownership. You will not have any rights of a stockholder of the Corporation with respect to the Optioned Shares until you have exercised the option, paid the Exercise Price and been issued a stock certificate for the purchased shares.

8. Manner of Exercising Option.

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

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

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

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

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

9. Compliance with Laws and Regulations.

(a) The exercise of this option and the issuance of Optioned Shares upon such exercise will be subject to compliance by the Corporation and by you with all applicable requirements of law relating thereto and with all applicable regulations of any stock exchange on which shares of the Corporation's Common Stock 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 Corporation such representations in writing as may be requested by the Corporation in order for it to comply with the applicable requirements of Federal and State securities law.
10. Restrictive Legends. If and to the extent any Optioned Shares acquired under this option are not registered under the Securities Act of 1933, the stock 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."

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

12. Liability of the Corporation.

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

(b) The inability of the Corporation to obtain approval from any regulatory body having authority deemed by the Corporation to be necessary to the lawful issuance and sale of any Common Stock pursuant to this option will relieve the Corporation of any liability in respect of the non-issuance or sale of such stock as to which such approval will not have been obtained.

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

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

15. 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 (as that term is defined in the Plan) 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 Paralegal Assistant in the Legal Department of the Corporation.

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

XOMA CORPORATION

By:
John L. Castello
Chairman of the Board,
President & Chief Executive Officer

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

By:

Dated:

-9-

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:

Dated:
This document is to be used for annual grants to existing directors

Stock Option Agreement
Under the XOMA Corporation
1992 Directors Stock Option Plan

| (A) | Optionee: |
| (B) | Grant Date: | (E) Expiration Date: |
| (C) | Shares: | (F) Exercise Price: |
| 1,000 shares | $ per share |
| (D) | Share Installments: | (G) Option Type: |
| Option is fully exercisable |

Subject to the terms of the XOMA Corporation 1992 Directors Stock Option Plan, as amended and restated through October 30, 1996 (the "Plan") and to the terms and conditions set forth in this agreement (the "Agreement"), XOMA Corporation (the "Corporation") has granted you, as of the Grant Date shown in item (B) above, a non-qualified stock option (not entitled to special tax treatment under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code")) to purchase the number of shares of the Corporation's Common Stock shown in item (C) above (the "Optioned Shares") at the Exercise Price shown in item (F) above.

The details of your option are as follows:

1. Term. This option has a maximum term of ten years measured from the Grant Date and will, unless sooner terminated in accordance with Section 4 or Subsection 6(a) hereof, expire on the Expiration Date shown in item (E) above. Upon the Expiration Date or upon the sooner termination of this option under Section 4 or Subsection 6(a), this option will cease to be exercisable and have no further force or effect whatsoever.

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

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

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

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

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

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

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

5. Adjustment Upon Changes in Capitalization.

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

(b) If the Corporation is the surviving entity in any merger or other business combination, then this option will be appropriately adjusted to apply and pertain to the number and class of securities which the holder of the number of shares of the Corporation's Common Stock subject to this option immediately prior to such merger or other business combination would have been entitled to receive in the consummation of such merger or other business combination, and an appropriate adjustment will be made to the Exercise Price payable per share, provided the aggregate Exercise Price will remain the same.

6. Corporate Transaction.

(a) In the event of one or more of the following transactions ("Corporate Transaction"): (i) a merger or acquisition in which the Corporation is not the surviving entity, except for a transaction the principal purpose of which is to change the State of the Corporation's incorporation,

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

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

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

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

7. Privilege of Stock Ownership. You will not have any rights of a stockholder of the Corporation with respect to the Optioned Shares until you have exercised the option, paid the Exercise Price and been issued a stock certificate for the purchased shares.

8. Manner of Exercising Option.

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

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

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

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

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

9. Compliance with Laws and Regulations.

(a) The exercise of this option and the issuance of Optioned Shares upon such exercise will be subject to compliance by the Corporation and by you with all applicable requirements of law relating thereto and with all applicable regulations of any stock exchange on which shares of the Corporation's Common Stock 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 Corporation such representations in writing as may be requested by the Corporation in order for it to comply with the applicable requirements of Federal and State securities law.

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

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

12. Liability of the Corporation.

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

(b) The inability of the Corporation to obtain approval from any regulatory
body having authority deemed by the Corporation to be necessary to the lawful issuance and sale of any Common Stock pursuant to this option will relieve the Corporation of any liability in respect of the non-issuance or sale of such stock as to which such approval will not have been obtained.

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

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

15. 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 (as that term is defined in the Plan) 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 Paralegal Assistant in the Legal Department of the Corporation.

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

XOMA CORPORATION

By:

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

Dated:

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

By:

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:

Dated:
I. Introduction and Summary.

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

Officers, employees who have the title of Director or are in salary grades E8 and above and report directly to an officer, and additional discretionary participants ("Discretionary Participants") determined by the Chief Executive Officer ("CEO") to be critical to the achievement of Corporate Objectives established by the Board of Directors, are eligible to participate in this Plan and, depending on their performance and that of the corporation, earn incentive compensation ("Incentive Compensation") (Article III contains the definitions of certain terms not otherwise defined in the places such terms first appear in this Plan.) The CEO shall designate those eligible employees who will participate in the Plan. Employees receiving promotions, and new employees joining XOMA during a Plan Period, who thereby meet the eligibility criteria for participation in the Plan, will be considered at the discretion of the CEO for participation in the Plan on a pro rata basis. The CEO will not participate in the Plan.

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

Individual awards will be granted in cash and/or shares of XOMA common stock based on the average market value of the common stock for the ten trading days prior to the date of the award. Individual awards will vest over a three-year period with 50% of each award payable on a distribution date set by the Board of Directors acting in part on the advice of the CEO and the Compensation Committee and expected to be in February or March of the year succeeding the Plan Period and 25% of the award payable on each of the next two annual distribution dates as long as the individual continues to be employed by XOMA and continues to be a Plan participant. The portion of each award to be paid on the first distribution date following a Plan Period will be comprised of 50% cash and 50% in shares of XOMA common stock based on the market value formula set forth above. For the balance of the award expected to be paid in successive years, participants will be asked to make a one-time, irrevocable choice prior to December 31 of the year succeeding the Plan Period, as to whether the balance of the award should be paid in cash or shares of XOMA common stock. Failure to exercise the option or to meet the December 31 deadline will result in the common stock choice being selected. No option is being offered to divide the balance of the award between cash and XOMA common stock.

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

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

II. Purposes.

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

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

A. Base Salaries. The term "Base Salaries" means total base salaries before any deferred tax reductions, excluding overtime, moving allowances, participation in clinical studies, incentive or bonus payments, shift differential, imputed income due to fringe benefits such as group insurance plans, and other compensatory items of this type.

B. Corporate Objectives. The term "Corporate Objectives" means that list of corporate objectives approved from time to time by the Board of Directors in its sole discretion for each Plan Period. The objectives may be based on financial goals, scientific or commercial progress, profits, return on investments or any other criteria established by the Board of Directors. The current Corporate Objectives, the milestones within each Corporate Objective and their respective relative percentage contribution to the overall Corporate Objectives and the Required Corporate Objective Percentage is set forth on Schedule I attached hereto together with an Explanatory Note describing the method of calculation.

C. Employee. The term "Employee" means any individual on the XOMA payroll rendering services for XOMA whose normal work week is 30 hours or more (excluding consultants, advisors, and other similar individuals providing services to XOMA).

D. Plan Period. Subject to Article VI, the term "Plan Period" means the fiscal period from July 1 to December 31, 1993 and, thereafter, each fiscal year ending December 31.

E. Plan Term. Subject to Article VI, the term "Plan Term" means the period commencing on July 1, 1993 and continuing until the termination of this Plan by the Board of Directors.

IV. Plan Mechanics.

A. Eligibility. Officers, employees who have the title of Director or are in salary Grade E8 and above and report directly to an officer, and additional Discretionary Participants determined by the CEO to be critical to the achievement of the Corporate Objectives, are eligible for participation in the Plan. Other than the officers who may participate in the Plan who shall be designated in writing by the Compensation Committee, the CEO shall designate in writing the employees who will participate in the Plan. An individual who becomes an Employee who meets the eligibility criteria for participation in the Plan after the beginning of a Plan Period, or is promoted after the beginning of a Plan Period to a position eligible for participation in the Plan, will be considered by the Compensation Committee, the CEO shall designate in writing the employees who will participate in the Plan. An individual who becomes an Employee who meets the eligibility criteria for participation in the Plan after the beginning of a Plan Period, or is promoted after the beginning of a Plan Period to a position eligible for participation in the Plan, will be considered by the Compensation Committee or the CEO, as the case may be, for participation in the Plan and, if designated in writing to participate, such Employee will have her/his award pro rated as of the date of eligibility determined by the Compensation Committee or the CEO, as the case may be. Because awards vest and are payable over a three-year term, each participant must maintain eligibility and continue as an Employee until each date of distribution to receive the distribution to be made on that date.

B. Length of Plan. Subject to Article VI, the Plan will be effective for the Plan Term.

C. Incentive Plan.

1. Determination of Amounts Available for Incentive Compensation.

a. Prior to the commencement of each Plan Period, the Compensation Committee acting on behalf of the Board of Directors in its sole discretion will determine the Target Incentive Compensation Pool. As soon as practicable after the end of each Plan Period, the Compensation Committee will determine whether and to what extent the Corporate Objectives have been met. If a determination is made that XOMA has not met the Corporate Objectives to the extent required, the Compensation Committee may decline to award any Incentive Compensation.

b. The Board of Directors and the Compensation Committee have determined that, with respect to the years ending December 31, 1993 and 1994, respectively, unless at least 50% and 60% of the Corporate Objectives (the "Required Minimum Corporate Objective Percentage") have been met, respectively, no Incentive Compensation will be awarded. In
addition, with respect to the year ending December 31, 1995, and each
year thereafter during the Plan Term, the Required Minimum Corporate
Objective Percentage will increase to 70%.

c. The Target Incentive Compensation Pool is expressed as a percentage
of the aggregate annual Base Salaries of the participants in the Plan. The
Final Incentive Compensation Pool ("Final Incentive Compensation Pool")
will be determined by utilizing the method of calculation of the extent
to which XOMA's Corporate Objectives have been met as set forth
in the Explanatory Note to Schedule I for the applicable Plan Period.

2. Calculation of Individual Incentive Awards.

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

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

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

<table>
<thead>
<tr>
<th>Participant Level</th>
<th>Corporate Objectives</th>
<th>Individual Objectives</th>
<th>Discretionary Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Officer</td>
<td>40%</td>
<td>40%</td>
<td>20%</td>
</tr>
<tr>
<td>Other Executive</td>
<td>30%</td>
<td>50%</td>
<td>20%</td>
</tr>
</tbody>
</table>


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

<table>
<thead>
<tr>
<th>Participant Level</th>
<th>Minimum</th>
<th>Target</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Officer</td>
<td>12.5%</td>
<td>25%</td>
<td>37.5%</td>
</tr>
<tr>
<td>Other Executive</td>
<td>7.5%</td>
<td>15%</td>
<td>27.5%</td>
</tr>
</tbody>
</table>

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

e. The total value of all awards made for the applicable Plan Period
will not exceed the amount of the Final Incentive Compensation Pool
determined for that Plan Period. Thus, each individual award for a
participant from the Final Incentive Compensation Pool will vary
depending on the participant's rating, employment level in the
organization, Base Salary, and the individual ratings of all
participants.

3. Awards to Participants.

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

b. Distribution of Incentive Awards. The distribution dates for awards
will be established by the Board of Directors acting on the advice of the
Compensation Committee. Subject to vesting

requirements, it is expected that distributions will normally be made
in February or March of the succeeding year of the applicable Plan
c. Taxes and Withholding. Each participant will bear any Federal, state, and local taxes accruing with respect to any award under the Plan. As required by law, XOMA will withhold in cash from any distributions amounts required for Federal and state withholding tax purposes. With respect to awards in common stock, arrangements for the payment of withholding tax in cash satisfactory to XOMA must be made prior to the date of any distribution.

d. Termination of participation.

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

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

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

e. Eligibility for Distribution. Subject to other provisions hereof, a participant must also be an Employee of the Company continuously from the conclusion of any Plan Period up to and including the date of distribution of the award to be eligible to receive such distribution.

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

For the purposes of this subsection, a "change in control" shall have occurred if any person (as defined in Section 13 of the Securities Exchange Act of 1934, as amended) acquires shares of voting capital stock, (other than directly from XOMA) and thereby becomes the owner of more than 20% of XOMA's outstanding shares of voting capital stock (on a fully diluted basis) or XOMA enters into a merger or other consolidation (other than one in connection with a voluntary change of corporate domicile or similar reorganization or recapitalization transaction) in which the stockholders of XOMA (as determined immediately prior to the merger) do not own at least 50% of the outstanding shares of voting capital stock of the surviving entity after the merger. Solely for the purposes of the foregoing, a termination shall be deemed to have been made for "cause " in the event a participant is terminated for any of the following reasons:

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

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

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

V. No Right to Employment.

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

VI. Plan modification.

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

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

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

Schedule I

Explanatory Note

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

THIS AGREEMENT, effective as of , is between XOMA CORPORATION, a Delaware corporation ("Corporation"), and OFFICER ("Officer").

WITNESSETH THAT:

WHEREAS, Officer is an executive officer of Corporation and performs a valuable service in such capacity for Corporation; and

WHEREAS, the stockholders of Corporation have adopted Bylaws (the "Bylaws") providing for the indemnification of the officers, directors, agents and employees of Corporation to the maximum extent authorized by Section 145 of the Delaware Corporations Code, as amended ("Code"); and

WHEREAS, such Bylaws and the Code, by their non-exclusive nature, permit contracts between Corporation and its directors and officers with respect to indemnification of such directors and officers; and

WHEREAS, in accordance with the authorization as provided by the Code, Corporation has purchased and presently maintains a policy or policies of liability insurance for directors and officers ("D & O Insurance"), covering certain liabilities which may be incurred by its directors and officers in the performance as officers of Corporation; and

WHEREAS, as a result of recent developments affecting the terms, scope and availability of D & O Insurance there exists general uncertainty as to the extent of protection afforded officers of Corporation by such D & O Insurance and by statutory and by-law indemnification provisions; and

WHEREAS, in order to induce Officer to continue to serve as an officer of Corporation, Corporation has determined and agreed to enter into this contract with Officer;

NOW, THEREFORE, in consideration of Officer's continued service as an officer after the date hereof, the parties hereto agree as follows:

1. Indemnity of Officer. Subject to Section 5 hereof, Corporation hereby agrees to hold harmless and indemnify Officer to the full extent authorized or permitted by the provisions of the Code, as may be amended from time to time.

2. Additional Indemnity. Subject to Section 5 hereof and to the exclusions set forth in Section 3 hereof, Corporation hereby further agrees to hold harmless and indemnify Officer:

   (a) against any and all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by Officer in connection with any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (including an action by or in the right of Corporation) to which Officer is, was or at any time becomes a party, or is threatened to be made a party, by reason of the fact that Officer is or was an officer, director, employee or agent of Corporation, or is or was serving at the request of Corporation as an officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise; and

   (b) otherwise to the fullest extent as may be provided to Officer by Corporation under the non-exclusivity provisions of Article VII of Section 6 of the Bylaws of Corporation and the Code.

3. Limitations on Additional Indemnity. No indemnity pursuant to Section 2 hereof shall be paid by Corporation:

   (a) except to the extent the aggregate of losses to be indemnified thereunder exceeds the amount of such losses for which Officer is indemnified either pursuant to Section 1 hereof or pursuant to any other indemnification arrangement or any D & O Insurance purchased and maintained by Corporation;

   (b) in respect to remuneration paid to Officer if it shall be determined by a final judgment or other final adjudication that such remuneration was in violation of law;

   (c) on account of any suit in which judgment is rendered against Officer for an accounting of profits made from the purchase or sale by Officer of securities of Corporation pursuant to the provisions of Section 16(b) of the Securities Exchange Act of 1934 and amendments thereto or similar provisions of any federal, state or local statutory law;

   (d) on account of Officer's conduct which is finally adjudged to have been knowingly fraudulent or deliberately dishonest, or to constitute willful
misconduct; or

4. Contribution. If the indemnification provided in Sections 1 and 2 is unavailable and may not be paid to Officer for any reason other than those set forth in paragraphs (b), (c) and (d) of Section 3, then in respect of any threatened, pending or completed action, suit or proceeding in which Corporation is jointly liable with Officer (or would be if joined in such action, suit or proceeding), Corporation shall contribute to the amount of expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred and paid or payable by Officer in such proportion as is appropriate to reflect (i) the relative benefits received by Corporation on the one hand and Officer on the other hand from the transaction from which such action, suit or proceeding arose, and (ii) the relative fault of Corporation on the one hand and of Officer on the other in connection with the events which resulted in such expenses, judgments, fines or settlement amounts, as well as any other relevant equitable considerations. The relative fault of Corporation on the one hand and of Officer on the other shall be determined by reference to, among other things, the parties' relative intent, knowledge, access to information and opportunity to correct or prevent the circumstances resulting in such expenses, judgments, fines or settlement amounts. Corporation agrees that it would not be just and equitable if contribution pursuant to this Section 4 were determined by pro rata allocation or any other method of allocation which does not take account of the foregoing equitable considerations.

5. Continuation of Obligations. All agreements and obligations of Corporation contained herein shall terminate on the third anniversary of the date hereof (the "Termination Date"); provided, however, that such agreements and obligations shall continue thereafter with respect to any claim or threatened, pending or completed action, suit or proceeding, whether civil, criminal or investigative, to which Officer is or becomes subject on or subsequent to the Termination Date by reason of the fact that Officer was an officer of Corporation or serving in any other capacity referred to herein on or prior to the Termination Date.

6. Notification and Defense of Claim. Promptly after receipt by Officer of notice of the commencement of any action, suit or proceeding, Officer will, if a claim in respect thereof is to be made against Corporation under this Agreement, notify Corporation of the commencement thereof; but the omission so to notify Corporation will not relieve it from any liability which it may have to Officer otherwise than under this Agreement. With respect to any such action, suit or proceeding as to which Officer notifies Corporation of the commencement thereof:

(a) Corporation will be entitled to participate therein at its own expense;

(b) except as otherwise provided below, to the extent that it may wish, Corporation jointly with any other indemnifying party similarly notified will be entitled to assume the defense thereof, with counsel satisfactory to Officer. After notice from Corporation to Officer of its election so as to assume the defense thereof, Corporation will not be liable to Officer under this Agreement for any legal or other expenses subsequently incurred by Officer in connection with the defense thereof other than reasonable costs of investigation or as otherwise provided below. Officer shall have the right to employ counsel to represent Officer in such action, suit or proceeding but the fees and expenses of such counsel incurred after notice from Corporation of its assumption of the defense thereof shall be at the expense of Officer unless such counsel is reasonably satisfactory to Corporation and (i) Officer shall have reasonably concluded that there may be a conflict of interest between Corporation and Officer in the conduct of the defense of such action, or (ii) Corporation shall not in fact have employed counsel to assume the defense of such action, in each of which cases the fees and expenses of counsel shall be at the expense of Corporation. Corporation shall not be entitled to assume the defense of any action, suit or proceeding brought by or on behalf of Corporation or as to which Officer shall have made the conclusion provided for in (ii) above. Officer also shall have the right to employ counsel reasonably satisfactory to Corporation to represent Officer in any such action, suit or proceeding with respect to which Corporation does not assume the defense; and

(c) Corporation shall not be liable to indemnify Officer under this Agreement for any amounts paid in settlement of any action or claim effected without its written consent. Corporation shall not settle any action or claim in any manner which would impose any penalty or limitation on Officer without Officer's written consent. Neither Corporation nor Officer will unreasonably withhold its consent to any proposed settlement.

7. Advancement and Repayment of Expenses.
(a) In the event that Officer employs Officer’s own counsel pursuant to Section 6(b) above, Corporation shall advance to Officer, prior to any final disposition of any threatened or pending action, suit or proceeding, whether civil, criminal, administrative or investigative, any and all reasonable expenses (including legal fees and expenses) incurred in investigating or defending any such action, suit or proceeding within ten (10) days after receiving copies of invoices presented to Officer for such expenses.

(b) Officer agrees that Officer will reimburse Corporation for all reasonable expenses paid by Corporation in defending any civil or criminal action, suit or proceeding against Officer in the event and only to the extent it shall be ultimately determined pursuant to the procedure specified in Section 145(d) of the Code that Officer is not entitled, under the provisions of the Code, the Bylaws, this Agreement or otherwise, to be indemnified by Corporation for such expenses.

8. Enforcement.

(a) Corporation expressly confirms and agrees that it has entered into this Agreement and assumed the obligations imposed on Corporation hereby in order to induce Officer to continue as an officer of Corporation, and acknowledges that Officer is relying upon this Agreement in continuing such capacity.

(b) In the event Officer is required to bring any action to enforce rights or to collect moneys due under this Agreement and is successful in such action, Corporation shall reimburse Officer for all of Officer’s reasonable fees and expenses in bringing and pursuing such action.

9. Separability. Each of the provisions of this Agreement is a separate and distinct agreement and independent of the others, so that if any provision hereof shall be held to be valid or unenforceable for any reason, such invalidity or unenforceability shall not affect the validity or enforceability of the other provisions hereof.

10. Governing Law. This Agreement shall be interpreted and enforced in accordance with the laws of the State of Delaware.

11. Binding Effect. This Agreement shall be binding upon Officer and upon Corporation, its successors and assigns, and shall inure to the benefit of Officer, his heirs, personal representatives and assigns, to the benefit of Corporation, its successors and assigns.

12. Amendment and Termination. No amendment, modification, termination or cancellation of this Agreement shall be effective unless in writing signed by both parties hereeto.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement this day of and it shall be effective as of the day and year first above written.

XOMA CORPORATION

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

OFFICER
Title: __________________________
INDEMNIFICATION AGREEMENT

THIS AGREEMENT, effective as of is between XOMA CORPORATION, a Delaware corporation ("Corporation"), and ("Officer").

WITNESSETH THAT:

WHEREAS, Officer is a director and an executive officer of Corporation and performs a valuable service in such capacity for Corporation; and

WHEREAS, the stockholders of Corporation have adopted Bylaws (the "Bylaws") providing for the indemnification of the officers, directors, agents and employees of Corporation to the maximum extent authorized by Section 145 of the Delaware Corporations Code, as amended ("Code"); and

WHEREAS, such Bylaws and the Code, by their non-exclusive nature, permit contracts between Corporation and its directors and officers with respect to indemnification of such directors and officers; and

WHEREAS, in accordance with the authorization as provided by the Code, Corporation has purchased and presently maintains a policy or policies of liability insurance for directors and officers ("D & O Insurance"), covering certain liabilities which may be incurred by its directors and officers in the performance of their duties as directors and officers of Corporation; and

WHEREAS, as a result of recent developments affecting the terms, scope and availability of D & O Insurance there exists general uncertainty as to the extent of protection afforded directors and officers of Corporation by such D & O Insurance and by statutory and by-law indemnification provisions; and

WHEREAS, in order to induce Officer to continue to serve as a director and an executive officer of Corporation, Corporation has determined and agreed to enter into this contract with Officer;

NOW, THEREFORE, in consideration of Officer's continued service as a director and an executive officer after the date hereof, the parties hereto agree as follows:

1. Indemnity of Officer. Subject to Section 5 hereof, Corporation hereby agrees to hold harmless and indemnify Officer to the fullest extent authorized or permitted by the provisions of the Code, as may be amended from time to time.

2. Additional Indemnity. Subject to Section 5 hereof and to the exclusions set forth in Section 3 hereof, Corporation hereby further agrees to hold harmless and indemnify Officer:

   (a) against any and all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by Officer in connection with any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (including an action by or in the right of Corporation) to which Officer is, was or at any time becomes a party, or is threatened to be made a party, by reason of the fact that Officer is or was an officer, director, employee or agent of Corporation, or is or was serving at the request of Corporation as an officer, director, employee or agent of another corporation, partnership, joint venture, trust or other enterprise; and

   (b) otherwise to the fullest extent as may be provided to Officer by Corporation under the non-exclusivity provisions of Article VII of Section 6 of the Bylaws of Corporation and the Code.

3. Limitations on Additional Indemnity. No indemnity pursuant to Section 2 hereof shall be paid by Corporation:

   (a) except to the extent the aggregate of losses to be indemnified thereunder exceeds the amount of such losses for which Officer is indemnified either pursuant to Section 1 hereof or pursuant to any other indemnification arrangement or any D & O Insurance purchased and maintained by Corporation;

   (b) in respect to remuneration paid to Officer if it shall be determined by a final judgment or other final adjudication that such remuneration was in violation of law;

   (c) on account of any suit in which judgment is rendered against Officer for an accounting of profits made from the purchase or sale by Officer of securities of Corporation pursuant to the provisions of Section 16(b) of the Securities Exchange Act of 1934 and amendments thereto or similar provisions of any federal, state or local statutory law;
(d) on account of Officer's conduct which is finally adjudged to have been knowingly fraudulent or deliberately dishonest, or to constitute willful misconduct; or

(e) if a final decision by a court having jurisdiction in the matter shall determine that such indemnification is not lawful.

4. Contribution. If the indemnification provided in Sections 1 and 2 is unavailable and may not be paid to Officer for any reason other than those set forth in paragraphs (b), (c) and (d) of Section 3, then in respect of any threatened, pending or completed action, suit or proceeding in which Corporation is jointly liable with Officer (or would be if joined in such action, suit or proceeding), Corporation shall contribute to the amount of expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred and paid or payable by Officer in such proportion as is appropriate to reflect (i) the relative benefits received by Corporation on the one hand and Officer on the other hand from the transaction from which such action, suit or proceeding arose, and (ii) the relative fault of Corporation on the one hand and Officer on the other in connection with the events which resulted in such expenses, judgments, fines or settlement amounts, as well as any other relevant equitable considerations. The relative fault of Corporation on the one hand and of Officer on the other shall be determined by reference to, among other things, the parties' relative intent, knowledge, access to information and opportunity to correct or prevent the circumstances resulting in such expenses, judgments, fines or settlement amounts. Corporation agrees that it would not be just and equitable if contribution pursuant to this Section 4 were determined by pro rata allocation or any other method of allocation which does not take account of the foregoing equitable considerations.

5. Continuation of Obligations. All agreements and obligations of Corporation contained herein shall terminate on the date that Officer ceases to be either a director or an officer of the Corporation (the "Termination Date"); provided, however, that such agreements and obligations shall continue thereafter with respect to any claim or threatened, pending or completed action, suit or proceeding, whether civil, criminal or investigative, to which Officer is or becomes subject on or subsequent to the Termination Date by reason of the fact that Officer was a director and/or an officer of Corporation or serving in any other capacity referred to herein on or prior to the Termination Date.

6. Notification and Defense of Claim. Promptly after receipt by Officer of notice of the commencement of any action, suit or proceeding, Officer will, if a claim in respect thereof is to be made against Corporation under this Agreement, notify Corporation of the commencement thereof; but the omission so to notify Corporation will not relieve it from any liability which it may have to Officer otherwise than under this Agreement. With respect to any such action, suit or proceeding as to which Officer notifies Corporation of the commencement thereof:

(a) Corporation will be entitled to participate therein at its own expense;

(b) except as otherwise provided below, to the extent that it may wish, Corporation jointly with any other indemnifying party similarly notified will be entitled to assume the defense thereof, with counsel reasonably satisfactory to Officer. After notice from Corporation to Officer of its election to assume the defense thereof, Corporation will not be liable to Officer under this Agreement for any legal or other expenses subsequently incurred by Officer in connection with the defense thereof in the reasonable costs of investigation or as otherwise provided below. Officer shall have the right to employ counsel in such action, suit or proceeding, but the fees and expenses of such counsel incurred after notice from Corporation of its assumption of the defense thereof shall be at the expense of Officer unless such counsel is reasonably satisfactory to Corporation and (i) Officer shall have reasonably concluded that there may be a conflict of interest between Corporation and Officer in the conduct of the defense of such action, or (ii) Corporation shall not in fact have employed counsel to assume the defense of Officer in such action, in each of which cases the fees and expenses of counsel shall be at the expense of Corporation. Corporation shall not be entitled to assume the defense of any action, suit or proceeding brought by or on behalf of Corporation or as to which Officer shall have made the conclusion provided for in (i) above. Officer also shall have the right to employ counsel reasonably satisfactory to Corporation to represent Officer in any such action, suit or proceeding with respect to which Corporation does not assume the defense; and

(c) Corporation shall not be liable to indemnify Officer under this Agreement for any amounts paid in settlement of any action or claim effected without its written consent. Corporation shall not settle any action or claim in any manner which would impose any penalty or limitation on Officer without Officer's written consent. Neither Corporation nor Officer will unreasonably withhold its consent to any proposed settlement.
7. Advancement and Repayment of Expenses.

(a) In the event that Officer employs Officer's own counsel pursuant to Section 6(b) above, Corporation shall advance to Officer, prior to any final disposition of any threatened or pending action, suit or proceeding, whether civil, criminal, administrative or investigative, any and all reasonable expenses (including legal fees and expenses) incurred in investigating or defending any such action, suit or proceeding within ten (10) days after receiving copies of invoices presented to Officer for such expenses.

(b) Officer agrees that Officer will reimburse Corporation for all reasonable expenses paid by Corporation in defending any civil or criminal action, suit or proceeding against Officer in the event and only to the extent it shall be ultimately determined pursuant to the procedure specified in Section 145(d) of the Code that Officer is not entitled, under the provisions of the Code, the Bylaws, this Agreement or otherwise, to be indemnified by Corporation for such expenses.

8. Enforcement.

(a) Corporation expressly confirms and agrees that it has entered into this Agreement and assumed the obligations imposed on Corporation hereby in order to induce Officer to continue as a director and an officer of Corporation, and acknowledges that Officer is relying upon this Agreement in continuing in such capacity.

(b) In the event Officer is required to bring any action to enforce rights or to collect moneys due under this Agreement and is successful in such action, Corporation shall reimburse Officer for all of Officer's reasonable fees and expenses in bringing and pursuing such action.

9. Separability. Each of the provisions of this Agreement is a separate and distinct agreement and independent of the others, so that if any provision hereof shall be held to be invalid or unenforceable for any reason, such invalidity or unenforceability shall not affect the validity or enforceability of the other provisions hereof.

10. Governing Law. This Agreement shall be interpreted and enforced in accordance with the laws of the State of Delaware.

11. Binding Effect. This Agreement shall be binding upon Officer and upon Corporation, its successors and assigns, and shall inure to the benefit of Officer, his heirs, personal representatives and assigns, and to the benefit of Corporation, its successors and assigns.

12. Amendment and Termination. No amendment, modification, termination or cancellation of this Agreement shall be effective unless in writing signed by both parties hereto.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement this day of , and it shall be effective as of the day and year first above written.

XOMA CORPORATION

By:

------------------------------------
Employee Director Signature
INDEMNIFICATION AGREEMENT

THIS AGREEMENT, effective as of is between XOMA CORPORATION, a Delaware corporation ("Corporation"), and ("Director").

WITNESSETH THAT:

WHEREAS, Director is a director of Corporation and performs a valuable service in such capacity for Corporation; and

WHEREAS, the stockholders of Corporation have adopted Bylaws (the "Bylaws") providing for the indemnification of the officers, directors, agents and employees of Corporation to the maximum extent authorized by Section 145 of the Delaware Corporations Code, as amended ("Code"); and

WHEREAS, such Bylaws and the Code, by their non-exclusive nature, permit contracts between Corporation and its directors and officers with respect to indemnification of such directors and officers; and

WHEREAS, in accordance with the authorization as provided by the Code, Corporation has purchased and presently maintains a policy or policies of liability insurance for directors and officers ("D & O Insurance"), covering certain liabilities which may be incurred by its directors and officers in the performance of their duties as directors and officers of Corporation; and

WHEREAS, as a result of recent developments affecting the terms, scope and availability of D & O Insurance there exists general uncertainty as to the extent of protection afforded directors and officers of Corporation by such D & O Insurance and by statutory and by-law indemnification provisions; and

WHEREAS, in order to induce Director to continue to serve as a director of Corporation, Corporation has determined and agreed to enter into this contract with Director;

NOW, THEREFORE, in consideration of Director's continued service as a director after the date hereof, the parties hereto agree as follows:

1. Indemnity of Director. Subject to Section 5 hereof, Corporation hereby agrees to hold harmless and indemnify Director to the fullest extent authorized or permitted by the provisions of the Code, as may be amended from time to time.

2. Additional Indemnity. Subject to Section 5 hereof and to the exclusions set forth in Section 3 hereof, Corporation hereby further agrees to hold harmless and indemnify Director:

   (a) against any and all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by Director in connection with any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (including an action by or in the right of Corporation) to which Director is, was or at any time becomes a party, or is threatened to be made a party, by reason of the fact that Director is or was an officer, director, employee or agent of Corporation, or is or was serving at the request of Corporation as an officer, director, employee or agent of another corporation, partnership, joint venture, trust or other enterprise; and

   (b) otherwise to the fullest extent as may be provided to Director by Corporation under the non-exclusivity provisions of Article VII of Section 6 of the Bylaws of Corporation and the Code.

3. Limitations on Additional Indemnity. No indemnity pursuant to Section 2 hereof shall be paid by Corporation:

   (a) except to the extent the aggregate of losses to be indemnified thereunder exceeds the amount of such losses for which Director is indemnified either pursuant to Section 1 hereof or pursuant to any other indemnification arrangement or any D & O Insurance purchased and maintained by Corporation;

   (b) in respect to remuneration paid to Director if it shall be determined by a final judgment or other final adjudication that such remuneration was in violation of law;

   (c) on account of any suit in which judgment is rendered against Director for an accounting of profits made from the purchase or sale by Director of securities of Corporation pursuant to the provisions of Section 16(b) of the Securities Exchange Act of 1934 and amendments thereto or similar provisions of any federal, state or local statutory law;

   (d) on account of Director's conduct which is finally adjudged to have been knowingly fraudulent or deliberately dishonest, or to constitute willful misconduct; or
(e) if a final decision by a court having jurisdiction in the matter shall determine that such indemnification is not lawful.

4. Contribution. If the indemnification provided in Sections 1 and 2 is unavailable and may not be paid to Director for any reason other than those set forth in paragraphs (b), (c) and (d) of Section 3, then in respect of any threatened, pending or completed action, suit or proceeding in which Corporation is jointly liable with Director (or would be if joined in such action, suit or proceeding), Corporation shall contribute to the amount of expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred and paid or -2-
payable by Director in such proportion as is appropriate to reflect (i) the relative benefits received by Corporation on the one hand and Director on the other hand from the transaction from which such action, suit or proceeding arose, and (ii) the relative fault of Corporation on the one hand and of Director on the other in connection with the events which resulted in such expenses, judgments, fines or settlement amounts, as well as any other relevant equitable considerations. The relative fault of Corporation on the one hand and of Director on the other shall be determined by reference to, among other things, the parties' relative intent, knowledge, access to information and opportunity to correct or prevent the circumstances resulting in such expenses, judgments, fines or settlement amounts. Corporation agrees that it would not be just and equitable if contribution pursuant to this Section 4 were determined by pro rata allocation or any other method of allocation which does not take account of the foregoing equitable considerations.

5. Continuation of Obligations. All agreements and obligations of Corporation contained herein shall terminate on the date that Director ceases to be a director of the Corporation (the "Termination Date"); provided, however, that such agreements and obligations shall continue thereafter with respect to any claim or threatened, pending or completed action, suit or proceeding, whether civil, criminal or investigative, to which Director is or becomes subject on or subsequent to the Termination Date by reason of the fact that Director was a director of Corporation or serving in any other capacity referred to herein on or prior to the Termination Date.

6. Notification and Defense of Claim. Promptly after receipt by Director of notice of the commencement of any action, suit or proceeding, Director will, if a claim in respect thereof is to be made against Corporation under this Agreement, give Corporation notice thereof; but the omission so to notify Corporation will not relieve it from any liability which it may have to Director otherwise than under this Agreement. With respect to any such action, suit or proceeding as to which Director notifies Corporation of the commencement thereof:

(a) Corporation will be entitled to participate therein at its own expense;

(b) except as otherwise provided below, to the extent that it may wish, Corporation jointly with any other indemnifying party similarly notified will be entitled to assume the defense thereof, with counsel reasonably satisfactory to Director. After notice from Corporation to Director of its election to assume the defense thereof, Corporation will not be liable to Director under this Agreement for any legal or other expenses subsequently incurred by Director in connection with the defense thereof other than reasonable costs of investigation or as otherwise provided below. Director shall have the right to employ counsel to represent Director in such action, suit or proceeding; and

(c) Corporation shall not be liable to indemnify Director under this Agreement for any expenses paid in settlement of any action or claim effected without its written consent. Corporation shall not settle any action or claim in any manner which would impose any penalty or limitation on Director without Director's written consent.

and expenses of such counsel incurred after notice from Corporation of its assumption of the defense thereof shall be at the expense of Director unless such counsel is reasonably satisfactory to Corporation and (i) Director shall have reasonably concluded that there may be a conflict of interest between Corporation and Director in the conduct of the defense of such action, or (ii) Corporation shall not in fact have employed counsel to assume the defense of Director in such action, in each of which cases the fees and expenses of counsel shall be at the expense of Corporation. Corporation shall not be entitled to assume the defense of any such action, suit or proceeding brought by or on behalf of Corporation or as to which Director shall have made the conclusion provided for in (ii) above also shall have the right to employ counsel reasonably satisfactory to Corporation to represent Director in such action, suit or proceeding with respect to which Corporation does not assume the defense; and

(c) Corporation shall not be liable to indemnify Director under this Agreement for any amounts paid in settlement of any action or claim exercised without its written consent. Corporation shall not settle any action or claim in any manner which would impose any penalty or limitation on Director without Director's written consent. Neither Corporation nor Director will unreasonably withhold its consent to any proposed settlement.

7. Advancement and Repayment of Expenses.
(a) In the event that Director employs Director’s own counsel pursuant to Section 6(b) above, Corporation shall advance to Director, prior to any final disposition of any threatened or pending action, suit or proceeding, whether civil, criminal, administrative or investigative, any and all reasonable expenses (including legal fees and expenses) incurred in investigating or defending any such action, suit or proceeding within ten (10) days after receiving copies of invoices presented to Director for such expenses.

(b) Director agrees that Director will reimburse Corporation for all reasonable expenses paid by Corporation in defending any civil or criminal action, suit or proceeding against Director in the event and only to the extent it shall be ultimately determined pursuant to the procedure specified in Section 145(d) of the Code that Director is not entitled, under the provisions of the Code, the Bylaws, this Agreement or otherwise, to be indemnified by Corporation for such expenses.

8. Enforcement.

(a) Corporation expressly confirms and agrees that it has entered into this Agreement and assumed the obligations imposed on Corporation hereby in order to induce Director to continue as a director of Corporation, and acknowledges that Director is relying upon this Agreement in continuing in such capacity.

(b) In the event Director is required to bring any action to enforce rights or to collect moneys due under this Agreement and is successful in such action, Corporation shall reimburse Director for all of Director’s reasonable fees and expenses in bringing and pursuing such action.

9. Separability. Each of the provisions of this Agreement is a separate and distinct agreement and independent of the others, so that if any provision hereof shall be held to be invalid or unenforceable for any reason, such invalidity or unenforceability shall not affect the validity or enforceability of the other provisions hereof.

10. Governing Law. This Agreement shall be interpreted and enforced in accordance with the laws of the State of Delaware.

11. Binding Effect. This Agreement shall be binding upon Director and upon Corporation, its successors and assigns, and shall inure to the benefit of Director, his heirs, personal representatives and assigns, and to the benefit of Corporation, its successors and assigns.

12. Amendment and Termination. No amendment, modification, termination or cancellation of this Agreement shall be effective unless in writing signed by both parties hereto.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement this day of , and it shall be effective as of the day and year first above written.

XOMA CORPORATION

By

Non-Employee Director Signature
THIS AGREEMENT is made as of the 29th day of April, 1992 by and between XOMA CORPORATION, a Delaware Corporation (the "Corporation"), and John L. Castello, Employee ("Employee").

1. Employment. On the terms and conditions set forth herein, Corporation hereby employs Employee, and Employee hereby accepts such employment. While employed hereunder, Employee shall devote all of the Employee's best efforts and attention to the business and affairs of the Corporation; however, Employee may continue to be a member of the Board of Directors of Alpha Therapeutics Corporation, IBA, PMA, and serve on other such boards as Employee and the Corporation may jointly agree, as well as Employee may continue to act under his Consultancy Agreement of August 1, 1991 with Ares-Serono, Inc.

2. Compensation. (i) Employee's rate of compensation shall be as set forth on Exhibit I attached hereto and incorporated herein and shall be payable in equal, semi-monthly installments on the fifteenth and the last day of each month unless otherwise agreed by the parties; (ii) Employee shall be reimbursed for reasonable out-of-pocket expenses incurred by Employee in performing services for the Corporation upon such terms and conditions as may be established from time to time by the Corporation.

3. Proprietary Rights. Prior to, or coincidental with, the execution of this Agreement, Employee has or will execute and deliver to the Corporation an agreement in form and substance as set forth in Exhibit II attached hereto and incorporated herein.

4. Conflicts and Non-Competition. Notwithstanding any provisions of the Agreement, including specifically those set forth in paragraphs 1 and 3 hereinabove, while employed hereunder by Corporation, Employee will not, directly or indirectly, engage in any other activity involving a conflict of interest between Employee or any third party and Corporation or in any other occupation, employment, consultation or other activity in competition with the business, developments, products, work or activities of the Corporation.

duly authorized representative of the Corporation other than Employee. By an
instrument in writing similarly executed, either party may waive compliance by
the other party with any provision of this Agreement that such other party was
or is obligated to comply with or perform, provided, however, that such waiver
shall not operate as a waiver of, or estoppel with respect to, any other or
subsequent failure. No failure to exercise and no delay in exercising any right,
remedy, or power hereunder shall operate as a waiver thereof, nor shall any
single or partial exercise of any right,

XOMA CORPORATION
EMPLOYMENT AGREEMENT

remedy, or power hereunder preclude any other or further exercise thereof or the
exercise of any other right, remedy, or power provided herein or by law or in
equity.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day
and year first written above.

XOMA CORPORATION                            EMPLOYEE
By: /s/Steven C. Mendell                    /s/John L. Castello
Steven C. Mendell                           John L. Castello
Title: Chairman of the Board

XOMA CORPORATION
EMPLOYMENT AGREEMENT - ADDITIONAL PROVISIONS

EXHIBIT I

EMPLOYEE: JOHN L. CASTELLO

1. Rate of Compensation:

The salary of Employee will be $500,000 per year and will be paid to
Employee in equal payments semi-monthly on the 15th and last day of each month.
All performance reviews of Employee will be by the Board of Directors of the
Company.

2. Employee Benefits:

Employee will be entitled to all XOMA employee benefits, which shall
include:

(a) Xoma's standard insurance benefits;
(b) In addition to the foregoing:
   i. Life Insurance. Xoma will provide Employee with supplemental
      life insurance for the amount that an annual premium of $18,000
      provides.
   ii. Tax and Financial Planning. Xoma will provide to Employee
       annually for the Employee's retention of attorneys, accountants and/or
       financial consultants of Employee's own choosing for the Employee's
       personal tax and financial planning, at an annual cost to Xoma not to
       exceed $7,000.

3. Relocation:

It will be necessary for Employee to relocate to the greater Berkeley,
California area, and the Corporation will provide reimbursement for all
necessary and reasonable costs including but not limited to the actual cost of
the movement of Employee's goods, packing, insuring and so forth; real estate
brokers and related fees; and costs of Employee for acquiring a mortgage on a
new principal residence. All of these costs will be grossed up for federal and
state income tax purposes. For this purpose, "grossed up" means that in the case
of a reimbursed expense that is taxable to Employee and is not deductible for
one or both of federal and state income tax purposes, Employee will be paid an
amount which, after taxes on such amount, will equal the amount of the
non-deductible reimbursable expenses. Appropriate temporary housing, if
required, will be provided to Employee at no additional out-of-
pocket expense for a period of up to six (6) months after commencement of employment. The relocation benefits shall be in effect for a period of one year after the commencement of employment.

4. Vacation:

Employee will be granted an annual vacation in the amount of four (4) weeks, with full pay commencing for the first year of employment; that is, Employee shall be entitled to take four (4) weeks vacation during the first year of employment.

5. Stock Option:

As an inducement to Employee to enter into the employment of the Corporation, an option has been granted to Employee in accordance with the now-in-force option plan in the amount of 500,000 shares of the common stock of the Corporation. Such option shall be in accordance with such option plan, and shall be in accordance with the currently existing form of Stock Option Agreement under the Xoma Corporation 1981 Stock Option Plan, as amended, a copy of which is attached hereto as Appendix A.

6. Additional Capacities, President and Chief Executive Officer:

Employee is required to assume the responsibilities of President and Chief Executive Officer and member of the Board of Directors of the Corporation with all the rights and privileges typically associated with this type of role. As the President and Chief Executive Officer, Employee will report to the Board of Directors of the Corporation. As such President and Chief Executive Officer, Employee will be responsible for conducting the day-to-day affairs of the Corporation, interpreting and applying the policies and direction of the Board of Directors, making and applying supplemental applications and guidelines, building and controlling the operations of the Corporation, executing the corporate strategy, and practicing diligent management. Commensurate with the by-laws of the Corporation and policies of the Board of Directors, Employee will have sufficient authority to accomplish all of the above-mentioned responsibilities.

Employee shall use his best efforts in directing the business of the Corporation with the objective of providing maximum profit and return on invested capital and assuring the development, manufacture and marketing of only safe and efficacious products; establishing current and long-range objectives, plans and policies subject to the approval of the Board of Directors; and representing the Corporation with its major governmental authorities that have any control over the Corporation or its products, its major customers, the financial community and the public.

7. Business Expense Reimbursement, and Perquisites:

During the term of his employment hereunder, Employee shall be entitled to receive proper reimbursement for all reasonable out-of-pocket expenses incurred by him (in accordance with the policies and procedures established by the Corporation) in performing services hereunder, provided Employee properly accounts therefor. Employee shall have the privilege at his option to fly commercially on a class of service chosen by Employee.

Employee will be required at Corporation expense to take an annual physical examination by a physician of his own choice acceptable to the Corporation, and a report of any material health problems shall be rendered to the Board.

8. Early Termination Obligation of the Corporation:

While this Employment Agreement provides for termination of at-will employment of the Employee, as part of the inducement and offer to Employee to enter into employment with the Corporation, should the Corporation terminate the services of Employee as an Employee of the Corporation for any reason other than for "Due Cause" (as that term is defined hereinbelow), the Corporation shall pay Employee's base level salary in effect at the time of any such termination for one year thereafter. Such termination other than for Due Cause shall include termination by the Employee for "Good Reason" (as that term is defined hereinbelow), in which event the Corporation shall be obligated to pay such one-year salary.

9. Consequence of Termination of Employment:

9.1 Death. In the event of the death of the Employee during the term of this Agreement, his salary shall cease at the end of the month in which death occurs and all unpaid amounts, shall be paid to the Employee's designated beneficiary, or in the absence of such designation to the estate or other legal representative of the Employee at the time of death. Other death benefits will be determined in accordance with the terms of the Corporation's benefit programs and plans.

9.2 Disability. In the event of the Employee's permanent disability, the Employee shall be entitled to his salary for a period of one (1) year after such
disability commences and other benefits as determined in accordance with the terms of the Corporation's benefit programs and plans.

Notwithstanding anything in this Agreement to the contrary, the Corporation is hereby given the option to terminate the Employee's employment in the event that the Employee shall, during the term hereof, become permanently disabled as the term permanently disabled is hereinafter defined. Such option shall be exercised by the Corporation giving notice to Employee by certified mail of the Corporation's intention to terminate his employment due to permanent disability on the last day of the month during which such notice is mailed.

For purposes of this Agreement, Employee shall be deemed to have become permanently disabled, if, during the term hereof, because of physical or mental disability he becomes unable or shall have been unable to perform his duties hereunder (a) for 120 consecutive days, or (b) for 180 days (irrespective of whether such days are consecutive) occurring during any period of 365 consecutive days.

During a period in which the one-year salary payments are being made pursuant to the first paragraph of this Section 9.2, the Employee will undergo reasonable periodic medical examinations to confirm the continuation of his disability. Such medical examinations will be conducted by a medical doctor chosen by the parties. If the parties cannot agree on such a doctor, they each shall select a medical doctor and the two doctors shall select a third medical doctor for this purpose. In the event that the Corporation has terminated Employee's employment by reason of permanent disability notwithstanding a determination by a medical doctor, chosen as described in the preceding sentence, that Employee is no longer subject to a permanent disability as defined in this Section 9.2, Employee will continue to be entitled to receive the one-year salary payments as herein set forth, provided that, following such determination, he makes a continuing reasonable effort to find employment at such time commensurate with his abilities, experience, and background.

9.3 Termination by the Corporation for Due Cause. Nothing herein shall prevent the Corporation from terminating Employee's employment for Due Cause. Employee shall continue to receive salary for the period ending with the date of such termination as provided in this Section 9.3. Any rights and benefits he may have in respect of any other compensation or employee benefit plans or programs of the Corporation shall be determined in accordance with the terms of such other compensation arrangements or such other plans or programs.

The term "Due Cause", as used herein, shall mean that (a) the Employee has committed a willful, serious act, such as embezzlement, against the Corporation intending to enrich himself at the expense of the Corporation or (b) the Employee, in carrying out his duties hereunder, has been guilty of willful, gross negligence (including competition as defined in Section 13, resulting in either case in material harm to the Corporation (this provision shall not apply to any particular instance which is merely the result of any good faith error in judgment), (c) the willful and continued failure by Employee to substantially perform his duties with the Corporation (other than any such failure resulting from Employee's incapacity due to physical or mental illness), after a demand for substantial performance is delivered to Employee by the Board which specifically identifies the manner in which the Board believes that Employee has not substantially performed his duties, or (d) the willful engaging by Employee in gross misconduct materially and demonstrably injurious to the Corporation. For purposes of this paragraph, no act, or failure to act, on Employee's part shall be considered "willful" unless done, or omitted to be done, by Employee, not in good faith and without reasonable belief that Employee's action or omission was in the best interest of the Corporation.

Notwithstanding the foregoing, Employee shall not be deemed to have been terminated for Due Cause unless and until there shall have been delivered to him a copy of a resolution duly adopted by the affirmative vote of a majority of the entire membership of the Board at a meeting of the Board called and held for the purpose (after reasonable notice to Employee and an opportunity for Employee, together with his counsel, to be heard before the Board), finding that in the good faith opinion of the Board Employee was guilty of conduct set forth above and specifying the particulars thereof in detail.

9.4 Termination by Corporation Other than for Due Cause. The foregoing notwithstanding, the Corporation may terminate the Employee's employment for whatever reason it deems appropriate, provided, however, that in the event such termination is not due to permanent disability as provided in Section 9.2, or based on the facts set forth in Section 9.3, the Employee will continue to receive his salary as provided in Section 8 for the term of one year from the date of such termination. During the period of salary continuation hereunder the Employee will be entitled to continued benefit coverage and benefit credits as provided in Section 6 hereof or the economic equivalent. Any such benefit coverage, or economic equivalent thereto, will be offset by comparable coverage provided to the Employee in connection with any subsequent employment.
9.5 Termination by the Employee for Good Reason. Employee may terminate his employment under this Agreement for Good Reason in which event the Corporation shall still have the same obligations to Employee under this Agreement as provided for in Section 9.4.

9.5.1 "Good Reason" shall mean:

(a) Without Employee's express written consent, the assignment to Employee of any duties inconsistent with his positions, duties, responsibilities and status with the Corporation immediately prior to a Change in Control, as hereinafter defined, or a change in his reporting responsibilities, title or offices as in effect immediately prior to a change in control, or any removal of Employee from or any failure to re-elect him to any of such positions, except in connection with the termination of his employment for Due Cause, Disability or Retirement or as a result of his death or by Employee other than for Good Reason;

(b) A reduction in Employee's base salary or benefits or a breach of the Corporation's obligations undertaken in this Agreement;

(c) In the event of the occurrence of a Change in Control, this Agreement may be terminated by Employee only upon the occurrence thereafter of one or more of the following events:

- i. Any termination by the Corporation of the Employment of Employee within three (3) years after a Change in Control and prior to the date upon which Employee shall have attained age 65, which termination shall be for any reason other than for Due Cause or as a result of the death of Employee or by reason of Employee's disability and the actual receipt of disability benefits as provided in Section 9.2 hereof; or

- ii. Termination by Employee of his employment with the Corporation within three (3) years after a Change in Control and upon the occurrence of any of the following events:

  (A) Failure to elect or re-elect Employee, or removal of Employee, as a director of the Corporation (or any successor thereto), if Employee shall have been a director of the Corporation immediately prior to the Change in Control, or the office of the Corporation which Employee held immediately prior to a Change in Control;

  (B) A significant adverse change in the nature or scope of the authorities, powers, functions, responsibilities or duties attached to the position with the Corporation which Employee had immediately prior to the Change in Control, a reduction in the aggregate of Employee's Base Pay and Incentive Pay received from the Corporation, or the termination of Employee's rights to any Employee Benefit to which he was entitled immediately prior to the Change in Control or a reduction in scope or value thereof without the prior written consent of Employee, any of which is not remedied within ten (10) calendar days after receipt by the Corporation of written notice from

  Employee of such change, reduction or termination, as the case may be;

  (C) A determination by Employee made in good faith that as a result of a Change in Control and a change in circumstances thereafter significantly affecting his position, he has been rendered substantially unable to carry out, or has been substantially hindered in the performance of, any of the authorities, powers, functions, responsibilities or duties attached to his position immediately prior to the Change in Control, which situation is not remedied within ten (10) calendar days after receipt by the Corporation of written notice from Employee of such determination;

  (D) The liquidation, dissolution, merger, consolidation or reorganization of the Corporation or transfer of all or a significant portion of its business and/or assets unless the successor or
successors (by liquidation, merger, consolidation, reorganization or otherwise) to which all or a significant portion of its business and/or assets have been transferred (directly or by operation of law) shall have assumed all duties and obligations of the Corporation under this Agreement; or

(E) The Corporation shall relocate its principal executive offices or require Employee to have as his principal location of work any location which is in excess of 100 miles from the location thereof immediately prior to the Termination Date or to travel away from his office in the course of discharging his responsibilities or duties hereunder more than thirty (30) consecutive calendar days or an aggregate of more than sixty (60) calendar days in any consecutive 365-calendar day period without in either case his prior consent.

(d) Subsequent to a change in control of the Corporation, the failure by the Corporation to obtain the assumption of the obligation to perform this Agreement by any successor; or:

(e) Subsequent to a change in control of the Corporation, any purported termination of Employee's employment which is not effected pursuant to a Notice of Termination satisfying the requirements of Section 9.7 hereof.

9.5.2 Change in Control. For purposes of this Agreement, a "Change in Control" shall have occurred if at any time during the term (as that term is hereafter defined), any of the following events shall occur:

i. The Corporation is merged, or consolidated, or reorganized into or with another corporation or other legal person, and as a result of such merger, consolidation or reorganization less than 51% of the combined voting power of the then-outstanding securities of such corporation or person immediately after such transaction are held in the aggregate by the holders of voting securities of the Corporation immediately prior to such transaction;

ii. The Corporation sells all or substantially all of its assets to any other corporation or other legal person and thereafter, less than 51% of the combined voting power of the then-outstanding voting securities of the acquiring or consolidated entity, which are held in the aggregate by the holders of voting securities of the Corporation immediately prior to such sale;

iii. There is a report filed after the date of this Agreement on Schedule 13 D or Schedule 14 D-1 (or any successor schedule, form or report), each as promulgated pursuant to the Securities Exchange Act of 1934 (the "Exchange Act") disclosing that any person (as the term "person" is used in Section 13(d)(3) or Section 14(d)(2) of the Exchange Act) has become the beneficial owner (as the term "beneficial owner" is defined under Rule 13 d-3 or any successor rule or regulation promulgated under the Exchange Act) representing 25% or more of the combined voting power of the then-outstanding voting securities of the Corporation;

iv. The Corporation shall file a report or proxy statement with the Securities and Exchange Commission pursuant to the Exchange Act disclosing in response to Item 1 of Form 8-K thereunder or Item 5(f) of Schedule 14 A thereunder (or any successor schedule, form or report or item therein) that the change in control of the Corporation has or may have occurred or will or may occur in the future pursuant to any then-existing contract or transaction; or

v. During any period of two consecutive years, individuals who at the beginning of any such period constitute the directors of the Corporation cease for any reason to constitute at least a majority thereof unless the election or the nomination for election by the Corporation's shareholders of each director of the Corporation first elected during such period was approved by a vote of at least two-thirds of the directors of the Corporation then still in office who were directors of the Corporation at the beginning of such period.

9.6 Termination by Employee by Voluntary Resignation. Employee may terminate this Agreement upon ninety (90) days notice to the Corporation, in which event the Corporation shall be obligated to pay him his total remuneration and other benefits up to the date of termination only.

9.7 Notice of Termination. Any Notice of Termination by the Corporation
pursuant to Section 9.4 or by Employee pursuant to Section 9.5 or 9.6 shall be communicated by written Notice of Termination to the other party hereof. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Employee's employment under the provision so indicated.

9.8 Date of Termination. "Date of Termination" shall mean:

(a) If Employee's employment is terminated pursuant to Section 9.5 or 9.6, the date specified in the Notice of Termination, and

(b) if Employee's employment is terminated for any other reason, the date on which a Notice of Termination is given;

10. 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 Corporation has breached any of its obligations hereunder, Employee shall be reimbursed by the Corporation for such legal expenses.

Agreed:

XOMA CORPORATION                             EMPLOYEE
By: /s/Steven C. Mendell                     /s/John L. Castello
 Steven C. Mendell                          John L. Castello
Title: Chairman of the Board
EMPLOYMENT AGREEMENT

This Employment Agreement ("Agreement"), made and effective this 28th day of March, 1997, by and between XOMA CORPORATION ("XOMA" or the "Company"), a Delaware corporation with its principal office at 2910 Seventh Street, Berkeley, California, and Patrick J. Scannon, M.D, Ph.D., ("Executive"), an individual residing at 176 Edgewood, San Francisco, California.

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

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

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

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

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

3. Term and Duties.

(a) Term of Employment. This Agreement shall become effective and the term of employment pursuant to this Agreement shall commence on March 28, 1997 and will continue for one (1) year until March 27, 1998, when it will terminate unless it is extended by mutual written consent of Executive and the Company or unless Executive's employment is terminated by the Company or he resigns from the Company's employ as described herein.

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

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


(a) Compensation. For all services rendered by Executive as Chief Scientific and Medical Officer during his employment under this Agreement, the Company shall pay Executive as compensation a salary at a rate of not less than $300,000 per annum. All taxes and governmentally required withholding shall be deducted in conformity with applicable laws.

(b) Loan. In further consideration of Executive's agreement to the terms hereof, the Company has agreed to a one year extension of a loan previously provided to Executive in the principal amount of $251,297.46 (the "Loan") on the terms and subject to the conditions set forth herein. On the date on which Executive and the Company agreed that the Loan was to be funded (the "Loan Date"), Executive executed a promissory note in the form attached hereto as Exhibit A evidencing the Loan and a pledge agreement in the form attached hereto as Exhibit B granting to the Company a first priority security interest in all of the outstanding shares of Common Stock owned by Executive on the effective date of this Agreement, whereupon the Company did lend to Executive the principal amount of the Loan. The full amount of the Loan will be repaid by Executive as soon as reasonably practicable and in any event no later than March 27, 1998, or on demand following any earlier termination of or resignation by Executive. Interest will accrue on the Loan at a rate per annum equal to the prime rate, as published in The Wall Street Journal on the Loan Date, and will be payable as and when the Loan is repaid.

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

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

6. Payments to Executive Upon Termination of Employment.

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

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

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

(b) Continuation of Salary and Other Benefits. Upon the occurrence of an event of termination under paragraph 6(a), the Company (i) shall, subject to the provisions of Section 7 below, pay Executive, or in the event of his subsequent death, his beneficiary or beneficiaries of his estate, as the case may be, as severance pay or liquidated damages, or both, semi-monthly for a period of twelve (12) months following the event of termination (the “Severance Payment Period”), a sum equal to his current salary in effect at the time of the event of termination, but in no case less than $300,000 per annum, (ii) shall continue to provide the other benefits referred to in Section 5 hereof until the end of the Severance Payment Period or until Executive becomes employed elsewhere, whichever is earlier, and (iii) shall continue to provide the benefits provided for in paragraph 4(c) to the extent of expenses incurred but not reimbursed prior to the event of termination. Such payments shall commence on the last day of the next regular pay period following the date of the event of termination, or, at the election of the Company, may be paid in one lump sum or in such other installments as may be mutually agreed between the Company and Executive or, in the event of his subsequent death, his beneficiary or beneficiaries or legal representative, as the case may be.

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

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

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

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

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

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

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

means the pursuit of one or more of the same therapeutic or diagnostic indications utilizing a substantially similar scientific basis.

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

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

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


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

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

10. Successors and Assigns.

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

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

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

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

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

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

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

XOMA CORPORATION

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

/s/Patrick J. Scannon
Patrick J. Scannon, M.D., Ph.D.
EXHIBIT A

PROMISSORY NOTE

$251,297.46                                               Berkeley, California
March 28, 1997

FOR VALUE RECEIVED, the undersigned (the "Obligor") hereby unconditionally promises to pay to the order of XOMA Corporation, a Delaware corporation (the "Obligee"), the principal sum of TWO HUNDRED FIFTY-ONE THOUSAND TWO HUNDRED NINETY-SEVEN DOLLARS AND FORTY-SIX CENTS ($251,297.46) (the "Principal Amount") together with interest from the date hereof at a rate per annum of six percent (6%) on the earlier of (a) five (5) days after the demand of the Obligee if the Obligor ceases to be employed by the Obligee or (b) the 27th day of March, 1998. Said principal sum, and/or any accrued interest, may be prepaid in whole or in part without premium or penalty.

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

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

3. No delay or omission on the part of the Obligee in exercising any right
hereunder shall operate as a waiver of such right or of any other right, nor
shall any delay, omission or waiver on any one occasion be deemed a bar to or
waiver of the same or any other right on any future occasion.

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

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

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

EXHIBIT B
PLEDGE AGREEMENT
dated April 15, 1993, between Patrick J. Scannon, M.D.,
Ph.D. (the "Pledgor"), and XOMA Corporation, a Delaware corporation (the
"Pledgee").

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

WHEREAS, the Pledgee has agreed to loan the Pledgee $290,539.46 in
connection with the certain liabilities related to the Pledged Shares (the
"Loan"), and the Pledgor has simultaneously with the execution of this Agreement
executed a Promissory Note (the "Note") evidencing such indebtedness;

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

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

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

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

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

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

(b) The pledge of the Pledged Shares pursuant to this Agreement creates a
valid and perfected first priority security interest in the Pledged Shares,
securing the payment of the Obligations.
SECTION 5. Further Assurances. The Pledgor agrees that at any
time and from time to time, at the expense of the Pledgor the Pledgor will
promptly execute and deliver all further instruments and documents, and take all
further action, that may be necessary or appropriate, or that the Pledgee may
reasonably request, in order to perfect and protect any security interest
granted or purported to be granted hereby or to enable the Pledgee to exercise
and enforce its rights and remedies hereunder with respect to any Pledged
Shares.

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

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

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

(b) Upon the occurrence of a default under the Note, all rights of the
Pledgor to exercise the voting and other consensual rights which it would
otherwise be entitled to exercise pursuant to Section 6(a)(i) and to receive the
dividends which it would otherwise be authorized to receive and retain pursuant
to Section (a)(ii) shall cease, and all such rights shall thereupon become
vested in the Pledgee who shall thereupon have the sole right to exercise such
voting and other consensual rights and to receive and hold as Pledged collateral
such dividends, and all dividends which are received by the Pledgor contrary to
the provisions of this Section (b) shall be received in trust for the benefit of
the Pledgee, shall be segregated from other funds of the Pledgor and shall be
forthwith paid over the Agent as Pledged Collateral in the same form as so
received with any necessary indorsement).

SECTION 7. Pledgee Appointed Attorney-in-Fact. The Pledgor hereby
irrevocably appoints the Pledgee the Pledgor's attorney-in-fact, with full
authority in the place and stead of the Pledgor and in the name of the Pledgor
or otherwise, from time to time in the Pledgee's discretion, to take any action
and to execute any instrument which the Pledgee may deem necessary or advisable
to accomplish the purposes of this Agreement, including, without limitation, to
receive, indorse and collect all instruments made payable to the Pledgor
representing any dividend or other distribution in respect of the Pledge Shares
and to give full discharge for the same, when and to the extent permitted by
this Agreement.

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

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

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

(a) The Pledgee may exercise in respect of the Pledged Collateral, in
addition to other rights and remedies provided for herein or otherwise available
to it, all the rights and remedies of a secured party on default under the
Uniform Commercial Code (the "Code") in effect in the State of California at
that time (in compliance with all applicable securities laws), and the Pledgee
may also, without notice except as specified below, sell (in compliance with all
applicable securities laws) the Pledged collateral or any part thereof in one or
more parcels at public or private sale, at any exchange, broker's board, for
cash, on credit or for future delivery, and at such price or prices and upon
such other terms as the Pledgee may deem commercially reasonable. The Pledgor
agrees that, to the extent notice of sale shall be required by law, at least ten
days' notice to the Pledgor of the time and place of any public sale or the time
after which any private sale is to be made shall constitute reasonable
notification. The Pledgee shall not be obligated to make any sale of Pledged
Collateral regardless of notice of sale having been given.

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

SECTION 11. Expenses. The Pledgor will upon demand pay to the Pledgee the
amount of any and all reasonable expenses, including the fees and expenses of
its counsel and of any agents, which the Pledgee may incur in connection with
(i) the custody of, or the sale or other realization upon, any of the Pledged
collateral, (ii) the exercise or enforcement of any of the rights of the
Pledgee, or (iii) the failure by the Pledgor to perform or observe any of the
provisions hereof.

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

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

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

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

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

Unless otherwise defined herein, terms defined in Article 9 of the Uniform
Commercial Code in the State of California are used herein as therein defined.

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

/s/ Patrick J. Scannon
PATRICK J. SCANNON, M.D., Ph.D.

XOMA CORPORATION

By /s/ John L. Castello
John L. Castello
Chairman of the Board,
President and Chief
Executive Officer
# Table Of Contents

<table>
<thead>
<tr>
<th>Paragraph Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.0 BASIC LEASE TERMS</td>
<td>1</td>
</tr>
<tr>
<td>1.1 Commencement Of Lease</td>
<td>1</td>
</tr>
<tr>
<td>1.2 Lease Term</td>
<td>1</td>
</tr>
<tr>
<td>1.3 Monthly Rent</td>
<td>1</td>
</tr>
<tr>
<td>1.4 Security Deposit</td>
<td>1</td>
</tr>
<tr>
<td>1.5 Use</td>
<td>1</td>
</tr>
<tr>
<td>1.6 Term</td>
<td>1</td>
</tr>
<tr>
<td>1.7 Security Deposit</td>
<td>1</td>
</tr>
<tr>
<td>1.8 Late Charges</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>2.0 PREMISES</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>2.1 Commencement</td>
<td>2</td>
</tr>
<tr>
<td>2.2 Option To Terminate</td>
<td>2</td>
</tr>
<tr>
<td>2.3 Option To Extend Term</td>
<td>2</td>
</tr>
<tr>
<td>2.4 Term</td>
<td>2</td>
</tr>
<tr>
<td>2.5 Fair Market Lease Rate</td>
<td>2</td>
</tr>
<tr>
<td>2.6 Late Charges</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>3.0 TERM</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>3.1 Commencement</td>
<td>2</td>
</tr>
<tr>
<td>3.2 Option To Terminate</td>
<td>2</td>
</tr>
<tr>
<td>3.3 Option To Extend Term</td>
<td>2</td>
</tr>
<tr>
<td>3.4 Term</td>
<td>2</td>
</tr>
<tr>
<td>3.5 Fair Market Lease Rate</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>4.0 RENT</td>
<td>3</td>
</tr>
<tr>
<td>4.1 Monthly Rent</td>
<td>3</td>
</tr>
<tr>
<td>4.2 Rent Adjustment</td>
<td>3</td>
</tr>
<tr>
<td>4.3 Mode of Payment</td>
<td>4</td>
</tr>
<tr>
<td>4.4 Triple Net Lease</td>
<td>4</td>
</tr>
<tr>
<td>4.5 Estimated Payments</td>
<td>4</td>
</tr>
<tr>
<td>4.6 Security Deposit</td>
<td>5</td>
</tr>
<tr>
<td>4.7 Late Charges</td>
<td>5</td>
</tr>
<tr>
<td>4.8 Workers' Compensation Insurance</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>5.0 TAXES</td>
<td>6</td>
</tr>
<tr>
<td>5.1 Real Property Taxes</td>
<td>6</td>
</tr>
<tr>
<td>5.2 Personal Property Taxes</td>
<td>6</td>
</tr>
<tr>
<td>5.3 Real Property Taxes</td>
<td>6</td>
</tr>
<tr>
<td>5.4 Personal Property Taxes</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>6.0 INSURANCE</td>
<td>6</td>
</tr>
<tr>
<td>6.1 Property/Rental Insurance - Premises</td>
<td>6</td>
</tr>
<tr>
<td>6.2 Property Insurance - Fixtures And Inventory</td>
<td>7</td>
</tr>
<tr>
<td>6.3 Lessor's Liability Insurance</td>
<td>7</td>
</tr>
<tr>
<td>6.4 Lessee's Liability Insurance</td>
<td>7</td>
</tr>
<tr>
<td>6.5 Waiver Of Subrogation</td>
<td>7</td>
</tr>
<tr>
<td>6.6 Indemnification</td>
<td>8</td>
</tr>
<tr>
<td>6.7 Plate Glass Replacement</td>
<td>8</td>
</tr>
<tr>
<td>6.8 Workers' Compensation Insurance</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>7.0 MAINTENANCE</td>
<td>8</td>
</tr>
<tr>
<td>7.1 Premises</td>
<td>8</td>
</tr>
<tr>
<td>7.2 Building</td>
<td>9</td>
</tr>
<tr>
<td>7.3 Common Areas</td>
<td>9</td>
</tr>
<tr>
<td>7.4 Alterations, Changes And Additions By Lessee</td>
<td>9</td>
</tr>
<tr>
<td>7.5 Plumbing</td>
<td>10</td>
</tr>
<tr>
<td>7.6 Liens</td>
<td>10</td>
</tr>
<tr>
<td>7.7 Maintenance</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>8.0 MANAGEMENT</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>9.0 UTILITIES AND SERVICES</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>10.0 USE OF PREMISES</td>
<td>11</td>
</tr>
<tr>
<td>10.1 Use</td>
<td>11</td>
</tr>
<tr>
<td>10.2 Common Areas</td>
<td>11</td>
</tr>
<tr>
<td>10.3 Uses Prohibited</td>
<td>11</td>
</tr>
</tbody>
</table>
LEASE made and entered into this 22 day of July 1987, between SEVENTH STREET PROPERTIES ("Lessor") and XOMA CORPORATION ("Lessee").

RECITALS:

A. Lessor and Lessee entered into an earlier Lease (the "Original Lease")
B. Concurrently with the execution of this Lease, Lessee is entering into three other leases with Seventh Street Properties II, an affiliate of Lessee, for approximately 35,000 square feet in Building E, approximately 20,000 square feet in Building F and approximately 6,720 square feet in Building C at the Aquatic Park Center (referred to respectively as the "Building E Lease", "Building F Lease" and "Building C Lease").

C. In connection with Lessee's leasing of such additional space in Buildings E, F and C, and as partial consideration therefor, Lessor and Lessee desire to amend the terms of the Original Lease effective as of the Commencement Date referenced below and to restate the Original Lease in its entirety below to include such amended terms.

D. The Building E Lease, the Building C Lease and this Lease are intended to be read together so that a breach of one is deemed to be a breach of the other.

A G R E E M E N T:

NOW, THEREFORE, the parties hereby agree as follows:

1.0 BASIC LEASE TERMS.

1.1 Commencement Of Lease: The term of this Lease shall commence October 1, 1987.


1.3 Monthly Rent: $22,333.

1.4 Security Deposit: $22,333.

1.5 Use: Pharmaceutical manufacturing, offices, laboratories, shipping and receiving relating to pharmaceutical products.

2.0 PREMISES.

Lessor hereby leases to Lessee that certain building and real property located at 890 Heinz Street, Berkeley, California (the "Premises"). The building on the Premises constitutes approximately 24,275 square feet of leaseable space. Exhibit A attached hereto further describes the Premises being leased hereby.

3.0 TERM.

3.1 Commencement. The Lease shall commence on the date specified in Paragraph 1.1 above (the "Commencement Date") and shall continue thereafter for the term specified in Paragraph 1.2 above (the "Initial Term"), unless sooner terminated pursuant to this Lease.

3.2 Option To Terminate. Lessee is hereby granted an option to terminate the Lease effective April 30, 1998 by giving written notice to Lessor of Lessee's intent to terminate (the "Termination Notice") on or before July 31, 1997.

3.3 Option To Extend Term. Lessee is hereby granted an option to extend the term for a five year period following the expiration of the Initial Term (the "Option Term") by giving written notice to the Lessor of Lessee's intent to exercise such option (the "Option Notice") at least 270 days before the expiration of the Initial Term. The Option Term shall be on the same terms and conditions in effect immediately before the end of the Initial Term, except that the rent shall be set at 95% of the fair market lease rate for comparable space in the Berkeley area, provided that in no event shall the rental rate for the Option Term be less than the rental rate as of the last day of the Initial Term. Notwithstanding anything to the contrary above, if Lessee is in default in the payment of rent, in the making of other payments required to be made by Lessee under this lease, or otherwise under this Lease on the date the Option Notice is delivered to Lessor or on the date the Option Term is to commence, the Option Term shall not commence and this Lease shall expire at the end of the Initial Term.

3.4 Term. All references to the "Term" in this Lease shall include the Initial Term set forth in Paragraph 3.1 plus any extensions pursuant to Paragraph 3.3.

3.5 Fair Market Lease Rate. Lessor shall give Lessee notice ("Lessor's Notice") of the fair market lease rate after receiving Lessee's written notice
of intent to exercise the Option, provided that Lessor's Notice shall not be
delivered later than 120 days prior to the commencement of the Option Term. If
Lessee believes that the fair market lease rate as established by Lessor is
incorrect, Lessee shall notify Lessor in writing within 20 days of Lessee's
receipt of the notice from Lessor that Lessee desires to submit the matter to
appraisal with a designation of an MAI qualified appraiser. If Lessor agrees
with the identity of such appraiser, it shall within 10 days notify the
appraiser and Lessee that such appraiser shall determine the fair market lease
rate (including fair market increases during the Option Term). If not, Lessor
shall submit the name of its appraiser to Lessee within said 10 days. The two
appraisers so selected shall choose a third appraiser and the three together
shall determine the fair market lease rate (including fair market increases
during the Option Term). If the two appraisers cannot select a third
appraiser within 20 days after Lessor submits the name of its appraiser, either
party may at any time apply to the presiding judge of any court of competent
jurisdiction for the appointment of the third appraiser. If the three appraisers
are unable to determine the fair market lease rate they shall each determine the
fair market lease rate assuming annual CPI increases during the Option Term and
then average their determinations by tossing out the high and low determinations and
accepting the middle appraisal as the fair market lease rate. The costs of the
appraisal process shall be borne by Lessee unless the fair market lease rate as
determined by the appraisal is more than 10% below the lease rate set forth in
Lessor's Notice in which case Lessor and Lessee shall share the costs of the
appraisal process equally. The appraisal process shall be completed as quickly
as reasonably possible. If for any reason the Option Term commences prior to the
conclusion of the appraisal process, Lessee shall continue to pay the monthly
base rent then in effect to Lessor plus 10% of such amount, which 10% only shall
be held by Lessor in escrow pending completion of the appraisal process, at
which time all funds held in escrow shall be distributed to Lessee and/or Lessor
in accordance with the outcome of the appraisal process, and Lessee shall
subsequently be bound by the lease rate as determined by the appraisal process.
The rent during the Option Term shall continue to be adjusted as agreed upon
between Lessor and Lessee or as determined by the appraisal process.

4.0 RENT

4.1 Monthly Rent. Lessee shall pay to Lessor as rent for the Premises in
advance on the first day of each calendar month of the Term without deduction,
offset, prior notice or demand, in lawful money of the United States, the sum
specified in Paragraph 1.3 above which is based $.92 per square foot on the
square footage set forth in Paragraph 2.0. The rent owing shall be adjusted as
necessary if the actual square footage is shown to be other than as set forth in
Paragraph 2.0.

4.2 Rent Adjustment. For the period through April 30, 1998 the base rent
set forth in Paragraph 4.1 above shall be adjusted as follows. On October 1,
1990 and every three years thereafter (the "Adjustment Dates"), by the
percentage increase in the Consumer Price Index (all items) for all urban
consumers in the San Francisco-Oakland metropolitan area, published by the
United States Department of Labor, Bureau of Labor Statistics. The monthly rent
until the next Adjustment Date shall be the greater of (a) the rent in effect
immediately before the Adjustment Date or (b) the initial rent set forth in
Paragraph 4.1 above multiplied by a fraction, the numerator of which shall be
said Index number for the calendar month three months prior to the Adjustment
Date and the denominator of which shall be said Index number for the calendar
month three months prior to the first full calendar month following the
Commencement Date. Notwithstanding the above, in no case shall the increase as
of any Adjustment Date exceed 21% plus the Carry Forward. As used above, the
"Carry Forward" shall mean the percentage increases in CPI which are not used at
earlier Adjustment Dates to adjust the rent because of this limitation. For
example, if the CPI increase is 15% on October 1, 1990, then the Carry Forward is six percent and the CPI increase on October 1, 1993 shall be the actual CPI increase, not to exceed 27%. If the actual CPI increase on October 1, 1993 were 23%, then the Carry Forward to October 1, 1996 would be four percent. Should the Bureau discontinue the publication of said Index numbers, or publish the same less frequently, or alter the same in some other manner, then Lessor shall adopt a substitute index or procedure which reasonably reflects consumer prices. Commencing May 1, 1998, the adjustment mechanism set forth above shall be discarded and rent shall be adjusted to 95% of the fair market lease rate as of May 1, 1998 for comparable space in the Berkeley area, provided that in no event shall the new rental rate be less than the rental rate in effect immediately before such adjustment. (Adjustments subsequent to May 1, 1998 shall be determined in the course of establishing the fair market lease rate.) On or before January 1, 1998, Lessor shall provide
Lessee with notice of the May 1, 1998 fair market lease rate. The fair market lease rate shall then be determined in accordance with Paragraph 3.5, and the notice referenced above shall be deemed "Lessor's Notice."

4.3 Mode Of Payment. Lessee shall pay all rent due Lessor at Lessor's address set forth on the signature page hereof, or any such other place as Lessor may designate from time to time in writing.

4.4 Triple Net Lease. This Lease is what is commonly called a "Net, Net, Net Lease," it being understood that Lessor shall receive the rent set forth herein free and clear of any and all other impositions, taxes, liens, charges or expenses of any nature whatsoever in connection with the ownership and operation of the Premises. In the event of non-payment of all or any portion of such charges, costs and expenses, Lessor shall have the same rights and remedies as provided in this Lease for failure of Lessee to pay rent. Lessor shall in no event be entitled to any abatement or reduction of rent or other monetary sums payable hereunder, except as expressly provided herein, notwithstanding any present or future law to the contrary.

4.5 Estimated Payments. Lessee shall be notified by Lessor of Estimated Payments for taxes, insurance, maintenance of the landscaping and parking lot, and landscaping and parking lot utilities and services from time to time. The Estimated Payments shall be paid by Lessee together with rent, on the first day of each month throughout the Term. The Estimated Payments may be increased or decreased by Lessor upon 30 days' written notice to Lessee based upon statements received or charges incurred by Lessor, information available to Lessor as to the probable cost of expected charges and expenses, or the reasonable estimate of Lessor as to the probable amount of expected charges or expenses. Lessor shall be entitled to retain the monies received from such payments in its general fund pending payment of all such costs and charges. No more frequently than once each calendar quarter, the actual costs shall be determined by Lessor, and Lessee shall remit to Lessor on demand its unpaid pro rata share of the actual expense. In the event Lessee paid more than the actual expenses for such period of time, Lessor shall apply such overpayment towards the next Estimated Payments owing by Lessee. At the termination of this Lease, an accounting for such charges and expenses shall be made to the nearest practical accounting period, and Lessee shall pay to Lessor any balance due, or the Lessor shall refund to Lessee any excess amount paid.

4.6 Security Deposit. Lessee has deposited with Lessor as a security deposit the sum specified in Paragraph 1.4 above (the "Deposit"). On May 1, 1998 and May 1, 2003 (unless the Lease is terminated or the Option is not exercised, as the case may be) Lessee shall increase the Deposit to that amount which is equal to the newly established monthly rental. The Deposit shall be held by Lessor as a security deposit for the faithful performance by Lessee of all terms, covenants, and conditions of this Lease to be kept and performed by Lessee during the Term. If Lessee defaults with respect to any provisions of this Lease, including but not limited to the provisions relating to the payment of rent and any of the monetary sums due hereunder, Lessor may (but shall not be required to) use, apply or retain any part or all of the Deposit for the payment of any amount which Lessor may spend or become obligated to spend by reason of Lessee's default or to compensate Lessor for any loss or damage which Lessor may suffer by reason of Lessee's default. If any portion of the Deposit is so used or applied, Lessee shall, within 10 days after written demand therefor, deposit cash with Lessor in an amount sufficient to restore the Deposit to its original amount; Lessee's failure to do so shall be a material breach of this Lease.

Lessor shall not be required to keep the Deposit separate from its general funds, and Lessee shall not be entitled to interest on the Deposit. If Lessor shall fully and faithfully perform every provision of this Lease to be performed by it, then the Deposit shall be returned to Lessee (or, at Lessor's option, to the last assignee of Lessee's interests hereunder) at the expiration of the Term and after Lessee has vacated the Premises. In the event of termination of Lessor's interest in this Lease, Lessor shall transfer the Deposit to Lessor's successor in interest, whereupon Lessor agrees to release Lessor from all liability for the return of the Deposit or the accounting therefor.

4.7 Late Charges. Lessee hereby acknowledges that late payment by Lessee to Lessor of rent and other sums due hereunder will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed on the Lessor by the terms of any mortgage or trust deed covering the Premises. Accordingly, if any installment of rent or any other sum due from Lessee shall not be received by Lessor or Lessor's designee within 10 days after such amount shall be due, Lessee shall pay to Lessor a late charge equal to five percent of such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of late payment by Lessee. Acceptance of such late charge by Lessor shall in no event constitute a
5.0 TAXES.

5.1 Real Property Taxes. Lessee agrees to pay to Lessor in addition to the rent and other charges herein all Real Property Taxes in accordance with Paragraph 4.5. As used herein, "Real Property Taxes" shall include any form of assessment, license, fee, rent, tax, levy, penalty or tax imposed by any authority having the direct or indirect power to tax, including any improvement district, as against any legal or equitable interest of Lessor in the Premises or as against Lessor's business of renting the Premises. Lessee's share of Real Property Taxes shall be equitably prorated to cover only the period of time within the fiscal tax year during which this Lease is in effect. With respect to any assessments which may be levied against or upon the Premises, and which may be paid in annual installments, only the amount of such annual installments (with appropriate proration for any partial year) and interest due thereon shall be included within the computation of the annual Real Property Taxes. Lessor represents that, to the best of his knowledge, there are no assessment or improvement districts being planned which would affect the Premises other than as in effect as of the date of this Lease.

5.2 Personal Property Taxes. Lessee shall pay before delinquency all taxes levied or assessed on Lessee's fixtures, improvements, furnishings, merchandise, equipment and personal property in and on the Premises, whether or not affixed to the real property. If Lessee in good faith contests the validity of any such personal property taxes, then Lessee shall at its sole expense defend itself and Lessor against the same and shall pay and satisfy any adverse determination or judgment that may be rendered thereon and shall furnish Lessor with a surety bond satisfactory to Lessor in an amount equal to 150% of such contested taxes. Lessee shall indemnify Lessor against liability for any such taxes and/or any liens placed on the Premises in connection with such taxes. If at any time after any tax or assessment has become due or payable Lessee or its legal representative neglects to pay such tax or assessment, Lessor shall be entitled, but not obligated, to pay the same at any time thereafter and such amount so paid by Lessor shall be repaid by Lessee to Lessor with Lessee's next rent installment together with interest at the highest rate allowable by law.

6.0 INSURANCE.

6.1 Property/Rental Insurance - Premises. During the Term, Lessor shall keep the Premises insured against loss or damage by fire and those risks normally included in the term "all risk" including (a) flood coverage at the election of Lessor, (b) earthquake coverage at the reasonable election of Lessor, (c) coverage for loss of rents and (d) boiler and machinery coverage if the Lessor deems necessary. Any deductibles shall be paid by Lessee if the deductible arises from damage solely to the Premises. The amount of such insurance shall be not less than 100% of the replacement value of the Premises. Any recovery received from said insurance policy shall be paid to Lessor. Lessee, in addition to the rent and other charges provided herein, agrees to pay to Lessor the premiums for all such insurance. The insurance premiums shall be paid in accordance with Paragraph 4.5. Lessee shall pay to Lessor any deductibles owing within 15 days after receipt of notice from Lessor of the amount owing.

6.2 Property Insurance - Fixtures And Inventory. During the Term, Lessee shall, at its sole expense, maintain insurance with "all risk" coverage on any fixtures, leasehold improvements, furnishings, merchandise, equipment or personal property in or on the Premises, whether in place as of the date hereof or installed hereafter, for the full replacement value thereof, and Lessee shall also have sole responsibility and cost for maintaining any other types of insurance relating to Lessor’s use of the Premises. Any deductibles shall be paid by Lessee.

6.3 Lessor's Liability Insurance. During the Term, Lessor shall maintain a policy or policies of comprehensive general liability insurance insuring Lessor (and such others as designated by Lessor) against liability for bodily injury, death and property damage on or about the Premises, with combined single limit coverage of not less than $2,000,000.

6.4 Lessee's Liability Insurance. During the Term, Lessee shall, at its sole expense, maintain for the mutual benefit of Lessor and Lessee, comprehensive general liability and property damage insurance against claims for bodily injury, death or property damage occurring in or about the Premises or
arising out of the use or occupancy of the Premises, with combined single limit coverage of not less than $2,000,000. The limits of such insurance shall not limit the liability of Lessee. Lessee shall furnish to Lessor prior to the Commencement Date, and at least 30 days prior to the expiration date of any policy, certificates indicating that the liability insurance required by Lessee above is in full force and effect, that Lessor has been named as an additional insured; and that all such policies will not be cancelled unless 30 days' prior written notice of the proposed cancellation has been given to Lessor. The insurance shall be with insurers reasonably approved by Lessor and with policies in form reasonably satisfactory to Lessor. Said policies shall provide that Lessor, although an additional insured, may recover for any loss suffered by Lessor by reason of Lessee's negligence, and shall include a broad form liability endorsement.

6.5 Waiver Of Subrogation. Lessor hereby releases Lessee, and Lessee hereby releases Lessor, and their respective officers, agents, employees and servants, from any and all claims or demands of damages, loss, expense or injury to the Premises, or to the furnishings and fixtures and equipment, or inventory or other property of either Lessor or Lessee in, about or upon the Premises, which is caused by or results from perils, events or happenings which are the subject of insurance carried by the respective parties and in force at the time of any such loss; provided, however, that such waiver shall be effective only to the extent permitted by the insurance covering such loss and to the extent such insurance is not prejudiced thereby. Each party shall cause each insurance policy obtained by it to provide that the insurance company waives all right of recovery by way of subrogation against

either party in connection with any damage covered by any policy.

6.6 Indemnification. Except to the extent of intentional misconduct by Lessor or Lessor's negligence, Lessee will indemnify and save Lessor harmless from and against any and all claims, actions, damages, liability and expense in connection with loss of life, personal injury and/or damage to property arising from or out of any occurrence in, upon or at the Premises, or the occupancy or use by Lessee of the Premises or any part thereof, or occasioned wholly or in part by any actions, omissions of Lessee, its agents, contractors, employees, servants, licensees or concessionaires or by anyone permitted to be on the Premises by Lessee. In case Lessor shall be made a party to any such litigation commenced by or against Lessee, then Lessee shall protect and hold Lessor harmless from all claims, liabilities, costs and expenses, and shall pay all costs, expenses and reasonable legal fees incurred by Lessor in connection with such litigation.

6.7 Plate Glass Replacement. Lessee shall replace at its sole expense, any and all plate glass and other glass in and about the Premises which is damaged or broken by vandalism. If any plate glass or other glass in and about the Premises is damaged or broken by causes other than vandalism then Lessee shall pay Lessor an amount equal to Lessor's cost of replacement, provided that such amount shall not exceed the deductible then in effect on Lessor's insurance policy, if any, covering the damaged glass. Nothing herein shall be construed to require Lessor to carry plate glass insurance.

6.8 Workers' Compensation Insurance. Lessee shall, at its sole expense, maintain and keep in force during the Term a policy or policies of Workers' Compensation Insurance and any other employee benefit insurance sufficient to comply with all applicable laws, statutes, ordinances and governmental rules, regulations or requirements.

7.0 MAINTENANCE.

7.1 Premises. Throughout the Term, Lessee agrees to keep and maintain all improvements and appurtenances upon the Premises, including all sewer connections, plumbing, heating and cooling appliances, wiring and glass, in good order and repair including the replacement of such improvements and appurtenances when necessary. Lessee hereby expressly waives the provisions of any law permitting repairs by a tenant at the expense of a landlord, including, without limitation, all rights of Lessee under Sections 1941 and 1942 of the California Civil Code. Lessee agrees to keep the Premises clean and in sanitary condition as required by the health, sanitary and police ordinances and regulations of any political subdivision having jurisdiction. Lessee further agrees to keep the interior of the Premises, such as the windows, floors, walls, doors, showcases and fixtures clean and neat in appearance and to remove all trash and debris from in or around the Premises. If Lessor deems any repairs and/or maintenance to be made by Lessee necessary and Lessee refuses or neglects to commence such repairs and/or maintenance and complete the same with reasonable dispatch upon demand, Lessor may enter the
Premises and cause such repairs and/or maintenance to be made and shall not be responsible to Lessee for any loss or damage occasioned hereby except to the extent that Lessee's personal property is damaged by the intentional misconduct or negligence of Lessor or its contractors. Lessee agrees that upon demand, it shall pay to Lessor the cost of any such repairs, together with accrued interest from the date of payment at the highest rate allowable by law.

7.2 Building. Lessor shall maintain the foundation, roof and exterior walls (the "Structural Components") of the Premises in reasonably good order and repair, except that damage occasioned by the act of Lessee shall be repaired by Lessor at Lessee's expense. Lessee shall have the obligation to notify Lessor, in writing, of any repairs or maintenance to the Structural Components which may be required, and Lessor shall have a reasonable time to make such repairs. The manner and method of maintenance and repair of the Structural Components shall be at the reasonable discretion of Lessor.

7.3 Maintenance - Landscaping, Parking Lot. Lessor shall maintain the landscaping and parking lot in reasonable good order and condition, except that damage occasioned by the act of Lessee shall be repaired by Lessor at Lessee's expense. Lessee shall have the obligation to notify Lessor, in writing of any repairs or maintenance to the landscaping and parking lot which may be required, and Lessor shall have a reasonable time to make such repairs. The manner and method of maintenance and repair shall be at the reasonable discretion of Lessor. Lessee, in addition to the rent and other charges provided herein agrees to pay to Lessor the costs of maintaining the landscaping and parking lot in accordance with Paragraph 4.5.

7.4 Alterations, Changes And Additions By Lessee. No changes, alterations, or additions shall be made by Lessee to the Premises without the prior written consent of Lessor which Lessor will not unreasonably withhold. Notwithstanding the above, non-structural changes aggregating no more than $10,000 in any 12 month period may be made by Lessee without Lessor's consent. As used herein, alterations include utility installations such as dusting, power panels, fluorescent fixtures, base heaters, conduit and wiring. As a condition to giving such consent, Lessor may require that Lessee agree to remove any such alterations, additions or improvements at the expiration of the Term and to restore the Premises to their prior condition. As a further condition to giving such consent, Lessor may require Lessee to provide Lessor, at Lessee's sole cost and expense, with a proper bond, in an amount equal to one and one-half times the estimated cost of such improvements, to insure Lessor against any liability for mechanics' and materialmen's liens and to insure completion of the work. All changes, alterations or additions to be made to the Premises shall be under the supervision of a competent architect or competent licensed structural engineer and made in accordance with plans and specifications which have been furnished to and approved by Lessor prior to commencement of work. Lessor shall not unreasonably withhold its approval of such proposed alterations. If the written consent of Lessor to any proposed alterations by Lessee shall have been obtained, Lessee agrees to advise Lessor in writing of the date upon which such alterations will commence in order to permit Lessor to post a notice of nonresponsibility. All such alterations, changes and additions shall be constructed in a good and workmanlike manner in accordance with all ordinances and laws relating thereto. Any such changes, alterations or additions to or on the Premises shall remain for the benefit of and become the property of Lessor, unless Lessor requires the removal by giving Lessee written notice within 30 days before the date Lessee is to vacate the Premises, in which case Lessee shall agree to remove any such changes, alterations and additions and restore the Premises to the condition they were in prior to such changes, alterations or additions.

7.5 Plumbing. Lessee shall not use the plumbing facilities for any purpose other than that for which they were constructed. The expense of any breakage, stoppage or other damage relating to the plumbing and resulting from the introduction by Lessee, its agents, employees or invitees of foreign substances into the plumbing facilities shall be borne by Lessee.

7.6 Liens. Lessee shall keep the Premises free from any liens arising out of work performed, materials furnished or obligations incurred by Lessee and shall indemnify, hold harmless and defend Lessor from any liens and encumbrances arising out of any work performed or materials furnished by or at the direction of Lessee or not, within 20 days following the imposition of any such lien, cause such lien to be released of record by payment or posting of a proper bond, Lessor shall have, in addition to all other remedies provided herein and by law, the right, but not the obligation, to cause the same to be released by such means as it shall deem proper, including payment of the claim giving rise to such lien. All such sums paid by Lessor and all expenses incurred by it in connection therewith including attorneys' fees and costs shall be payable to Lessor by Lessee on demand with interest at the
highest rate allowable by law. Lessor shall have the right at all times to post and keep posted on the Premises any notices permitted or required by law, or which Lessor shall deem proper, for the protection of Lessor and the Premises, and any other party having an interest therein, from mechanics' and materialmen's liens, and Lessee shall give to Lessor at least 10 business days' prior written notice of the expected date of commencement of any work relating to alterations or additions to the Premises.

8.0 MANAGEMENT.

Lessee shall bear all costs to Lessor of managing the Premises and real property. Lessee understands that Wareham Property Group, or another affiliated or unaffiliated third party will be responsible for the management of the Premises. For the period through April 30, 1998, Lessee shall pay to Lessor a property management fee equal to two and one-half percent of the monthly rent. Thereafter, the monthly property management fee payable by Lessee shall be equal to the monthly property management fee owing by Lessee immediately prior to May 1, 1998, subject to adjustment as follows. Commencing May 1, 1998 and each anniversary thereafter, the monthly property management fee shall be adjusted upwards by increases in the CPI between the Adjustment Date and the same date one year earlier. The monthly property management fee shall be payable with monthly rent.

9.0 UTILITIES AND SERVICES.

Lessee shall pay prior to delinquency throughout the Term the cost of water, gas, heating, cooling, sewer, telephone, electricity, garbage, air conditioning and ventilating, janitorial services, landscaping and all other materials and utilities supplied to the Premises and real property, provided that if payment is to be made to Lessor, it shall be made by Lessee within 30 days of receipt of the statement for such charges.

10.0 USE OF PREMISES.

10.1 Use. The Premises shall be used and occupied by Lessee for only the purposes specified in Paragraph 1.5 and for no other purposes whatsoever without obtaining the prior written consent of Lessor which shall not be unreasonably withheld.

10.2 Suitability. This Lease shall be subject to all applicable zoning ordinances and to any municipal, county and state laws and regulations governing and regulating the use of the Premises. Lessee acknowledges that neither Lessor nor Lessor's agent has made any representation or warranty as to the suitability of the Premises for the conduct of Lessee's business.

10.3 Uses Prohibited.

a. Rate Of Insurance. Lessee shall not do or permit anything to be done in or about the Premises which will cause the existing rate of insurance upon the Premises (unless Lessee shall pay an increased premium as a result of such use or acts) or cause the cancellation of any insurance policy covering said Premises or any building of which the Premises may be a part, nor shall Lessee sell or permit to be kept, used or sold in or about such Premises any articles which may be prohibited by a standard form policy of fire insurance.

b. Interfere With Other Tenants. Lessee shall not allow the Premises to be used for any unlawful or objectionable purpose, nor shall Lessee cause, maintain or permit any nuisance in, or about the Premises. Lessee shall not commit or suffer to be committed any waste in or upon the Premises.

c. Applicable Laws. Lessee shall not use the Premises or permit anything to be done in or about the Premises which will in any way conflict with any law, statute, zoning restriction, ordinance, governmental rule, regulation or requirements of duly constituted public authorities whether now in force or which may hereafter be enacted or promulgated.

Lessee shall at its sole cost and expense properly comply with all laws, statutes, ordinances and governmental rules, regulations or requirements now in force or which may hereafter be in force and with the requirements of any board of fire underwriters or other similar body now or hereafter constituted relating to or effecting the condition, use or occupancy of the Premises. The judgment of any court of competent jurisdiction or the admission of Lessee in any action against Lessee, whether Lessor be a party thereto or not, that Lessee has violated any law, statute, ordinance or government rule, regulation or
reasonably avoided by Lessor, Lessor will pay such deficiency each month to any amount of rental loss for the same period which Lessor proves could be hereunder plus all other monthly charges to be paid by Lessor hereunder, less sum shall not be realized from such reletting to equal the monthly rent payable estate commissions associated with such reletting shall be paid by Lessor. If a of such reletting, including repairs and alterations and any reasonable real necessary or desirable for the purpose of such reletting. The costs and expenses extending beyond the Term. Such reletting shall neither void nor terminate this Lease. For the purpose of such reletting, Lessor is authorized to make repairs or alterations in or to the Premises at the sole expense of Lessor as may be discretion shall determine, and the term of such reletting may be for a term extending beyond the Term. Such reletting shall neither void nor terminate this Lease. For the purpose of such reletting, Lessor is authorized to make repairs or alterations in or to the Premises at the sole expense of Lessor as may be necessary or desirable for the purpose of such reletting. The costs and expenses of such reletting, including repairs and alterations and any reasonable real estate commissions associated with such reletting shall be paid by Lessor. If a sum shall not be realized from such reletting to equal the monthly rent payable hereunder plus all other monthly charges to be paid by Lessor hereunder, less any amount of rental loss for the same period which Lessee proves could be reasonably avoided by Lessor, Lessor will pay such deficiency each month to
Lessor. In no event shall Lessor be entitled to any excess rent received by
Lessor. No re-entry, taking of possession or reletting of the Premises by Lessor
shall be construed as an election to terminate this Lease unless written notice
of such intention is given to Lessee or unless terminated thereof is decreed by
a court of competent jurisdiction.

11.5 Right To Terminate. Notwithstanding any such reletting without
termination, Lessor may at any time during the Term elect to terminate the Lease
by reason of a previous breach. In the event that Lessor shall at any time
terminate this Lease by reason of breach thereof by Lessee, then Lessor, in
addition to any other remedy it may have, may recover from Lessee any damages
incurred by reason of such breach including, without limitation, the cost of
recovering the Premises, and the amount by which the rent then unpaid for the
balance of the Term exceeds the amount of such rental loss for the same period
which the Lessee proves could be reasonably avoided by Lessor. Lessee hereby
waives all statutory rights inconsistent with this Paragraph.

11.6 Default By Lessor. Lessor will be in default if Lessor fails to
perform any obligation required of Lessor within 30 days after written notice by
Lessee, specifying wherein Lessor has failed to perform such obligation;
provided that if the nature of Lessor's obligation is such that more than 30
days are required for performance, then Lessor shall not be in default if Lessor
commences performance within such 30 day period and thereafter diligently
prosecutes the same to completion; and provided further that if the performance
of any obligation required by Lessor is necessary to correct a condition that
poses a threat to life or property, then Lessor shall perform such obligation as
soon as reasonably possible after receiving written notice from Lessee,
specifying that the condition is threatening.

12.0 EXPIRATION OR TERMINATION.

12.1 Surrender Of Possession. Lessee agrees to deliver up and surrender to
Lessor possession of the Premises and all improvements thereon, subject to the
terms of Paragraph 7.4 above, in as good order and condition as when possession
was taken by Lessee, excepting only ordinary wear and tear. Upon termination of
this Lease, Lessor may reenter the Premises and remove all persons and property
therefrom. If Lessee shall fail to remove any effects which it is entitled to
remove from the Premises upon the termination of this Lease, for any cause
whatsoever, Lessor, at its option, may remove the same and store or dispose of
them, and Lessee agrees to pay to Lessor on demand any and all expenses incurred
in such removal and in making the Premises free from all dirt, litter, debris
and obstruction, including all storage and insurance charges. If the Premises
are not surrendered at the end of the Term, Lessee shall indemnify Lessor
against loss or liability resulting from delay by Lessee in so surrendering the
Premises, including, without limitation, any claims made by any succeeding
Lessee founded on such delay.

12.2 Holding Over. If Lessee, with Lessor's consent, remains in possession
of the Premises after expiration of the term and if Lessor and Lessee have not
executed an express written agreement as to such holding over, then such
occupancy shall be a tenancy from month to month at a monthly rental equivalent
to 110% of the monthly rental in effect immediately prior to such expiration,
such payments to be made as herein provided. In the event of such holding over
all of the terms of this Lease including the payment of all charges owing
hereunder other than rent shall remain in force and effect on said month to
month basis.

12.3 Voluntary Surrender. The voluntary or other surrender of this Lease by
Lessee, or a mutual cancellation thereof, shall not work a merger, but shall, at
the option of Lessor, terminate all or any existing subleases or subtenancies,
or operate as an assignment to Lessor of any or all such subleases or
subtenancies.

13.0 CONDEMNATION OF PREMISES.

13.1 Total Condemnation. If the entire Premises, whether by exercise of
governmental power or the sale or transfer by Lessor to any condemnor under
threat of condemnation or while proceedings for condemnation are pending, at any
time during the Term, shall be taken by condemnation such that there does not
remain a portion suitable for occupation, this Lease shall then terminate as of
the date transfer of possession is required. Upon such condemnation, all rent
shall be paid up to the date transfer of possession is required, and Lessee
shall have no claim against Lessor for the value of the unexpired term of this
Lease.
13.2 Partial Condemnation. If any portion of the Premises is taken by condemnation during the Term, whether by exercise of governmental power or the sale or transfer by Lessor to any condemnor under threat of condemnation or while proceedings for condemnation are pending, this Lease shall remain in full force and effect; except that in the event a partial taking leaves the Premises unfit for normal and proper conduct of the business of Lessee, then Lessee shall have the right to terminate this Lease effective upon the date transfer of possession is required. Moreover, Lessee shall have the right to terminate this Lease effective on the date transfer of possession is required if more than 33% of the total square footage of the Premises is taken by condemnation. Lessee and Lessor may elect to exercise their respective rights to terminate this Lease pursuant to this Paragraph by serving written notice to the other within 30 days of their receipt of notice of condemnation. All rent shall be paid up to the date of termination, and Lessee shall have no claim against Lessor for the value of any unexpired term of this Lease. If this Lease shall not be cancelled, the rent after such partial taking shall be that percentage of the adjusted base rent specified herein, equal to the percentage which the square footage of the untaken part of the Premises, immediately after the taking, bears to the square footage of the entire Premises immediately before the taking. If Lessee's continued use of the Premises requires alterations and repairs by reason of a partial taking, all such alterations and repairs shall be made by Lessee at Lessee's expense.

13.3 Award To Lessee. In the event of any condemnation, whether total or partial, Lessee shall have the right to claim and recover from the condemning authority such compensation as may be separately awarded or recoverable by Lessee for loss of business, fixtures or equipment belonging to Lessee immediately prior to the condemnation. The balance of any condemnation award shall belong to Lessor and Lessee shall have no further right to recover from Lessor or the condemning authority for any additional claims arising out of such taking.

14.0 ENTRY BY LESSOR.

Lessee shall permit Lessor and its agents to enter the Premises at all reasonable times for any of the following purposes: to inspect the Premises; to maintain the building in which the Premises are located; to make such repairs to the Premises as Lessor is obligated or may elect to make; to make repairs, alterations or additions to any other portion of the building in which the Premises are located; to show the Premises and post "To Lease" signs for the purposes of reletting during the last 90 days of the Term; to show the Premises as part of a prospective sale by Lessor or to post notices of nonresponsibility. Notwithstanding the above, except in the case of emergencies, Lessor shall give at least 24 hours prior written notice before entry to either the laboratories or other non-office restricted areas. Lessor shall have such right of entry without any rebate of rent to Lessee for any loss of occupancy or quiet enjoyment of the Premises thereby occasioned.

15.0 INDEMNIFICATION.

Lessee agrees not to hold Lessor liable for any injury or damage, either proximate or remote, occurring through or caused by any repairs or alterations to the Premises, except to the extent such injury or damage arises from the willful misconduct or negligence of Lessor. Lessee agrees that Lessor shall not be liable for any injury or damage occasioned by defective electric wiring, or the breaking, bursting, stoppage or leaking of any part of the plumbing, air conditioning, heating, fire-control sprinkler systems or gas, sewer or steam pipes, except to the extent such injury or damage arises from the willful misconduct or negligence of Lessor. Lessee will save and hold harmless Lessor from all loss, expense, damage or injury to persons or property arising from or occurring by reason of its occupation or use of the Premises, except to the extent such losses or injuries are proximately caused by any willful misconduct or negligence of Lessor. Lessor shall not be liable for any damage to or loss of property of Lessee or other persons located on the Premises, and Lessee shall hold Lessor harmless from any claims arising out of damage to the same, except to the extent such loss or damage is proximately caused by the willful misconduct or negligence of Lessor.

16.0 ASSIGNMENT AND SUBLETTING.

Lessee shall not assign this Lease in whole or in part, or sublet the Premises or any part thereof, or license the use of all or any portion of the Premises or business conducted thereon, or encumber or hypothecate this Lease, without first obtaining the written consent of Lessor, which consent will not be unreasonably withheld. Lessee shall submit in writing to Lessor: (a) the name and legal composition of the proposed sublessee; (b) the nature of the proposed sublessee's business to be carried on in the Premises; (c) the terms and provisions of the proposed sublease; and (d) such financial and other reasonable
request concerning the proposed sublessee (the "Sublease Notice"). Any assignment, subletting, licensing, encumbering, or hypothecating of this Lease without such prior written consent shall, at the option of Lessor, constitute grounds for termination of this Lease. Lessor's consent to any assignment or sublease shall not constitute a waiver of the necessity for such consent to any subsequent assignment or sublease. This prohibition against assignment and subletting shall be construed to include a prohibition against assignment or subletting by operation of law. Notwithstanding any assignment or subletting with Lessor's consent, Lessee shall remain fully liable on this Lease and shall not be released from its obligations hereunder. In the event Lessor shall consent to a sublease or assignment under this Paragraph, Lessee shall pay Lessor's reasonable attorneys' fees incurred in connection with giving such consent. In addition, Lessee shall pay to Lessor with its regularly scheduled rent payments, 75% of all sums collected by Lessee from a sublessee or assignee which are in excess of the rent and charges then owing to Lessor pursuant to this Lease.

17.0 DAMAGE OR DESTRUCTION.

17.1 Right To Terminate On Destruction Of Premises. Lessor shall have the right to terminate this Lease if, during the Term, the Premises are damaged to an extent exceeding 33% of the then reconstruction cost of the Premises as a whole, or the building as a whole, as the case may be. Lessor shall also have the right to terminate this Lease if any portion of the Premises is damaged by an uninsured peril. In either case, Lessor may elect to so terminate by written notice to Lessee delivered within 30 days of the happening of such damage.

17.2 Repairs By Lessor. If Lessor shall not elect to terminate this Lease pursuant to Paragraph 17.1, Lessor shall, immediately upon receipt of insurance proceeds paid in connection with such casualty, but in no event later than 90 days after such damage has occurred, proceed to repair or rebuild the Premises, on the same plan and design as existed immediately before such damage or destruction occurred, subject to such delays as may be reasonably attributable to governmental restrictions or failure to obtain materials or labor, or other causes beyond the control of Lessor. Lessee shall be liable for the repair and replacement of all fixtures, leasehold improvements, furnishings, merchandise, equipment and personal property not covered by the property insurance described in Paragraph 6.2.

17.3 Reduction Of Rent During Repairs. In the event Lessee is able to continue to conduct its business during the making of repairs, the rent then prevailing will be equitably reduced in the proportion that the unusable part of the Premises bears to the whole thereof for the period that repairs are being made. No rent shall be payable while the Premises are wholly unusable due to casualty damage.

17.4 Arbitration. Any controversy or claim arising out of or relating to this Paragraph shall be settled by arbitration in accordance with the rules of the American Arbitration Association as then in effect, and judgment upon the award rendered by the arbitration may be entered in any court having jurisdiction. The expenses of arbitration shall be borne by the parties as allocated by the arbitrators. The party desiring arbitration shall serve notice upon the other party, together with designation of the first party's arbitrator.

17.5 Lessor's Overriding Right To Terminate. Notwithstanding anything to the contrary herein, if the discounted present value of the rent due hereunder for the balance of the Term, using as the discount rate the prime commercial lending rate in effect at the Bank of America as of the date Lessor is to commence repairs pursuant to Paragraph 17.2 hereof, is less than the cost of repairing the damage to the Premises, Lessor may at its option terminate this Lease upon 10 days' written notice.

18.0 OPTION TO PURCHASE PREMISES.

Lessor hereby grants to Lessee the option to purchase the Premises in accordance with the provisions of this Paragraph, as long as Lessee is not in default under this Lease at the time Lessee exercises its option and at the time the purchase is closed. Lessee shall have the right to exercise such option to purchase effective as of May 1, 1998, provided that Lessee has not served notice upon Lessor of its intent to terminate the Building E Lease pursuant to Paragraph 3.3 of said Lease. If Lessee does not purchase the Premises as of May 1, 1998, then Lessee shall also have the right to purchase the Premises
effective as of the end of the Initial Term regardless of whether or not Lessee elects to extend the Term of the Building E Lease pursuant to Paragraph 3.4 of said Lease. Lessee shall exercise the purchase option by giving Lessor written notice (the "Purchase Notice") to be received by Lessor at least nine months prior to May 1, 1998 or the end of the Initial Term, as the case may be. The purchase price for the Premises shall be the greater of (a) the fair market value of the Premises at the time of appraisal, plus $340,766, which sum represents the rent forgiven under the Original Lease or (b) the outstanding balance of all loans then secured by the Premises. The purchase price shall be paid fully in cash as of the closing of the sale. Lessor shall give Lessee written notice ("Lessor's Notice") of the fair market value of the Premises at least 150 days before May 1, 1998 or the end of the Initial Term, as the case may be. If Lessee believes that the fair market value as established by Lessor is incorrect, Lessee shall notify Lessor in writing within 30 days of Lessor's receipt of that Lessee desires to submit the matter to appraisal with the designation of an MAI qualified appraiser. If Lessor agrees with the identity of such appraiser, it shall within 30 days notify the appraiser and Lessee that such appraiser shall determine the fair market value of the Premises. (If the two appraisers cannot select a third appraiser within 30 days after Lessor submits the name of its appraiser, either side may at any time apply to the presiding Judge of any court of competent jurisdiction for the appointment of the third appraiser.) If not, Lessor shall submit the name of its appraiser to Lessee within said 30 days. The two appraisers so selected shall choose a third appraiser and the three together shall determine the fair market value of the Premises. If the three appraisers are unable to agree on the fair market value, they shall each determine the fair market value and then toss out the high and low appraisals, thereby accepting the middle appraisal as the fair market appraisal process shall be borne by Lessor unless the fair market value as determined by the appraisal is more than 10% below the fair market value set forth by Lessor in Lessor's Notice in which case Lessee and Lessor shall share the costs of the appraisal process equally. The appraisal process shall be completed as quickly as reasonably possible. In appraising the Premises, the appraisers shall not take into consideration the existence of this Lease. After the appraisal price has been set, the appraisers shall immediately notify Lessor and Lessee of the appraisal price. If Lessee objects to the appraisal price that has been set, Lessee shall have the right to elect not to purchase the Premises, as long as Lessee pays all costs in connection with the appraisal procedure. Lessee's election not to purchase the Premises must be delivered to Lessor within 15 days after receipt of notice from the appraisers of the appraisal price or Lessor's Notice, as the case may be. If Lessee does not exercise its election within said period, Lessee shall purchase the Premises from Lessor as provided in this Paragraph. Lessor shall deliver at the closing an executed grant deed in recordable form conveying the Premises to Lessee. Title to the Premises shall be conveyed free and clear of all liens, encumbrances, covenants, conditions, restrictions, easements and rights of way of record, leases or other tenancy agreements and other matters of record, except (a) current taxes, a lien not yet delinquent, (b) those portions of current assessments not yet due and payable, (c) anything of record or not of record that in any way affects title to the Premises resulting from the acts or omissions of Lessee and (d) those matters which are then of record and do not materially interfere with the use of the Premises. The sale shall be consummated through an escrow with a title company acceptable to Lessor as escrowholder to be opened within 20 days after the fair market value of the Premises has been set, either through appraisal or Lessee's failure to object to the fair market value established by Lessor's Notice. At the time escrow is opened, Lessee shall deposit with the title company cash in an amount equal to 10% of the purchase price, to be used as a nonrefundable deposit towards the purchase price. DUE TO THE DIFFICULTY OF FIXING THE DAMAGES WHICH WOULD BE SUFFERED BY LESSOR UPON A FAILURE TO PURCHASE THE PREMISES, IF LESSEE FAILS TO COMPLETE THE PURCHASE OF THE PREMISES OTHER THAN AS A RESULT OF A DEFAULT BY LESSOR, LESSEE ( ) AND LESSOR ( ) AGREE BY PLACING THEIR INITIALS ABOVE THAT THE DEPOSIT CONSTITUTES REASONABLE LIQUIDATED DAMAGES AND THAT LESSOR SHALL RETAIN SUCH DEPOSIT AS LIQUIDATED DAMAGES. Escrow shall close within 45 days after May 1, 1998 or the conclusion of the Initial Term, as the case may be. Until close of escrow, Lessee shall continue to pay the rent and charges owing by Lessee under this Lease and in effect immediately before the scheduled termination date of this Lease. At the close of escrow, escrowholder shall issue a CLTA standard coverage policy of title insurance in the amount of the purchase price insuring title to the Premises vested in Lessee, subject only to the matters referenced above. The security deposit previously paid by Lessee to Lessor under this Lease will be credited to Lessee in the escrow. The City of Berkeley transfer tax shall be split equally by the Lessor and Lessee. Lessor shall pay the County documentary transfer tax. All other closing costs including, but not
limited to, recording fees, escrow fees and title insurance premiums shall be 
paid by Lessee.

19.0 MISCELLANEOUS PROVISIONS.

19.1 Waiver. No waiver of any breach of any of the covenants or conditions 
of this Lease shall be construed to be a waiver of any other breach or to be a 
consent to any further or succeeding breach of the same or other covenant or 
condition. The subsequent acceptance of rent hereunder by Lessor shall not be 
deemed to be a waiver of any preceding breach by Lessee of any term, covenant or 
condition of this Lease, other than the failure of Lessee to pay the particular 
rent so accepted, regardless of Lessor's knowledge of such preceding breach at 
the time of acceptance of such rent.

19.2 Successors And Assigns. Except as otherwise provided herein, the 
provisions hereof shall be binding upon and shall inure to the benefit of the 
heirs, personal representatives, successors and assigns of the parties.

19.3 Notices. All notices, requests, demands and other communications 
required or permitted to be given hereunder shall be in writing and either 
personally delivered or sent by certified mail, return receipt requested, 
postage prepaid, properly addressed to the other party at the address set forth 
next to its signature below, or at such other address or addresses as may from 
time to time be designated in like manner by one party to the other. Any such 
notice shall be deemed given when personally delivered or on the date indicated 
on the Post Office's certified mail receipt.

19.4 Partial Invalidity. If for any reason any provision of this Lease 
shall be determined to be invalid or inoperative, the validity and effect of the 
other provisions hereof shall not be affected thereby.

19.5 Number And Gender. All terms in this Lease shall be construed to mean 
either the singular or the plural, masculine, feminine or neuter, as the 
situation may demand.

19.6 Descriptive Headings. The headings used herein and in any of the 
documents attached hereto as schedules, lists or exhibits are descriptive only 
and for the convenience of identifying provisions, and are not determinative of 
the meaning or effect of any such provisions.

19.7 Time Is Of The Essence. In all matters time is of the essence in the 
performance of all obligations under this Lease.

19.8 Entire Agreement. This Lease and the documents attached hereto as 
schedules, lists or exhibits, constitute the entire agreement and understanding 
between the parties with respect to the subject matters herein and therein, and 
supersede and replace any prior agreements and understandings, 

whether oral or written, between and among them with respect to the lease of the 
Premises, rental therefor, use thereof and all other such matters. The 
provisions of this Lease may be waived, altered, amended or repealed in whole or 
in part only upon the written consent of Lessor and Lessee.

19.9 Memorandum Of Lease. Lessor and Lessee mutually agree that they will 
not file a recorded copy of this Lease, but that in the event Lessor or Lessee 
requests a recording, Lessor and Lessee shall execute and acknowledge a 
memorandum of this Lease in a form approved by the parties setting forth in said 
memorandum the description of the Premises, the date of the Lease, the 
Commencement Date and the date of termination. Said memorandum of Lease may be 
recorded in the Recorder's Office of the County in which the Premises are 
located.

19.10 Applicable Law. This Lease Agreement shall be construed and 
interpreted in accordance with the laws of the State of California.

19.11 Corporate Authority. Each individual executing this Lease on behalf 
of a corporation represents and warrants that he is duly authorized to execute 
and deliver this Lease on behalf of the corporation in accordance with a duly 
adopted resolution of the Board of Directors of the corporation, and that this 
Lease is binding upon said corporation in accordance with its terms.

19.12 Litigation Expense. If any party shall bring an action against any 
other party hereto by reason of the breach of any covenant, warranty, 
representation or condition hereof, or otherwise arising out of this Agreement 
or any schedule, list or exhibit hereto, whether for declaratory or other 
relief, the prevailing party in such suit shall be entitled to such party's 
costs of suit and attorneys' fees, which shall be payable whether or not such 
action is prosecuted to judgment.

19.13 Subordination Of Leasehold. Lessee agrees that this Lease is and 
shall be, at all times, subject and subordinate to the lien of any mortgage or
other encumbrances which Lessor may create against the Premises including all renewals, replacements and extensions thereof; provided, however, that regardless of any default under any such mortgage or encumbrance or any sale of the Premises under such mortgage, so long as Lessee performs all covenants and conditions of this Lease and continues to make all payments hereunder, this Lease and Lessee's possession and rights hereunder shall not be disturbed by the mortgagees or anyone claiming under or through such mortgages. Lessee agrees to execute any and all instruments in writing which may be required by Lessor to subordinate Lessee's rights to the lien of such mortgage.

19.14 Lessee's Certificate. Within 15 days following Lessor's request, Lessee shall complete, execute and deliver to Lessor a Lessee's Certificate, setting forth the information requested therein including, but not limited to (a) certification that this Lease is unmodified and in full force and effect (or if modified, stating the nature of such modification and certifying that this Lease as so modified is in full force and effect) and the date to which the rental and other charges are paid in advance, if any, (b) acknowledgement that there are not, to Lessee's knowledge, any uncured defaults on the part of Lessor hereunder, or specifying such defaults if any are claimed and (c) setting forth the date of commencement and expiration of the Term. Failure of Lessee to deliver such Certificate within said 15 days shall be deemed to be an acknowledgement that Lessor is not in default under the Lease, and that the terms of the Lease have not been modified or supplemented in any way. It is intended that such Certificate may be relied upon by any prospective purchaser, lender or assignee of any lender of the Premises.

19.15 Attornment. Lessee shall, in the event of any sale of the Premises or if proceedings are brought for the foreclosure of, or in the event of exercise of the power of sale under, any mortgage, installment land contract or deed of trust made by Lessor covering the Premises, attorn to the mortgagee or the purchaser upon any such foreclosure or sale and recognize such mortgagee or purchaser as Lessor under this Lease, provided that Lessee's possession and rights hereunder shall not be disturbed by the mortgagee or purchaser.

19.16 Day. As used herein, the term "day" shall mean, unless otherwise specifically stated, a calendar day.

19.17 Brokers. The only broker's fees in connection with this Lease shall be payable by Lessor to Coldwell Banker. Each party hereby indemnifies and agrees to hold the other harmless from any and all other broker fees.

IN WITNESS WHEREOF, the parties have executed this Lease on the day and year first written above. This amended and restated Lease automatically supersedes the Original Lease as of the Commencement Date without further action by the parties.

LESSOR:                                   LESSEE:

SEVENTH STREET PROPERTIES                    XOMA CORPORATION
1120 Nye Street, Suite 400                 __________________________
San Rafael, CA 94915                       __________________________
(Address)                                   (Address)

By /s/ Richard K. Robbins                  By /s/ Steven C. Mendell
------------------------------------------
(Signature)                                 (Signature)

Richard K. Robbins                        Steven C. Mendell/ CEO
------------------------------------------
(Print Name & Title)                       (Print Name & Title)

EXHIBIT A
DESCRIPTION OF PREMISES
AMENDMENT TO BUILDING E LEASE

AMENDMENT made and entered into this 21 day of April, 1988, by and between SEVENTH STREET PROPERTIES II ("Lessor") and XOMA CORPORATION ("Lessee") to that certain Triple Net Lease (the "Building E Lease") entered into between Lessor and Lessee for approximately 35,000 square feet in Building E of Aquatic Park Center and dated , 1987 as amended by a Letter Agreement between Lessor and Lessee dated June 26, 1987.

Lessor and Lessee hereby agree to amend the Building E Lease as follows:

The definition of "shell condition" as used in the Building E Lease shall be as defined in Exhibit B of the Building E Lease, except that the following improvements shall be deleted from the definition of shell condition: (1) fire sprinklers, (2) landscaping, (3) parking lot and (4) site lighting. The Premises shall be delivered by Lessor to Lessee without the above four listed improvements.

Except as specifically amended above, the Building E Lease shall remain unmodified and in full force and effect.

IN WITNESS WHEREOF, the parties have executed this Amendment to the Building E Lease on the day and year first written above.

LESSOR: 
SEVENTH STREET PROPERTIES II
1120 Nye Street, Suite 400
San Rafael, CA 94915
By /s/ Richard K. Robbins
- ----------------------------
(Signature)
Richard K. Robbins
- ----------------------------
(Print Name & Title)

LESSEE:
XOMA CORPORATION
2910 7th Street
Berkeley, CA 94518
By /s/ C.L. Dellio
- ----------------------------
(Signature)
C.L. Dellio - V.P Operations
- ----------------------------
(Print name and title)

It is agreed that shell has been completed sufficient for build out to begin as of May 1, 1988.

By /s/ Richard K. Robbins
- ----------------------------
(Signature)

NOTED
AUG 3, 1987
H.R.H.

June 26, 1987

Mr. Ho Humphrey
Xoma Corporation
2910 Seventh Street
Berkeley, CA 94710

RE: BUILDING E OF AQUATIC PARK CENTER.

Dear Mr. Humphrey:

On or about the date of this letter, Xoma Corporation ("Xoma") and Seventh Street Properties II ("Lessor") entered into a lease of Building E at Aquatic Park Center (the "Lease").

With respect to Building E, the parties hereby agree as follows:

1. Right Of First Refusal. Xoma shall have the right of first refusal to purchase Building E from Lessor if and when Lessor elects to sell its entire interest in Building E. If Lessor proposes to sell the Building, it shall first serve written notice on Xoma setting forth the terms on which Building E shall be sold (the "Initial Notice"). Xoma shall have 15 calendar days after receipt of the Initial Notice in which to inform Lessor in writing that it wishes to
purchase the Building on the terms set forth in the Initial Notice. Notices shall be delivered in accordance with the terms of the lease. Failure of Xoma to serve such written notice within the 15 day period or to close the sale within 45 days after serving notice on Lessor of its intent to purchase (other than as a result of Lessor's default) shall be deemed to be a waiver of its right of first refusal, and Lessor shall be free thereafter to sell Building E to third parties. Notwithstanding the above, if Lessor proposes to offer more favorable terms to third parties than set forth in the Initial Notice, then Lessor shall serve another written notice on Xoma and again go through the procedure set forth above, provided that Lessor shall not need to serve another written notice or go through the procedure if Xoma had previously elected to purchase Building E but failed to close the transaction within the time stated above.

2. Laboratory Animal Ordinance. If at any time during the term of the Lease, the City of Berkeley passes an ordinance which prohibits the use of all laboratory animals, then Xoma may elect to have the rent abated for up to 5,000 square feet of animal laboratory space in Building E and to receive a $15 per square foot tenant improvement allowance (the "Allowance") for the purpose of converting such laboratory space to other uses. Xoma may exercise such right only by serving written notice on Lessor within 30 calendar days after the ordinance goes into effect. The rent abatement shall commence at the date specified in Xoma's notice to Lessor, which in no event shall be later than 90 days after the ordinance goes into effect. Notwithstanding anything to the contrary above, rent shall in no case be abated for more than 180 days. Xoma shall be responsible for building out all tenant improvements. The Allowance shall be paid to Xoma upon substantial completion of the improvements and their approval by Lessor. Nothing herein shall release Xoma from the terms of the Lease in connection with such tenant improvements including, but not limited to, the responsibility of having Lessor approve any such tenant improvements in advance, which approval shall not be unreasonably withheld.

3. Forgiveness Of Rent. It is agreed that the monthly rent owing pursuant to Paragraph 4.1 of the Lease shall be forgiven and shall not be payable by Xoma through the six month anniversary of the Commencement Date. Accordingly, the first month's rent to be deposited at the execution of the Lease shall be applied against the rent owing for the first month following the six month anniversary of the Commencement Date.

Please confirm by signing below your agreement with this amendment to the Lease and your acknowledgment that except for this specific amendment, all terms and conditions of the Lease shall remain unmodified and in full force and effect.

Sincerely,

SEVENTH STREET PROPERTIES II

By /s/ Richard K. Robbins

---------------------------------
(Signature)

Richard K. Robbins

---------------------------------
(Print Name And Title)

XOMA CORPORATION

By /s/ Steven C. Mendell

---------------------------------
(Signature)

Steven C. Mendell/ CEO

---------------------------------
(Print Name & Title)
<table>
<thead>
<tr>
<th>Paragraph</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.0</td>
<td>BASIC LEASE TERMS</td>
<td></td>
</tr>
<tr>
<td>1.1</td>
<td>Commencement Of Lease</td>
<td>1</td>
</tr>
<tr>
<td>1.2</td>
<td>Lease Term</td>
<td>1</td>
</tr>
<tr>
<td>1.3</td>
<td>Monthly Rent</td>
<td>1</td>
</tr>
<tr>
<td>1.4</td>
<td>Lessee's Pro Rata Share</td>
<td>1</td>
</tr>
<tr>
<td>1.5</td>
<td>Security Deposit</td>
<td>1</td>
</tr>
<tr>
<td>1.6</td>
<td>Use</td>
<td>1</td>
</tr>
<tr>
<td>2.0</td>
<td>PREMISES</td>
<td>2</td>
</tr>
<tr>
<td>2.1</td>
<td>Description</td>
<td>2</td>
</tr>
<tr>
<td>2.2</td>
<td>Work Of Improvement</td>
<td>2</td>
</tr>
<tr>
<td>2.3</td>
<td>Possession</td>
<td>2</td>
</tr>
<tr>
<td>3.0</td>
<td>TERM</td>
<td>2</td>
</tr>
<tr>
<td>3.1</td>
<td>Commencement</td>
<td>2</td>
</tr>
<tr>
<td>3.2</td>
<td>Delay In Commencement</td>
<td>2</td>
</tr>
<tr>
<td>3.3</td>
<td>Option To Terminate</td>
<td>2</td>
</tr>
<tr>
<td>3.4</td>
<td>Option To Extend Term</td>
<td>2</td>
</tr>
<tr>
<td>3.5</td>
<td>Term</td>
<td>3</td>
</tr>
<tr>
<td>3.6</td>
<td>Fair Market Lease Rate</td>
<td>3</td>
</tr>
<tr>
<td>4.0</td>
<td>RENT</td>
<td>4</td>
</tr>
<tr>
<td>4.1</td>
<td>Monthly Rent</td>
<td>4</td>
</tr>
<tr>
<td>4.2</td>
<td>Rent Adjustment</td>
<td>4</td>
</tr>
<tr>
<td>4.3</td>
<td>Mode Of Payment</td>
<td>5</td>
</tr>
<tr>
<td>4.4</td>
<td>Triple Net Lease</td>
<td>5</td>
</tr>
<tr>
<td>4.5</td>
<td>Estimated Payments</td>
<td>5</td>
</tr>
<tr>
<td>4.6</td>
<td>Security Deposit</td>
<td>6</td>
</tr>
<tr>
<td>4.7</td>
<td>Late Charges</td>
<td>6</td>
</tr>
<tr>
<td>5.0</td>
<td>TAXES</td>
<td>7</td>
</tr>
<tr>
<td>5.1</td>
<td>Real Property Taxes</td>
<td>7</td>
</tr>
<tr>
<td>5.2</td>
<td>Personal Property Taxes</td>
<td>7</td>
</tr>
<tr>
<td>6.0</td>
<td>INSURANCE</td>
<td>8</td>
</tr>
<tr>
<td>6.1</td>
<td>Property/Rental Insurance -</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>Premises</td>
<td></td>
</tr>
<tr>
<td>6.2</td>
<td>Property Insurance - Fixtures And Inventory</td>
<td>8</td>
</tr>
<tr>
<td>6.3</td>
<td>Lessor's Liability Insurance</td>
<td>8</td>
</tr>
<tr>
<td>6.4</td>
<td>Lessee's Liability Insurance</td>
<td>8</td>
</tr>
<tr>
<td>6.5</td>
<td>Waiver Of Subrogation</td>
<td>9</td>
</tr>
<tr>
<td>6.6</td>
<td>Indemnification</td>
<td>9</td>
</tr>
<tr>
<td>6.7</td>
<td>Plate Glass Replacement</td>
<td>9</td>
</tr>
<tr>
<td>6.8</td>
<td>Workers' Compensation Insurance</td>
<td>10</td>
</tr>
<tr>
<td>7.0</td>
<td>MAINTENANCE</td>
<td>10</td>
</tr>
<tr>
<td>7.1</td>
<td>Premises</td>
<td>10</td>
</tr>
<tr>
<td>7.2</td>
<td>Building</td>
<td>10</td>
</tr>
<tr>
<td>7.3</td>
<td>Common Areas</td>
<td>10</td>
</tr>
<tr>
<td>7.4</td>
<td>Alterations, Changes And Additions By Lessee</td>
<td>11</td>
</tr>
<tr>
<td>7.5</td>
<td>Plumbing</td>
<td>11</td>
</tr>
<tr>
<td>7.6</td>
<td>Liens</td>
<td>11</td>
</tr>
<tr>
<td>8.0</td>
<td>MANAGEMENT</td>
<td>12</td>
</tr>
<tr>
<td>9.0</td>
<td>UTILITIES AND SERVICES</td>
<td>12</td>
</tr>
<tr>
<td>9.1</td>
<td>Premises</td>
<td>12</td>
</tr>
<tr>
<td>9.2</td>
<td>Common Areas</td>
<td>12</td>
</tr>
</tbody>
</table>
LEASE made and entered into this 22 day of July 1987, between SEVENTH
STREET PROPERTIES II (“Lessor”) and XOMA CORPORATION (“Lessee”).

RECEITALS:

A. Concurrently with the execution of this Lease, Lessee is entering into three other leases, specifically one with Lessor for approximately 6,720 square feet in Building C at Aquatic Park Center (the "Building C Lease") another with Lessor for approximately 20,000 square feet in Building F at Aquatic Park Center (the "Building F Lease"), and another with Seventh Street Properties, an affiliate of Lessor, for approximately 24,275 square feet at 890 Heinz Street, Berkeley, California (the "Heinz Street Lease").

B. The Building C Lease, the Heinz Street Lease and this Lease are intended to be read together so that a breach of one is deemed a breach of the other.

AGREEMENT:

NOW, THEREFORE, the parties hereby agree as follows:

1.0 BASIC LEASE TERMS.

1.1 Commencement Of Lease: The term of this Lease shall commence on the earlier of:

   a. The date Lessor notifies Lessee in writing that the construction to be performed by Lessor pursuant to Paragraph 2.2 hereof has been substantially completed. Substantial completion shall occur when the Premises are in such condition as to permit Lessor to file a Notice of Completion with respect to its work; or

   b. The date Lessee actually commences to do business at the Premises.


1.3 Monthly Rent: $38,500.

1.4 Lessee's Pro Rata Share: 29.17%.

1.5 Security Deposit: $38,500.

1.6 Use: Pharmaceutical manufacturing, offices, laboratories, shipping and receiving relating to pharmaceutical products.

2.0 PREMISES.

2.1 Description. Lessor hereby leases to Lessee all of Building E (the "Premises") constituting approximately 35,000 square feet, which constitute a portion of a larger piece of real property owned by Lessor and known as the Aquatic Park Center (the "Property"). Exhibit A attached hereto further describes the Premises and the Property.

2.2 Work Of Improvement. The respective obligations of Lessor and Lessee to perform the work and supply material and labor to prepare the Premises for occupancy are set forth in Exhibit B attached hereto and incorporated herein. Lessor and Lessee shall expend all funds and do all acts required of them respectively in Exhibit B and shall have the work performed promptly and diligently in a first-class, workmanlike manner. Lessee shall not commence construction of the improvements to be undertaken by Lessee until Lessor has approved in writing the final drawings for said improvements, which approval shall neither be unreasonably withheld nor delayed.

2.3 Possession. Lessor shall deliver occupancy of the Premises to Lessee on the Commencement Date as hereinafter defined.

3.0 TERM.

3.1 Commencement. The Lease shall commence on the date specified in Paragraph 1.1 above (the "Commencement Date") and shall continue thereafter for the term specified in Paragraph 1.2 above (the "Initial Term"), unless sooner terminated pursuant to this Lease.

3.2 Delay In Commencement. If for any reason Lessor cannot deliver possession of the Premises to Lessee on the Commencement Date, such failure shall not affect the validity of this Lease nor shall it extend the Term or render Lessor liable to Lessee for any loss or damage resulting therefrom; except that if possession is not delivered to Lessee on the Commencement Date, Tenant shall not be obligated to pay rent until possession of the Premises is tendered to Lessee. Notwithstanding the above, if Lessor does not deliver possession of the Premises to Lessee by June 30, 1988, then Lessee shall have the option of terminating this Lease by serving written notice on Lessor on or
3.3 Option To Terminate. Lessee is hereby granted an option to terminate the Lease effective April 30, 1998 by giving written notice to Lessor of Lessee's intent to terminate (the "Termination Notice") on or before July 31, 1997.

3.4 Option To Extend Term. Lessee is hereby granted an option to extend the term for a five year period following the expiration of the Initial Term (the "Option Term") by giving written notice to the Lessor of Lessee's intent to exercise such option (the "Option Notice") at least 270 days before the expiration of the Initial Term. The Option Term shall be on the same terms and conditions in effect immediately before the end of the Initial Term, except that the rent shall be set at 95% of the fair market lease rate for comparable space in the Berkeley area, provided that in no event shall the rental rate for the Option Term be less than the rental rate as of the last day of the Initial Term. Notwithstanding anything to the contrary above, if Lessee is in default in the payment of rent, in the making of other payments required to be made by Lessee under this lease or otherwise under this Lease on the date the Option Notice is delivered to Lessor or on the date the Option Term is to commence, the Option Term shall not commence and this Lease shall expire at the end of the Initial Term.

3.5 Term. All references to the "Term" in this Lease shall include the Initial Term set forth in Paragraph 3.1 plus any extensions pursuant to Paragraph 3.4.

3.6 Fair Market Lease Rate. Lessor shall give Lessee notice ("Lessor's Notice") of the fair market lease rate after receiving Lessee's written notice of intent to exercise the Option, provided that Lessor's Notice shall not be delivered later than 120 days prior to the commencement of the Option Term. If Lessor believes that the fair market lease rate as established by Lessor is incorrect, Lessee shall notify Lessor in writing within 20 days of Lessor's receipt of the notice from Lessor that Lessee desires to submit the matter to appraisal with a designation of an MAI qualified appraiser. If Lessor agrees with the identity of such appraiser, it shall within 10 days notify the appraiser and Lessee that such appraiser shall determine the fair market lease rate (including fair market increases during the Option Term). If not, Lessor shall submit the name of its appraiser to Lessee within said 10 days. The two appraisers so selected shall choose a third appraiser and the three together shall determine the fair market lease rate (including fair market increases during the Option Term). If the two appraisers cannot select a third appraiser within 20 days after Lessor submits the name of its appraiser, either party may at any time apply to the presiding judge of any court of competent jurisdiction for the appointment of the third appraiser. If the three appraisers are unable to agree on the fair market lease rate they shall each determine the fair market lease rate assuming annual CPI increases during the Option Term and then average their determinations by tossing out the high and low appraisal and accepting the middle appraisal as the fair market lease rate. The costs of the appraisal process shall be borne by Lessee unless the fair market lease rate as determined by the appraisal is more than 10% below the lease rate set forth in Lessor's Notice in which case Lessor and Lessee shall share the costs of the appraisal process equally. The appraisal process shall be completed as quickly as reasonably possible. If for any reason the Option Term commences prior to the conclusion of the appraisal process, Lessee shall continue to pay the monthly base rent then in effect to Lessor plus 10% of such amount, which 10% only shall be held by Lessor in escrow pending completion of the appraisal process, at which time all funds held in escrow shall be distributed to Lessee and/or Lessor in accordance with the outcome of the appraisal process, and Lessee shall subsequently be bound by the lease rate as determined by the appraisal process. The rent during the Option Term shall continue to be adjusted as agreed upon between Lessor and Lessee or as determined by the appraisal process.

4.0 RENT

4.1 Monthly Rent. Lessee shall pay to Lessor as rent for the Premises in advance on the first day of each calendar month of the Term without deduction, offset, prior notice or demand, in lawful money of the United States, the sum specified in Paragraph 1.3 above which is based on $1.10 per square foot and the square footage set forth in Paragraph 2.1. The rent owing shall be adjusted as necessary if the actual square footage is shown to be other than as set forth in Paragraph 2.1. Notwithstanding the above, Lessee shall not be required to pay
rent until the Commencement Date under the Building C Lease. If the Commencement Date is not the first day of a calendar month, the first monthly installment of such rent shall be applied on a per diem basis against payment of the rent from the Commencement Date until the first day of the first succeeding calendar month. Any unused portion of said amount shall be applied against payment of the rent for such first succeeding calendar month, and the balance of the rent for that month shall be due on the first day thereof. Concurrent with Lessee's execution of this Lease, Lessee shall pay to Lessor the first monthly installment of rent.

4.2 Rent Adjustment. For the period through April 30, 1998 the base rent set forth in Paragraph 4.1 above shall be adjusted as follows. On October 1, 1990 and every three years thereafter (the "Adjustment Dates"), the base rent shall be adjusted by the percentage increase in the Consumer Price Index (all items) for all urban consumers in the San Francisco-Oakland metropolitan area, published by the United States Department of Labor, Bureau of Labor Statistics. The monthly rent until the next Adjustment Date shall be the greater of (a) the rent in effect immediately before the Adjustment Date or (b) the initial rent set forth in Paragraph 4.1 above multiplied by a fraction, the numerator of which shall be said Index number for the calendar month three months prior to the Adjustment Date and the denominator of which shall be said Index number for the calendar month three months prior to the first full calendar month following the Commencement Date. Notwithstanding the above, in no case shall the increase as of any Adjustment Date exceed 21% plus the Carry Forward. As used above, the "Carry Forward" shall mean the percentage increases in CPI which are not used at earlier Adjustment Dates to adjust the rent because of this limitation. For example, if the CPI increase is 15% on October 1, 1990, then the Carry Forward is six percent on October 1, 1993 shall be the actual CPI increase, not to exceed 27%. If the actual CPI increase on October 1, 1993 were 23%, then the Carry Forward to October 1, 1996 would be four percent. Should the Bureau discontinue the publication of said Index numbers, or publish the same less frequently, or alter the same in some other manner, then Lessor shall adopt a substitute index or procedure which reasonably reflects consumer prices. Commencing May 1, 1998, the adjustment mechanism set forth above shall be discarded and rent shall be adjusted to 95% of the fair market lease rate as of May 1, 1998 for comparable space in the Berkeley area, provided that in no event shall the new rental rate be less than the rental rate in effect immediately before such adjustment. (Adjustments subsequent to May 1, 1998 shall be determined in the course of establishing the fair market lease rate.) On or before January 1, 1998, Lessor shall provide Lessee with notice of the May 1, 1998 fair market lease rate. The fair market lease rate shall then be determined in accordance with Paragraph 3.6, and the notice referenced above shall be deemed "Lessor's Notice."

4.3 Mode Of Payment. Lessee shall pay all rent due Lessor at Lessor's address set forth on the signature page hereof, or any such other place as Lessor may designate from time to time in writing.

4.4 Triple Net Lease. This Lease is what is commonly called a "Net, Net, Net Lease," it being understood that Lessor shall receive the rent set forth herein free and clear of any and all other impositions, taxes, liens, charges or expenses of any nature whatsoever in connection with the ownership and operation of the Premises. All references herein to Lessee's pro rata share of any expense shall mean the total expense of any such item multiplied by a fraction, the numerator of which shall be the total floor area of the Premises and the denominator of which shall be the total floor area available for lease by Lessor of Buildings C, E and F on the Property. "Floor area" shall be measured from the exterior surface of all exterior walls and from the center of all walls separating the Premises from adjacent premises. Based upon the square footage numbers set forth in Paragraph 2.1, Lessee's pro rata share has been calculated and is set forth in Paragraph 1.4. Lessee's pro rata share shall be adjusted as necessary if the actual square footage is shown to be other than as set forth in Paragraph 2.1 or upon any subdivision of the Property. In the event of non-payment of all or any portion of such charges, costs and expenses, Lessor shall have the same rights and remedies as provided in this Lease for failure of Lessee to pay rent. Lessee shall in no event be entitled to any abatement or reduction of rent or other monetary sums payable hereunder, except as expressly provided herein, notwithstanding any present or future law to the contrary.

4.5 Estimated Payments. Lessee shall be notified by Lessor of Estimated Payments for taxes, insurance, maintenance of common areas and common area utilities from time to time. The Estimated Payments shall be paid by Lessee together with rent, on the first day of each month throughout the Term. The Estimated Payments may be increased or decreased by Lessor upon 30 days' written notice to Lessee based upon statements received or charges incurred by Lessor, information available to Lessor as to the probable cost of expected charges and expenses, or the reasonable estimate of Lessor as to the probable amount of expected charges or expenses. Lessor shall be entitled to retain the monies received from such payments in its general fund pending
payment of all such costs and charges. No more frequently than once each calendar quarter, the actual costs shall be determined by Lessor, and Lessee shall remit to Lessor on demand its unpaid pro rata share of the actual expense. In the event Lessee paid more than its pro rata share of the actual expenses for such period of time, Lessor shall apply such overpayment towards the next Estimated Payments owing by Lessee. At the termination of this Lease, an accounting for such charges and expenses shall be made to the nearest practical accounting period, and Lessee shall pay to Lessor any balance due, or the Lessor shall refund to Lessee any excess amount paid.

4.6 Security Deposit. Concurrent with Lessee's execution of this Lease, Lessee shall deposit with Lessor as a security deposit the sum specified in Paragraph 1.5 above (the "Deposit"). On May 1, 1998 and May 1, 2003 (unless the Lease is terminated or the Option is not exercised, as the case may be) Lessee shall increase the Deposit to that amount which is equal to the newly established monthly rental. The Deposit shall be held by Lessor as a security deposit for the faithful performance by Lessee of all terms, covenants, and conditions of this Lease to be kept and performed by Lessee during the Term. If Lessee defaults with respect to any provisions of this Lease, including but not limited to the provisions relating to the payment of rent and any of the monetary sums due hereunder, Lessor may (but shall not be required to) use, apply or retain any part or all of the Deposit for the payment of any amount which Lessor may spend or become obligated to spend by reason of Lessee's default or to compensate Lessor for any loss or damage which Lessor may suffer by reason of Lessee's default. If any portion of the Deposit is so used or applied, Lessee shall, within 10 days after written demand therefor, deposit cash with Lessor in an amount sufficient to restore the Deposit to its original amount; Lessee's failure to do so shall be a material breach of this Lease. Lessor shall not be required to keep the Deposit separate from its general funds, and Lessee shall not be entitled to interest on the Deposit. If Lessee shall fully and faithfully perform every provision of this Lease to be performed by it, the Deposit or any balance thereof shall be returned to Lessee (or, at Lessor's option, to the last assignee of Lessee's interests hereunder) at the expiration of the Term and after Lessee has vacated the Premises. In the event of termination of the Lease, Lessor shall transfer the Deposit to Lessor's successor in interest, whereupon Lessee agrees to release Lessor from all liability for the return of the Deposit or the accounting therefor.

4.7 Late Charges. Lessee hereby acknowledges that late payment by Lessee to Lessor of rent and other sums due hereunder will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed on the Lessor by the terms of any mortgage or trust deed covering the Premises. Accordingly, if any installment of rent or any other sum due from Lessee shall not be received by Lessor or Lessor's designee within 10 days after such amount shall be due, Lessee shall pay to Lessor a late charge equal to five percent of such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of late payment by Lessee. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's default with respect to such overdue amount, nor prevent a Lessor from exercising any of the other rights and remedies granted hereunder.

5.0 TAXES.

5.1 Real Property Taxes. Lessee agrees to pay to Lessor in addition to the rent and other charges herein its pro rata share of all Designated Real Property Taxes in accordance with Paragraph 4.5. As used herein, "Real Property Taxes" shall include any form of assessment, license, fee, rent, tax, levy, penalty or tax imposed by any authority having the direct or indirect power to tax, including any improvement district, as against any legal or equitable interest of Lessor in the Property or as against Lessor's business of renting the Property. As used herein, "Designated Real Property Taxes" shall mean all Real Property Taxes except those Real Property Taxes which are shown on the tax bill for the Property as applying to the improvements constituting Buildings A and B, as shown on Exhibit B, and 86.82% of (a) the Real Property Taxes applying to the land and (b) special assessments against the Property. Such percentage was determined by comparing the square footage of all of the land within the Property to the square footage of all such land not occupied by Buildings A and B, plus 14,000 square feet of the Property attributed to Buildings A and B. Lessee's share of Designated Real Property Taxes shall be equitably prorated to
cover only the period of time within the fiscal tax year during which this Lease
is in effect. With respect to any assessments which may be levied against or
upon the Premises, and which may be paid in annual installments, only the amount
of such annual installments (with appropriate proration for any partial year)
and interest due thereon shall be included within the computation of the annual
Designated Real Property Taxes. Lessor represents that, to the best of its
knowledge, there are no assessment or improvement districts being planned which
would affect the Property other than as in effect as of the date of this Lease.
If the Property becomes subdivided, the formulas above shall continue to apply
(unless Building E is split off into a separate parcel without any other
buildings) but Lessee's pro rata share and the percentage shown above shall be
adjusted to reflect the new square footage of the resulting parcels. If Building
E is split off from the Property into a separate parcel without any other
buildings, it shall be assessed by itself and Lessee shall be responsible for
all of the Real Property Taxes relating thereto.

5.2 Personal Property Taxes. Lessee shall pay before delinquency all taxes
levied or assessed on Lessee's fixtures, improvements, furnishings, merchandise,
equipment and personal property in and on the Premises, whether or not affixed
to the real property. If Lessee in good faith contests the validity of any such
personal property taxes, then Lessee shall at its sole expense defend itself and
Lessor against the same and shall pay and satisfy any adverse determination or
judgment that may be rendered thereon and shall furnish Lessor with a surety
bond satisfactory to Lessor in an amount equal to 150% of such contested taxes.
Lessee shall indemnify Lessor against liability for any such taxes and/or any
liens placed on the Premises or the Property in connection with such taxes.

6.0 INSURANCE.

6.1 Property/Rental Insurance - Premises. During the Term, Lessor shall
keep the Property insured against loss or damage by fire and those risks
normally included in the term "all risk" including (a) flood coverage at the
election of Lessor, (b) earthquake coverage at the reasonable election of
Lessor, (c) coverage for loss of rents and (d) boiler and machinery coverage if
the Lessor deems necessary. Any deductibles shall be paid by Lessee if the
deductible arises from damage solely to the Premises. If the damage covers a
greater portion of the Property than the Premises, then Lessee shall pay that
portion of the deductible which the total floor area of the Premises bears to
the total floor area of the Property which is available for lease by Lessor and
which suffered damage. The amount of such insurance shall be not less than 100% of
the replacement value of the Premises. Any recovery received from said
insurance policy shall be paid to Lessor. Lessee, in addition to the rent and
other charges provided herein, agrees to pay to Lessor its pro rata share of the
premiums for all insurance for the Property, excluding that insurance applicable
to Buildings A and B as shown by the insurance company (or its broker) issuing
such insurance. The insurance premiums shall be paid in accordance with
Paragraph 4.5. Lessee shall pay to Lessor any deductibles owing within 15 days
after receipt of notice from Lessor of the amount owing.

6.2 Property Insurance - Fixtures And Inventory. During the Term, Lessee
shall, at its sole expense, maintain insurance with "all risk" coverage on any
fixtures, leasehold improvements, furnishings, merchandise, equipment or
personal property in or on the Premises, whether in place as of the date hereof
or installed hereafter, for the full replacement value thereof, and Lessee shall
also have sole responsibility and cost for maintaining any other types of
insurance relating to Lessee's use of the Premises. Any deductibles shall be
paid by Lessee.

6.3 Lessor's Liability Insurance. During the Term, Lessor shall maintain a
policy or policies of comprehensive general liability insurance insuring Lessor
(and such others as designated by Lessor) against liability for bodily injury,
death and property damage on or about the Property, with combined single limit
coverage of not less than $2,000,000.

6.4 Lessee's Liability Insurance. During the Term, Lessee shall, at its
sole expense, maintain for the mutual benefit of Lessor and Lessee,
comprehensive liability and property damage insurance against claims for
bodily injury, death or property damage occurring in or about the Premises or
arising out of the use or occupancy of the Premises, with combined single limit
coverage of not less than $2,000,000.
The limits of such insurance shall not limit the liability of Lessee. Lessee shall furnish to Lessor prior to the Commencement Date, and at least 30 days prior to the expiration date of any policy, certificates indicating that the liability insurance required by Lessee above is in full force and effect, that Lessee has been named as an additional insured; and that all such policies will not be cancelled unless 30 days' prior written notice of the proposed cancellation has been given to Lessor. The insurance shall be with insurers reasonably approved by Lessor and with policies in form reasonably satisfactory to Lessor. Said policies shall provide that Lessor, although an additional insured, may recover for any loss suffered by Lessor by reason of Lessee's negligence, and shall include a broadform liability endorsement.

6.5 Waiver Of Subrogation. Lessor hereby releases Lessee, and Lessee hereby releases Lessor, and their respective officers, agents, employees and servants, from any and all claims or demands of damages, loss, expense or injury to the Premises, or to the furnishings and fixtures and equipment, or inventory or other property of either Lessor or Lessee in, about or upon the Premises, which is caused by or results from perils, events or happenings which are the subject of insurance carried by the respective parties and in force at the time of any such loss; provided, however, that such waiver shall be effective only to the extent permitted by the insurance covering such loss and to the extent such insurance is not prejudiced thereby. Each party shall cause each insurance policy obtained by it to provide that the insurance company waives all right of recovery by way of subrogation against either party in connection with any damage covered by any policy.

6.6 Indemnification. Except to the extent of intentional misconduct by Lessor or Lessor's negligence, Lessee will indemnify Lessor and save it harmless from and against any and all claims, actions, damages, liability and expense in connection with loss of life, personal injury and/or damage to property arising from or out of any occurrence in, upon or at the Premises, or the occupancy or use by Lessee of the Premises or any part thereof, or occasioned wholly or in part by any acts or omissions of Lessee, its agents, contractors, employees, servants, licensees or concessionaires or by anyone permitted to be on the Premises by Lessee. In case Lessor shall be made a party to any such litigation commenced by or against Lessee, then Lessee shall protect and hold Lessor harmless from all claims, liabilities, costs and expenses, and shall pay all costs, expenses and reasonable legal fees incurred by Lessor in connection with such litigation.

6.7 Plate Glass Replacement. Lessee shall replace at its sole expense, any and all plate glass and other glass in and about the Premises which is damaged or broken by vandalism. If any plate glass or other glass in and about the Premises is damaged or broken by causes other than vandalism, then Lessee shall pay Lessor an amount equal to Lessor's cost of replacement, provided that such amount shall not exceed the deductible then in effect on Lessor's insurance policy, if any, covering the damaged glass. Nothing herein shall be construed to require Lessor to carry plate glass insurance.

6.8 Workers' Compensation Insurance. Lessee shall, at its sole expense, maintain and keep in force during the Term a policy or policies of Workers' Compensation Insurance and any other employee benefit insurance sufficient to comply with all applicable laws, statutes, ordinances and governmental rules, regulations or requirements.

7.0 MAINTENANCE.

7.1 Premises. Throughout the Term, Lessee agrees to keep and maintain all improvements and appurtenances upon the Premises, including all sewer connections, plumbing, heating and cooling appliances, wiring and glass, in good order and repair including the replacement of such improvements and appurtenances when necessary. Lessee hereby expressly waives the provisions of any law permitting repairs by a tenant at the expense of a landlord, including, without limitation, all rights of Lessee under Sections 1941 and 1942 of the California Civil Code. Lessee agrees to keep the Premises clean and in sanitary condition as required by the health, sanitary and police ordinances and regulations of any political subdivision having jurisdiction. Lessee further agrees to keep the interior of the Premises, such as the windows, floors, walls, doors, showcases and fixtures clean and neat in appearance and to remove all trash and debris which may be found in or around the Premises. If Lessor deems any repairs and/or maintenance to be made by Lessee necessary and Lessee refuses or neglects to commence such repairs and/or maintenance and complete the same with reasonable dispatch upon demand, Lessor may enter the Premises and cause such repairs and/or maintenance to be made and shall not be responsible to Lessee for any loss or damage occasioned thereby except to the extent that Lessee's personal property is damaged by the intentional misconduct or negligence of Lessor or its contractors. Lessee agrees that upon demand, it shall pay to Lessor the cost of any such repairs, together with accrued interest
from the date of payment at the highest rate allowable by law.

7.2 Building. Lessor shall maintain the foundation, roof and exterior walls (the "Structural Components") of the Premises in reasonably good order and repair, except that damage occasioned by the act of Lessee shall be repaired by Lessor at Lessee's expense. Lessee shall have the obligation to notify Lessor, in writing, of any repairs or maintenance to the Structural Components which may be required, and Lessor shall have a reasonable time to make such repairs. The manner and method of maintenance and repair of the Structural Components shall be at the reasonable discretion of Lessor. Lessee, in addition to the rent and other charges provided herein, agrees to pay to Lessor all of the costs of maintaining the Structural Components as billed to Lessee by Lessor.

7.3 Common Areas. Lessor shall maintain the common areas of the Property which shall include without limitation the landscaping, plazas and parking lots in reasonably good order and condition, except that damage occasioned by the act of Lessee shall be repaired by Lessor at Lessee's expense. Lessee shall have the obligation to notify Lessor, in writing, of any repairs or maintenance to the common areas which may be required, and Lessor shall have a reasonable time to make such repairs. The manner and method of maintenance and repair of the common areas shall be at the reasonable discretion of Lessor. Lessee, in addition to the rent and other charges provided herein, agrees to pay to Lessor its pro rata share of the costs of maintaining the common areas in accordance with Paragraph 4.5.

7.4 Alterations, Changes And Additions By Lessee. No changes, alterations, or additions shall be made by Lessee to the Premises without the prior written consent of Lessor which Lessor will not unreasonably withhold. Notwithstanding the above, non-structural changes aggregating no more than $10,000 in any 12 month period may be made by Lessee without Lessor's consent. As used herein, alterations include utility installations such as ducting, power panels, fluorescent fixtures, base heaters, conduit and wiring. As a condition to giving such consent, Lessor may require that Lessee agree to remove any such alterations, additions or improvements at the expiration of the Term and to restore the Premises to their prior condition. As a further condition to giving such consent, Lessor may require Lessee to provide Lessor, at Lessee's sole cost and expense, with a lien and completion bond in an amount equal to one and one-half times the estimated cost of such improvements, to insure Lessor against any liability for mechanics' and materialmen's liens and to insure completion of the work. All changes, alterations or additions to be made to the Premises shall be under the supervision of a competent architect or competent licensed structural engineer and made in accordance with plans and specifications which have been furnished to and approved by Lessor prior to commencement of work. Lessor shall not unreasonably withhold its approval of such proposed alterations. If the written consent of Lessor to any proposed alterations by Lessee shall have been obtained, Lessee agrees to advise Lessor in writing of the date upon which such alterations will commence in order to permit Lessor to post a notice of nonresponsibility. All such alterations, changes and additions shall be constructed in a good and workmanlike manner in accordance with all ordinances and laws relating thereto. Any such changes, alterations or additions to or on the Premises shall remain for the benefit of and become the property of Lessor, unless Lessor requires the removal by giving Lessee written notice within 30 days before the date Lessee is to vacate the Premises, in which case Lessee shall remove such changes, alterations and additions and restore the Premises to the condition they were in prior to such changes, alterations or additions.

7.5 Plumbing. Lessee shall not use the plumbing facilities for any purpose other than that for which they were constructed. The expense of any breakage, stoppage or other damage relating to the plumbing and resulting from the introduction by Lessee, its agents, employees or invitees of foreign substances into the plumbing facilities shall be borne by Lessee.

7.6 Liens. Lessee shall keep the Premises free from any liens arising out of work performed, materials furnished or obligations incurred by Lessee and shall indemnify, hold harmless and defend Lessor from any liens and encumbrances arising out of any work performed or materials furnished by or at the direction of Lessee. In the event that Lessee shall not, within 20 days following the imposition of any such lien, cause such lien to be released of record by payment or posting of a proper bond, Lessor shall have, in addition to all other remedies provided herein and by law, the right, but not the obligation, to cause the same to be released by such means as it shall deem proper, including payment
of the claim giving rise to such lien. All such sums paid by Lessor and all expenses incurred by it in connection therewith including attorneys’ fees and costs shall be payable to Lessor by Lessee on demand with interest at the highest rate allowable by law. Lessor shall have the right at all times to post and keep posted on the Premises any notices permitted or required by law, or which Lessor shall deem proper, for the protection of Lessor and the Premises, and any other party having an interest therein, from mechanics’ and materialmen’s liens, and Lessee shall give to Lessor at least 10 business days’ prior written notice of the expected date of commencement of any work relating to alterations or additions to the Premises.

8.0 MANAGEMENT.

Lessee shall bear its share of the costs to Lessor of managing the Property. Lessee understands that Wareham Property Group, or another affiliated or unaffiliated third party will be responsible for the management of the Property. For the period through April 30, 1998, Lessee shall pay to Lessor a property management fee equal to five percent of the monthly rent. Thereafter, the monthly property management fee payable by Lessee shall be equal to the monthly property management fee owing by Lessee immediately prior to May 1, 1998, subject to adjustment as follows. Commencing May 1, 1998 and each anniversary thereafter, the monthly property management fee shall be adjusted upwards by increases in the CPI between the Adjustment Date and the same date one year earlier. The monthly property management fee shall be payable with monthly rent.

9.0 UTILITIES AND SERVICES.

9.1 Premises. Lessee shall pay prior to delinquency throughout the Term the cost of water, gas, heating, cooling, sewer, telephone, electricity, garbage, air conditioning and ventilating, janitorial services and all other materials and utilities supplied to the Premises, provided that if payment is to be made to Lessor, it shall be made by Lessee within 30 days of receipt of the statement for such charges.

9.2 Common Areas. Lessor shall provide first-class landscaping, utilities, janitorial and security services for the common areas of the Property. Lessee shall bear its pro rata share of such common area costs to Lessor in providing such services in accordance with Paragraph 4.5. Security services shall include hiring of guards in the discretion of Lessor during hours determined by Lessor. Notwithstanding the above, any extraordinary landscaping, utilities, janitorial and/or security services incurred on the Property as a result of special events held by the tenants of Buildings A and B shall not be included in such common area costs.

10.0 USE OF PREMISES.

10.1 Use. The Premises shall be used and occupied by Lessee for only the purposes specified in Paragraph 1.6 and for no other purposes whatsoever without obtaining the prior written consent of Lessor which shall not be unreasonably withheld.

10.2 Suitability. This Lease shall be subject to all applicable zoning ordinances and to any municipal, county and state laws and regulations governing and regulating the use of the Premises. Lessee acknowledges that neither Lessor nor Lessor's agent has made any representation or warranty as to the suitability of the Premises for the conduct of Lessee's business.

10.3 Uses Prohibited.

a. Rate Of Insurance. Lessee shall not do or permit anything to be done in or about the Premises which will cause the existing rate of insurance upon the Premises (unless Lessee shall pay an increased premium as a result of such use or acts) or cause the cancellation of any insurance policy covering said Premises, nor shall Lessee sell or permit to be kept, used or sold in or about such Premises any articles which may be prohibited by a standard form policy of fire insurance.

b. Interfere With Other Tenants. Lessee shall not do or permit anything to be done in or about the Premises which will in any way obstruct or unreasonably interfere with the rights of other tenants or occupants of the Property or injure or annoy them or use or allow the Premises to be used for any unlawful or objectionable purpose, nor shall Lessee cause, maintain or permit any nuisance in, or about the Premises. Lessee shall not commit or suffer to be committed any waste in or upon the Premises.

c. Applicable Laws. Lessee shall not use the Premises or permit anything to be done in or about the Premises which will in any way conflict with any law, statute, zoning restriction, ordinance, governmental rule, regulation or requirements of duly constituted public authorities whether now in force or
which may hereafter be enacted or promulgated. Lessee shall at its sole cost and expense properly comply with all laws, statutes, ordinances and governmental rules, regulations or requirements now in force or which may hereafter be in force and with the requirements of any board of fire underwriters or other similar body now or hereafter constituted relating to or affecting the condition, use or occupancy of the Premises. The judgment of any court of competent jurisdiction or the admission of Lessee in any action against Lessee, whether Lessor be a party thereto or not, that Lessee has violated any law, statute, ordinance or government rule, regulation or requirement, shall be conclusive of that fact as between Lessor and Lessee.

d. Signs. Lessee shall not place any sign upon the Premises or conduct any auction thereon without Lessor's prior written consent.

10.4 Lessee's Warranty. Lessee warrants that its use of the Premises presently complies and shall comply with applicable federal, state and local laws and regulations pertaining to (i) the use, storage and disposal of radiological materials and/or toxic chemicals, (ii) the disposal of hazardous waste and (iii) the safety of persons on the Premises, including but not limited to, the general industry safety orders as set forth in Title 8 of the California Administrative Code. Lessee further warrants that it will not interfere with any actions by Lessor made in furtherance of the above laws and regulations and it shall comply with any reasonable procedures and/or regulations promulgated by Lessor from time to time in connection with the matters covered by such laws and regulations, provided that Lessor shall have no duty to establish any procedures or regulations or to supervise in any way Lessee's activities on the Premises. Lessee warrants that all governmental inspections of the Premises as required under the laws referenced above have been made and will be made, and Lessee shall deliver to Lessor a copy of the reports of each such inspection most recently conducted. Lessee shall provide a copy of the reports for each such future inspection within 15 days of Lessee's receipt of such report. Except in instances when a governmental report of such inspection has been made within the last 12 month period, Lessee shall obtain at its sole cost an inspection by a private engineering firm, resulting in a written report specifying Lessee's compliance, or enumerating the reasons for Lessee's lack of compliance, with such regulations. Lessee indemnifies and shall hold Lessor harmless from a breach of the above warranty and from any claim arising from Lessee's particular use of the Premises, including but not limited to, (a) the disposal or use of hazardous waste, or (b) the disposal or escape of odorous, carcinogenic and/or pathogenic exhaust from the Premises. Lessee shall pay all of Lessor's costs and reasonable attorneys' fees arising from a breach of Lessee's warranty set forth above, including but not limited to, the costs of defending any claims made against Lessor as a result of such breach. Lessor shall have the right to defend such claims with attorneys of its own election and Lessee shall pay the cost thereof. Nothing herein shall suggest that Lessee shall be responsible for the condition of the Property prior to its first obtaining possession of the Premises.

11.0 DEFAULT PROVISIONS.

11.1 Insolvency. If, during the Term, Lessee shall be declared insolvent or bankrupt, or if any assignment of Lessee's property shall be made for the benefit of creditors or otherwise, or if Lessee's leasehold interest herein shall be levied upon under execution or seized by virtue of any writ of any court of law, or a trustee in bankruptcy or a receiver be appointed for the property of Lessee, any such occurrence shall be a material default of this Lease, and entitle Lessor at its election to terminate the Lease.

11.2 Non-Payment, Breach Or Vacating. If (a) Lessee shall fail to make payment of any rent or any charge owing hereunder, or (b) any other covenant, condition, agreement or obligation of Lessee hereunder is not timely performed and either the breach is not cured within 15 days after written notice from Lessor or the cure of the breach is not commenced within 15 days after written notice from Lessor and thereafter diligently prosecuted towards completion, Lessee shall be in default and Lessor shall be entitled to take the actions set forth in Paragraphs 11.4 and 11.5 below and Lessor may pursue any other remedy available by law.

11.3 Default Under Other Leases. Any default under either the Building C Lease or the Heinz Street Lease shall be deemed a default under this Lease, entitling Lessor to take the actions set forth in Paragraphs 11.4 and 11.5 below and Lessor may pursue any other remedy available by law.

11.4 Lessor's Right To Relet. Upon recovery of possession of the Premises,
whether with or without legal proceedings, by reason of Lessee's breach of this Lease, Lessor may, at its option, at any time and from time to time, remove any signs and property of Lessee therefrom and relet the Premises or any part thereof at such rent and upon such terms and conditions as Lessor in its discretion shall determine, and the term of such reletting may be for a term extending beyond the Term. Such reletting shall neither void nor terminate this Lease. For the purpose of such reletting, Lessor is authorized to make repairs or alterations in or to the Premises at the sole expense of Lessee as may be necessary or desirable for the purpose of such reletting. The costs and expenses of such reletting, including repairs and alterations and any reasonable real estate commissions associated with such reletting shall be paid by Lessee. If a sum shall not be realized from such reletting to equal the monthly rent payable hereunder plus all other monthly charges to be paid by Lessee hereunder, less any amount of rental loss for the same period which Lessee proves could be reasonably avoided by Lessor, Lessee will pay such deficiency each month to Lessor. No re-entry, taking of possession or reletting of the Premises by Lessor shall be construed as an election to terminate this Lease unless written notice of such intention is given to Lessee or unless terminated thereof is decreed by a court of competent jurisdiction.

11.5 Right To Terminate. Notwithstanding any such reletting without termination, Lessor may at any time during the Term elect to terminate the Lease by reason of a previous breach. In the event that Lessor shall at any time terminate this Lease by reason of breach thereof by Lessee, then Lessor, in addition to any other remedy it may have, may recover from Lessee any damages incurred by reason of such breach including, without limitation, the cost of recovering the Premises, and the amount by which the rent then unpaid for the balance of the Term exceeds the amount of such rental loss for the same period which the Lessee proves could be reasonably avoided by Lessor. Lessee hereby waives all statutory rights inconsistent with this Paragraph.

11.6 Default By Lessor. Lessor will be in default if Lessor fails to perform any obligation required of Lessor

(15)

(other than a delay in delivery of possession as provided for in Paragraph 3.2 above) within 30 days after written notice by Lessee, specifying wherein Lessor has failed to perform such obligation; provided that if the nature of Lessor's obligation is such that more than 30 days are required for performance, then Lessor shall not be in default if Lessor commences performance within such 30 day period and thereafter diligently prosecutes the same to completion; and provided further that the performance of any obligation required by Lessor is necessary to correct a condition that poses a threat to life or property, then Lessor shall perform such obligation as soon as reasonably possible after receiving written notice from Lessee, specifying that the condition is threatening.

12.0 EXPIRATION OR TERMINATION.

12.1 Surrender Of Possession. Lessee agrees to deliver up and surrender to Lessor possession of the Premises and all improvements thereon, subject to the terms of Paragraph 7.4 above, in as good order and condition as when possession was taken by Lessee, excepting only ordinary wear and tear. Upon termination of this Lease, Lessor may reenter the Premises and remove all persons and property therefrom. If Lessee shall fail to remove any effects which it is entitled to remove from the Premises upon the termination of this Lease, for any cause whatsoever, Lessor, at its option, may remove the same and store or dispose of them, and Lessee agrees to pay to Lessor on demand any and all expenses incurred in such removal and in making the Premises free from all dirt, litter, debris and obstruction, including all storage and insurance charges. If the Premises are not surrendered at the end of the Term, Lessee shall indemnify Lessor against loss or liability resulting from delay by Lessee in so surrendering the Premises, including, without limitation, any claims made by any succeeding Lessee founded on such delay.

12.2 Holding Over. If Lessee, with Lessor's consent, remains in possession of the Premises after expiration of the term and if Lessor and Lessee have not executed an express written agreement as to such holding over, then such occupancy shall be a tenancy from month to month at a monthly rental equivalent to 110% of the monthly rental in effect immediately prior to such expiration, such payments to be made as herein provided. In the event of such holding over all of the terms of this Lease including the payment of all charges owing hereunder other than rent shall remain in force and effect on said month to month basis.

12.3 Voluntary Surrender. The voluntary or other surrender of this Lease by Lessee, or a mutual cancellation thereof, shall not work a merger, but shall, at the option of Lessor, terminate all or any existing subleases or subtenancies, or operate as an assignment to Lessor of any or all such subleases or subtenancies.
13.0 CONDEMNATION OF PREMISES.

13.1 Total Condemnation. If the entire Premises, whether by exercise of government power or the sale or transfer by Lessor to any condemnor under threat of condemnation or while proceedings for condemnation are pending, at any time during the Term, shall be taken by condemnation such that there does not remain a portion suitable for occupation, this Lease shall then terminate as of the date transfer of possession is required. Upon such condemnation, all rent shall be paid up to the date transfer of possession is required, and Lessee shall have no claim against Lessor for the value of the unexpired term of this Lease.

13.2 Partial Condemnation. If any portion of the Premises is taken by condemnation during the Term, whether by exercise of government power or the sale or transfer by Lessor to any condemnor under threat of condemnation or while proceedings for condemnation are pending, this Lease shall remain in full force and effect; except that in the event a partial taking leaves the Premises unfit for normal and proper conduct of the business of Lessee, then Lessee shall have the right to terminate this Lease effective upon the date transfer of possession is required. Moreover, Lessor shall have the right to terminate this Lease on the date transfer of possession is required if more than 33% of the total square footage of the Premises or the Property is taken by condemnation. Lessee and Lessor may elect to exercise their respective rights to terminate this Lease pursuant to this Paragraph by serving written notice to the other within 30 days of their receipt of notice of condemnation. All rent shall be paid up to the date of termination, and Lessee shall have no claim against Lessor for the value of any unexpired term of this Lease. If this Lease shall not be cancelled, the rent after such partial taking shall be that percentage of the adjusted base rent specified herein, equal to the percentage which the square footage of the untaken part of the Premises, immediately after the taking, bears to the square footage of the entire Premises immediately before the taking. Any sums owing hereunder which are calculated on the basis of Lessee's pro rata share (as set forth in Paragraph 1.4) shall also be adjusted to reflect the decreased square footage of the Premises due to the condemnation. If Lessee's continued use of the Premises requires alterations and repairs by reason of a partial taking, all such alterations and repairs shall be made by Lessee at Lessee's expense.

13.3 Award To Lessee. In the event of any condemnation, whether total or partial, Lessee shall have the right to claim and recover from the condemning authority such compensation as may be separately awarded or recoverable by Lessee for loss of business, fixtures or equipment belonging to Lessee immediately prior to the condemnation. The balance of any condemnation award shall belong to Lessor and Lessee shall have no further right to recover from Lessor or the condemning authority for any additional claims arising out of such taking.

14.0 ENTRY BY LESSOR.

Lessee shall permit Lessor and its agents to enter the Premises at all reasonable times for any of the following purposes: to inspect the Premises; to maintain the Structural Components of the Premises; to make such repairs to the Premises as Lessor is obligated or may elect to make; to make repairs, alterations or additions to any other portion of the Property; to show the Premises and post "To Lease" signs for the purposes of reletting during the last 90 days of the Term; to show the Premises as part of a prospective sale by Lessor or to post notices of nonresponsibility. Notwithstanding the above, except in the case of emergencies, Lessor shall give at least 24 hours written notice before entry to either the laboratories or other non-office restricted areas. Lessor shall have such right of entry without any rebate of rent to Lessee for any loss of occupancy or quiet enjoyment of the Premises thereby occasioned.

15.0 INDEMNIFICATION.

Lessee agrees not to hold Lessor liable for any injury or damage, either proximate or remote, occurring through or caused by any repairs or alterations to the Premises, except to the extent such injury or damage arises from the willful misconduct or negligence of Lessor. Lessee agrees that Lessor shall not be liable for any injury or damage occasioned by defective electric wiring, or the breaking, bursting, stoppage or leaking of any part of the plumbing, air conditioning, heating, fire-control sprinkler systems or gas, sewer or steam
pipes, except to the extent such injury or damage arises from the willful misconduct or negligence of Lessor. Lessee will save and hold harmless Lessor from all loss, injury to persons or property arising from or occurring by reason of its occupation or use of the Premises, except to the extent such losses or injuries are proximately caused by any willful misconduct or negligence of Lessor. Lessor shall not be liable for any damage to or loss of property of Lessee or other persons located on the Premises, and Lessee shall hold Lessor harmless from any claims arising out of damage to the same, except to the extent such loss or damage is proximately caused by the willful misconduct or negligence of Lessor.

16.0 ASSIGNMENT AND SUBLETTING.

Lessee shall not assign this Lease in whole or in part, or sublet the Premises and any part thereof, or license the use of all or any portion of the Premises or business conducted thereon, or encumber or hypothecate this Lease, without first obtaining the written consent of Lessor, which consent will not be unreasonably withheld. Lessee shall submit in writing to Lessor: (a) the name and legal composition of the proposed sublessee; (b) the nature of the proposed sublessee's business to be carried on in the Premises; (c) the terms and provisions of the proposed sublease; and (d) such financial and other reasonable information as Lessor may request concerning the proposed sublessee. Any assignment, subletting, licensing, encumbering, or hypothecating of this Lease without such prior written consent shall, at the option of Lessor, constitute grounds for termination of this Lease. Lessor's consent to any assignment or sublease shall not constitute a waiver of the necessity for such consent to any subsequent assignment or sublease. This prohibition against assignment and subletting shall be construed to include a prohibition against assignment or subletting by operation of law. Notwithstanding any assignment or subletting with Lessor's consent, Lessee shall remain fully liable on this Lease and shall not be released from its obligations hereunder. In the event Lessor shall consent to a sublease or assignment under this Paragraph, Lessee shall pay Lessor's reasonable attorneys' fees incurred in connection with giving such consent. In addition, Lessee shall pay to Lessor with its regularly scheduled rent payments 75% of all sums collected by Lessee from a sublessee or assignee which are in excess of the rent and charges then owing to Lessor pursuant to this Lease.

17.0 DAMAGE OR DESTRUCTION.

17.1 Right To Terminate On Destruction Of Premises. Lessor shall have the right to terminate this Lease if, during the Term, the Premises are damaged to an extent exceeding 33% of the then reconstruction cost of the Premises as a whole. Lessor shall also have the right to terminate this Lease if any portion of the Premises is damaged by an uninsured peril. In either case, Lessor may elect to so terminate by written notice to Lessee delivered within 30 days of the happening of such damage.

17.2 Repairs By Lessor. If Lessor shall not elect to terminate this Lease pursuant to Paragraph 17.1, Lessor shall, immediately upon receipt of insurance proceeds paid in connection with such casualty, but in no event later than 90 days after such damage has occurred, proceed to repair or rebuild the Premises, on the same plan and design as existed immediately before such damage or destruction occurred, subject to such delays as may be reasonably attributable to governmental restrictions or failure to obtain materials or labor, or other causes beyond the control of Lessor. Lessee shall be liable for the repair and replacement of all fixtures, leasehold improvements, furnishings, merchandise, equipment and personal property not covered by the property insurance described in Paragraph 6.2.

17.3 Reduction Of Rent During Repairs. In the event Lessee is able to continue to conduct its business during the making of repairs, the rent then prevailing will be equitably reduced in the proportion that the unusable part of the Premises bears to the whole thereof for the period that repairs are being made. No rent shall be payable while the Premises are wholly unusable due to casualty damage.

17.4 Arbitration. Any controversy or claim arising out of or relating to this Paragraph shall be settled by arbitration in accordance with the rules of the American Arbitration Association as then in effect, and judgment upon the award rendered by the arbitration may be entered in any court having jurisdiction. The expenses of arbitration shall be borne by the parties as allocated by the arbitrators. The party desiring arbitration shall serve notice upon the other party, together with designation of the first party's arbitrator.

17.5 Lessor's Overriding Right To Terminate. Notwithstanding anything to the contrary herein, if the discounted present value of the rent due hereunder for the balance of the Term, using as the discount rate the prime commercial lending rate in effect at the Bank of America as of the date Lessor is to
17.2 hereof, is less than the cost of repairing the damage to the Premises, Lessor may at its option terminate this Lease upon 10 days' written notice.

18.0 MISCELLANEOUS PROVISIONS.

18.1 Waiver. No waiver of any breach of any of the covenants or conditions of this Lease shall be construed to be a waiver of any other breach or to be a consent to any further or succeeding breach of the same or other covenant or condition. The subsequent acceptance of rent hereunder by Lessor shall not be deemed to be a waiver of any preceding breach by Lessee of any term, covenant or condition of this Lease, other than the failure of Lessee to pay the particular rent so accepted, regardless of Lessor's knowledge of such preceding breach at the time of acceptance of such rent.

18.2 Successors And Assigns. Except as otherwise provided herein, the provisions hereof shall be binding upon and shall inure to the benefit of the heirs, personal representatives, successors and assigns of the parties.

18.3 Notices. All notices, requests, demands and other communications required or permitted to be given hereunder shall be in writing and either personally delivered or sent by certified mail, return receipt requested, postage prepaid, properly addressed to the other party at the address set forth next to its signature below, or at such other address or addresses as may from time to time be designated in like manner by one party to the other. Any such notice shall be deemed given when personally delivered or on the date indicated on the Post Office's certified mail receipt.

18.4 Partial Invalidity. If for any reason any provision of this Lease shall be determined to be invalid or inoperative, the validity and effect of the other provisions hereof shall not be affected thereby.

18.5 Number And Gender. All terms in this Lease shall be construed to mean either the singular or the plural, masculine, feminine or neuter, as the situation may demand.

18.6 Descriptive Headings. The headings used herein and in any of the documents attached hereto as schedules, lists or exhibits are descriptive only and for the convenience of identifying provisions, and are not determinative of the meaning or effect of any such provisions.

18.7 Time Is Of The Essence. In all matters time is of the essence in the performance of all obligations under this Lease.

18.8 Entire Agreement. This Lease and the documents attached hereto as schedules, lists or exhibits, constitute the entire agreement and understanding between the parties with respect to the subject matters herein and therein, and supersede and replace any prior agreements and understandings, whether oral or written, between and among them with respect to the lease of the Premises, rental therefor, use thereof and all other such matters. The provisions of this Lease may be waived, altered, amended or repealed in whole or in part only upon the written consent of Lessor and Lessee.

18.9 Memorandum Of Lease. Lessor and Lessee mutually agree that they will not file or record a copy of this Lease, but that in the event Lessor or Lessee requests a recording, Lessor and Lessee shall execute and acknowledge a memorandum of this Lease in a form approved by the parties setting forth in said memorandum the description of the Premises, the date of the Lease, the Commencement Date and the date of termination. Said memorandum of Lease may be recorded in the Recorder's Office of the County in which the Premises are located.

18.10 Applicable Law. This Lease Agreement shall be construed and interpreted in accordance with the laws of the State of California.

18.11 Corporate Authority. Each individual executing this Lease on behalf of a corporation represents and warrants that he is duly authorized to execute and deliver this Lease on behalf of the corporation in accordance with a duly adopted resolution of the Board of Directors of the corporation, and that this Lease is binding upon said corporation in accordance with its terms.

18.12 Litigation Expense. If any party shall bring an action against any
other party hereto by reason of the breach of any covenant, warranty, representation or condition hereof, or otherwise arising out of this Agreement or any schedule list or exhibit hereto, whether for declaratory or other relief, the prevailing party in such suit shall be entitled to such party's costs of suit and attorneys' fees, which shall be payable whether or not such action is prosecuted to judgment.

18.13 Subordination Of Leasehold. Lessee agrees that this Lease is and shall be, at all times, subject and subordinate to the lien of any mortgage or other encumbrances which Lessor may create against the Premises including all renewals, replacements and extensions thereof; provided, however, that regardless of any default under any such mortgage or encumbrance or any sale of the Premises under such mortgage, so long as Lessee performs all covenants and conditions of this Lease and continues to make all payments hereunder, this Lease and Lessee's possession and rights hereunder shall not be disturbed by the mortgagees or anyone claiming under or through such mortgages. Lessee agrees to execute any and all instruments in writing which may be required by Lessor to subordinate Lessee's rights to the lien of such mortgage.

18.14 Lessee's Certificate. Within 15 days following Lessor's request, Lessee shall complete, execute and deliver to Lessor a Lessee's Certificate, setting forth the information requested therein including, but not limited to (a) certification that this Lease is unmodified and in full force and effect (or if modified, stating the nature of such modification and certifying that this Lease as so modified is in full force and effect) and the date to which the rental and other charges are paid in advance, if any, (b) acknowledgement that there are not, to Lessee's knowledge, any uncured defaults on the part of Lessor hereunder, or specifying such defaults if any are claimed and (c) setting forth the date of commencement and expiration of the Term. Failure of Lessee to deliver such Certificate within said 15 days shall be deemed to be an acknowledgement that Lessor is not in default under the Lease, and that the terms of the Lease have not been modified or supplemented in any way. It is intended that such Certificate may be relied upon by any prospective purchaser, lender or assignee of any lender of the Premises.

18.15 Attornment. Lessee shall, in the event of any sale of the Premises or if proceedings are brought for the foreclosure of, or in the event of exercise of the power of sale under, any mortgage, installment land contract or deed of trust made by Lessor covering the Premises, attorn to the mortgagee or the purchaser upon any such foreclosure or sale and recognize such mortgagee or purchaser as Lessor under this Lease, provided that Lessee's possession and rights hereunder shall not be disturbed by the mortgagee or purchaser.

18.16 Day. As used herein, the term "day" shall mean, unless otherwise specifically stated, a calendar day.

18.17 Brokers. The only broker's fees in connection with this Lease shall be payable by Lessor to Coldwell Banker. Each party hereby indemnifies and agrees to hold the other harmless from any and all other broker fees.

IN WITNESS WHEREOF, the parties have executed this Lease on the day and year first written above.

LESSOR:                                 LESSEE:

SEVENTH STREET PROPERTIES II            XOMA CORPORATION
1120 Nye Street, Suite 400              _______________________________
San Rafael, CA  94915                   _______________________________
(Address)

By /s/ Richard K. Robbins              By /s/ Steven C. Mendell
- -------------------------------     - -------------------------------
(Signature)                             (Signature)

Richard K. Robbins                      Steven C. Mendell/ CEO
- -------------------------------
(Print Name & Title)                    (Print Name & Title)

EXHIBIT A
DESCRIPTION OF PREMISES AND PROPERTY

(Drawing of Premises appears here)
EXHIBIT B

WORK TO BE PERFORMED BEFORE OCCUPANCY OF PREMISES

Lessor shall deliver the Premises to Lessee in shell condition. As used herein, "shell condition" shall mean that the Premises shall include all of the following: exterior walls with windows and doors, roof structure and roofing, concrete slab on the first floor and wood floors on the second floor, elevator with equipment room, two stairs and exit enclosures, exterior painting, fire sprinklers (one layer below roof structure and second layer below wood floor), roof drainage, standard building utilities brought to the Premises but not distributed, male and female toilets on the first and second floors, landscaping, recessed and covered loading dock with drainage and roll-up door, parking lot, storm sewers, sidewalks, electrical secondary cable and conduit, site lighting, roof hatch and ladder, rock below slab, finished lobby area on the first floor and finished core areas on the second floor. The parties recognize that Lessor shall incur additional costs in constructing the shell of the Premises due to Lessee's desire to utilize some of the Premises for laboratory purposes; specifically, there will be substantially increased interstitial space required in the Premises than is typical in a two story office building. The increased costs of the construction and the working drawings as a result of the interstitial space required in the Premises than is typical in a two story office building. The increased costs of the construction and the working drawings as a result of the interstitial space required in the Premises shall be the responsibility of Lessee. The increased costs of the interstitial space shall be designated as such by the contractor and/or architect, as the case may be, and Lessor shall forward to Lessee a copy of such designations. Any dispute as to the computation of the increased costs shall be settled by arbitration in the same manner as Paragraph 17.4 of this Lease. All such increased costs to Lessor (the "Increased Costs") shall be deducted from the Allowance paid to Lessee, as set forth below.

Lessee shall construct all tenant improvements to be placed on the Premises in accordance with the working drawings approved in writing by Lessor. Lessee shall be entitled to an allowance of $21.00 per square foot of leaseable space (the "Allowance") for the construction of the tenant improvements and the preparation of the working drawings therefor. If the cost of the tenant improvements exceeds the Allowance, such excess shall be borne by Lessee, at its own expense. The Allowance, less the Increased Costs, shall be paid to Lessee in cash within 15 days of occupancy of the Premises by Lessee and approval of the tenant improvements by Lessor.
June 26, 1987

Mr. Ho Humphrey
Xoma Corporation
2910 Seventh Street
Berkeley, CA 94710

RE: BUILDING C OF AQUATIC PARK CENTER.

Dear Mr. Humphrey:

On or about the date of this letter, Xoma Corporation ("Xoma") and Seventh Street Properties II ("Lessor") entered into a lease of Building C at Aquatic Park Center (the "Lease").

With respect to Building C, the parties hereby agree as follows:

Xoma shall have the right of first refusal to purchase Building C from Lessor if and when Lessor elects to sell its entire interest in Building C. If Lessor proposes to sell the Building, it shall first serve written notice on Xoma setting forth the terms on which Building C shall be sold (the "Initial Notice"). Xoma shall have 15 calendar days after receipt of the Initial Notice in which to inform Lessor in writing that it wishes to purchase the Building on the terms set forth in the Initial Notice. Notices shall be delivered in accordance with the terms of the Lease. Failure of Xoma to serve such written notice within the 15 day period or to close the sale within 45 days after serving notice on Lessor of its intent to purchase (other than as a result of Lessor's default) shall be deemed to be a waiver of its right of first refusal, and Lessor shall be free thereafter to sell Building C to third parties.

Notwithstanding the above, if Lessor proposes to offer more favorable terms to third parties than set forth in the Initial Notice, then Lessor shall serve another written notice on Xoma and again go through the procedure set forth above, provided that Lessor shall not need to serve another written notice or go through the procedure if Xoma had previously elected to purchase Building C but failed to close the transaction within the time stated above.

Please confirm by signing below your agreement with this amendment to the Lease and your acknowledgment that except for this specific amendment, all terms and conditions of the Lease shall remain unmodified and in full force and effect.

Sincerely,

SEVENTH STREET PROPERTIES II

By /s/ Richard K. Robbins
(Signature)
(Print Name And Title)

The terms set forth above are hereby agreed to on 8/26, 1987.

XOMA CORPORATION

By /s/ Steven C. Mendell
(Signature)
Chairman/ CEO
(Print Name & Title)
LEASE made and entered into this 22 day of July 1987, between SEVENTH STREET PROPERTIES II ("Lessor") and XOMA CORPORATION ("Lessee").

RECITALS:

A. Concurrently with the execution of this Lease, Lessee is entering into three other leases, specifically one with Lessor for approximately 35,000 square feet in Building E at Aquatic Park Center (the "Building E Lease") another with Lessor for approximately 20,000 square feet in Building F at Aquatic Park Center (the "Building F Lease"), and another with Seventh Street Properties, an affiliate of Lessor, for approximately 24,275 square feet at 890 Heinz Street, Berkeley, California (the "Heinz Street Lease").

B. The Building E Lease, the Heinz Street Lease and this Lease are intended to be read together so that a breach of one is deemed a breach of the other.

AGREEMENT:

NOW, THEREFORE, the parties hereby agree as follows:

1.0 BASIC LEASE TERMS.

1.1 Commencement Of Lease: The term of this Lease shall commence on the earlier of:

a. The date Lessor notifies Lessee in writing that the construction to be performed by Lessor pursuant to Paragraph 2.2 hereof has been substantially completed. Substantial completion shall occur when the Premises are in such condition as to permit Lessor to file a Notice of Completion with respect to its work; or

b. The date Lessee actually commences to do business at the Premises.


1.3 Monthly Rent: $6,384.

1.4 Lessee's Pro Rata Share: 5.6%.
1.5 Security Deposit: $7,056.

1.6 Use: Pharmaceutical manufacturing, offices, laboratories, shipping and receiving relating to pharmaceutical products.

2.0 PREMISES.

2.1 Description. Lessor hereby leases to Lessee a portion of Building C (the "Premises") constituting approximately 6,720 square feet, which constitute a portion of a larger piece of real property owned by Lessor and known as the Aquatic Park Center (the "Property"). Exhibit A attached hereto further describes the Premises and the Property.

2.2 Work Of Improvement. The respective obligations of Lessor and Lessee to perform the work and supply material and labor to prepare the Premises for occupancy are set forth in Exhibit B attached hereto and incorporated herein. Lessor and Lessee shall expend all funds and do all acts required of them respectively in Exhibit B and shall have the work performed promptly and diligently in a first-class, workmanlike manner. Lessee shall not commence construction of the improvements to be undertaken by Lessee until Lessor has approved in writing the final drawings for said improvements, which approval shall neither be unreasonably withheld nor delayed.

2.3 Possession. Lessor shall deliver occupancy of the Premises to Lessee on the Commencement Date as hereinafter defined.

3.0 TERM.

3.1 Commencement. The Lease shall commence on the date specified in Paragraph 1.1 above (the "Commencement Date") and shall continue thereafter for the term specified in Paragraph 1.2 above (the "Initial Term"), unless sooner terminated pursuant to this Lease.

3.2 Delay In Commencement. If for any reason Lessor cannot deliver possession of the Premises to Lessee on the Commencement Date, such failure shall not affect the validity of this Lease nor shall it extend the Term or render Lessor liable to Lessee for any loss or damage resulting therefrom; except that if possession is not delivered to Lessee on the Commencement Date, Tenant shall not be obligated to pay rent until possession of the Premises is tendered to Lessee. Notwithstanding the above, if Lessor does not deliver possession of the Premises to Lessee by June 30, 1988, then Lessee shall have the option of terminating this Lease by serving written notice on Lessor on or before July 15, 1988.

3.3 Option To Terminate. Lessee is hereby granted an option to terminate the Lease effective April 30, 1998 by giving written notice to Lessor of Lessee's intent to terminate (the "Termination Notice") on or before July 31, 1997.

3.4 Option To Extend Term. Lessee is hereby granted an option to extend the term for a five year period following the expiration of the Initial Term (the "Option Term") by giving written notice to the Lessor of Lessee's intent to exercise such option (the "Option Notice") at least 270 days before the expiration of the Initial Term. The Option Term shall be on the same terms and conditions in effect immediately before the end of the Initial Term, except that the rent shall be set at 95% of the fair market lease rate for comparable space in the Berkeley area, provided that in no event shall the rental rate for the Option Term be less than the rental rate as of the last day of the Initial Term.

3.5 Term. All references to the "Term" in this Lease shall include the Initial Term set forth in Paragraph 3.1 plus any extensions pursuant to Paragraph 3.4.

3.6 Fair Market Lease Rate. Lessor shall give Lessee notice ("Lessor's Notice") of the fair market lease rate after receiving Lessee's written notice of intent to exercise the Option, provided that Lessor's Notice shall not be delivered prior to the commencement of the Option Term. If Lessor believes that the fair market lease rate as established by Lessor is incorrect, Lessor shall notify Lessee in writing within 20 days of Lessee's receipt of the notice from Lessor that Lessee desires to submit the matter to appraisal with a designation of an MAI qualified appraiser. If Lessor agrees with the identity of such appraiser, it shall within 10 days notify the appraiser and Lessee that such appraiser shall determine the fair market lease rate (including fair market increases during the Option Term). If not, Lessor...
shall submit the name of its appraiser to Lessee within said 10 days. The two appraisers so selected shall choose a third appraiser and the three together shall determine the fair market lease rate (including fair market increases during the Option Term). If the two appraisers cannot select a third appraiser within 20 days after Lessor submits the name of its appraiser, either party may at any time apply to the presiding judge of any court of competent jurisdiction for the appointment of the third appraiser. If the three appraisers are unable to agree on the fair market lease rate they shall each determine the fair market lease rate increases during the Option Term and then average their determinations by tossing out the high and low appraisal and accepting the middle appraisal as the fair market lease rate. The costs of the appraisal process shall be borne by Lessee unless the fair market lease rate as determined by the appraisal is more than 10% below the lease rate set forth in Lessor’s Notice in which case Lessor and Lessee shall share the costs of the appraisal process equally. The appraisal process shall be completed as quickly as reasonably possible for any reason the Option Term commences prior to the conclusion of the appraisal process, Lessee shall continue to pay the monthly base rent then in effect to Lessor plus 10% of such amount, which 10% only shall be held by Lessor in escrow pending completion of the appraisal process, at which time all funds held in escrow shall be distributed to Lessee and/or Lessor in accordance with the outcome of the appraisal process, and Lessee shall subsequently pay the rent as determined by the appraisal process. The rent during the Option Term shall continue to be adjusted as agreed upon between Lessor and Lessee or as determined by the appraisal process.

4.0 RENT

4.1 Monthly Rent. Lessee shall pay to Lessor as rent for the Premises in advance on the first day of each calendar month of the Term without deduction, offset, prior notice or demand, in lawful money of the United States, the sum specified in Paragraph 1.3 above which is based on $.95 per square foot and the square footage set forth in Paragraph 2.1. The rent owing shall be adjusted as necessary if the actual square footage is shown to be other than as set forth in Paragraph 2.1. Notwithstanding the above, Lessee shall not be required to pay rent until the Commencement Date under the Building E Lease. If the Commencement Date is not the first day of a calendar month, the first monthly installment of such rent shall be applied on a per diem basis against payment of the rent from the Commencement Date until the first day of the first succeeding calendar month. Any unused portion of said amount shall be applied against payment of the rent for such first succeeding calendar month, and the balance of the rent for that month shall be due on the first day thereof. Concurrent with Lessee’s execution of this Lease, Lessee shall pay to Lessor the first monthly installment of rent.

4.2 Rent Adjustment. The base rent shall be adjusted on the one year anniversary of the Commencement Date to $1.05 per square foot. Thereafter, for the period through April 30, 1998 the base rent of $1.05 per square foot shall be adjusted as follows. On October 1, 1990 and every three years thereafter (the "Adjustment Dates"), the base rent shall be adjusted by the percentage increase in the Consumer Price Index (all items) for all urban consumers in the San Francisco-Oakland metropolitan area, published by the United States Department of Labor, Bureau of Labor Statistics. The monthly rent until the next Adjustment Date shall be the greater of (a) the rent in effect immediately before the Adjustment Date or (b) the rent of $1.05 per square foot multiplied by a fraction, the numerator of which shall be said Index number for the calendar month three months prior to the Adjustment Date and the denominator of which shall be said Index number for the calendar month three months prior to the first full calendar month following the Commencement Date. Notwithstanding the above, in no case shall the increase as of any Adjustment Date exceed 21% plus the Carry Forward. As used above, the "Carry Forward" shall mean the percentage increases in CPI which are not used at earlier Adjustment Dates to adjust the rent because of this limitation. For example, if the CPI increase is 15% on October 1, 1990, then the Carry Forward is six percent and the CPI increase on October 1, 1993 shall be the actual CPI increase, not to exceed 27%. If the actual CPI increase on October 1, 1993 were 23%, then the Carry Forward to October 1, 1996 would be four percent. Should the Bureau discontinue the publication of said Index numbers, or publish the same less frequently, or alter the same in some other manner, then Lessor shall adopt a substitute index or procedure which reasonably reflects consumer prices. Commencing May 1, 1998, the adjustment mechanism set forth above shall be discarded and rent shall be adjusted to 95% of the fair market lease rate as of May 1, 1998 for comparable space in the Berkeley area, provided that in no event shall the new rental rate be less than the rental rate in effect immediately before such adjustment. (Rent subsequent to May 1, 1998 shall be determined in the course of establishing the fair market lease rate.) On or before January 1, 1998, Lessor shall provide Lessee with notice of the May 1, 1998 fair market lease rate. The fair market lease rate shall then be determined in accordance with Paragraph 3.6, and the notice referenced above shall be deemed "Lessor’s Notice."

4.3 Mode Of Payment. Lessee shall pay all rent due Lessor at Lessor’s
4.4 Triple Net Lease. This Lease is what is commonly called a "Net, Net, Net Lease," it being understood that Lessor shall receive the rent set forth herein free and clear of any and all other impositions, taxes, liens, charges or expenses of any nature whatsoever in connection with the ownership and operation of the Premises. All references herein to Lessee's pro rata share of any expense shall mean the total expense of any such item multiplied by a fraction, the numerator of which shall be the total floor area of the Premises and the denominator of which shall be the total floor area available for lease by Lessor of Buildings C, E and F on the Property. "Floor area" shall be measured from the exterior surface of all exterior walls and from the center of all walls separating the Premises from adjacent premises. Based upon the square footage numbers set forth in Paragraph 2.1, Lessee's pro rata share has been calculated and is set forth in Paragraph 1.4. Lessee's pro rata share shall be adjusted as necessary if the actual square footage is shown to be other than as set forth in Paragraph 2.1 or upon any subdivision of the Property. In the event of non-payment of all or any portion of such charges, costs and expenses, Lessor shall have the same rights and remedies as provided in this Lease for failure of Lessee to pay rent. Lessee shall in no event be entitled to any abatement or reduction of rent or other monetary sums payable hereunder, except as expressly provided herein, notwithstanding any present or future law to the contrary.

4.5 Estimated Payments. Lessee shall be notified by Lessor of Estimated Payments for taxes, insurance, maintenance of common areas and common area utilities and services from time to time. The Estimated Payments shall be paid by Lessee to Lessor on the first day of each month throughout the Term. The Estimated Payments may be increased or decreased by Lessor upon 30 days' written notice to Lessee based upon statements received or charges incurred by Lessor, information available to Lessor as to the probable cost of expected charges and expenses, or the reasonable estimate of Lessor as to the probable amount of expected charges or expenses. Lessor shall be entitled to retain these monies from such payments in its general fund pending payment of all such costs and charges. No more frequently than once each calendar quarter, the actual costs shall be determined by Lessor, and Lessee shall remit to Lessor on demand its unpaid pro rata share of the actual expense. In the event Lessee paid more than its pro rata share of the actual expenses for such period of time, Lessor shall apply such overpayment towards the next Estimated Payments owing by Lessee. At the termination of this Lease, an accounting for such charges and expenses shall be made to the nearest practical accounting period, and Lessee shall pay to Lessor any balance due, or the Lessor shall refund to Lessee any excess amount paid.

4.6 Security Deposit. Concurrent with Lessee's execution of this Lease, Lessee shall deposit with Lessor as a security deposit the sum specified in Paragraph 1.5 above (the "Deposit"). On May 1, 1998 and May 1, 2003 (unless the Lease is terminated or the Option is not exercised, as the case may be) Lessee shall increase the Deposit to that amount which is equal to the newly established monthly rental. The Deposit shall be held by Lessor as a security deposit by Lessee of all terms, covenants, and conditions of this Lease to be kept and performed by Lessee during the Term. If Lessee defaults with respect to any provisions of this Lease, including but not limited to the provisions relating to the payment of rent and any of the monetary sums due hereunder, Lessor may (but shall not be required to) use, apply or retain any part or all of the Deposit for the payment of any amount which Lessor may spend or become obligated to spend by reason of Lessee's default or to compensate Lessor for any loss or damage which Lessor may suffer by reason of Lessee's default. If any portion of the Deposit is so used or applied, Lessee shall, within 10 days after written demand therefor, deposit cash with Lessor in an amount sufficient to restore the Deposit to its original amount; Lessee's failure to do so shall be a material breach of this Lease. Lessor shall not be required to keep the Deposit separate from its general funds, and Lessee shall not be entitled to interest on the Deposit. If Lessee shall fully and faithfully perform every provision of this Lease to be performed by it, the Deposit or any balance thereof shall be returned to Lessee (or, at Lessor's option, to the last assignee of Lessee's interests hereunder) at the expiration of the Term and after Lessee has vacated the Premises. In the event of termination of Lessor's interest in this Lease, Lessor shall transfer the Deposit to Lessor's successor in interest, whereupon Lessee agrees to release Lessor from all liability for the return of the Deposit or the accounting therefor.

4.7 Late Charges. Lessee hereby acknowledges that late payment by Lessee to Lessor of rent and other sums due hereunder will cause Lessor to incur costs not contemplated herein, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed on the Lessor by the terms of any mortgage or trust deed covering the Premises. Accordingly, if any installment of rent or any other sum due from Lessee shall not be received by Lessor or Lessor's designee within 10 days after such amount shall be due, Lessee shall pay to Lessor a late charge equal to five percent of such overdue amount. The parties hereby agree that such late charge represents a fair and
shall, at its sole expense, maintain insurance with "all risk" coverage on any

6.2 Property Insurance - Fixtures And Inventory. During the Term, Lessee shall be responsible for insurance on all fixtures and inventory, including any improvement district, as against any legal or equitable interest of Lessor in the Property or as against Lessor's business of renting the Property. As used herein, "Designated Real Property Taxes" shall mean all Real Property Taxes except those Real Property Taxes which are shown on the tax bill for the Property as applying to the improvements constituting Buildings A and B, plus 14,000 square feet of the Property attributed to Buildings A and B. Lessee's share of Designated Real Property Taxes shall be equitably prorated to cover the period of time within the fiscal tax year during which this Lease is in effect. The proration shall be made against a fixed amount equal to the lesser of (a) the total floor area of the Premises or the Property in connection with such taxes. If at any time after the Premises or the Property in connection with such taxes. If at any time after any tax or assessment has become due or payable Lessee or its legal representative neglects to pay such tax or assessment, Lessor shall be entitled, but not obligated, to pay the same at any time thereafter and such amount so paid by Lessor shall be repaid by Lessee to Lessor with Lessee's next rent installment together with interest at the highest rate allowable by law.

5.0 TAXES.

5.1 Real Property Taxes. Lessee agrees to pay to Lessor in addition to the rent and other charges herein its pro rata share of all Designated Real Property Taxes in accordance with Paragraph 4.5. As used herein, "Real Property Taxes" shall include any form of assessment, license, fee, rent, tax, levy, penalty or tax imposed by any authority having the direct or indirect power to tax, including any improvement district, as against any legal or equitable interest of Lessor in the Property or as against Lessor's business of renting the Property. As used herein, "Designated Real Property Taxes" shall mean all Real Property Taxes except those Real Property Taxes which are shown on the tax bill for the Property as applying to the improvements constituting Buildings A and B, as shown on Exhibit B, and 86.82% of (a) the Real Property Taxes applying to the land and (b) special assessments against the Property. Such percentage was determined by comparing the square footage of all of the land within the Property to the square footage of all such land not occupied by Buildings A and B, plus 14,000 square feet of the Property attributed to Buildings A and B. Lessee's share of Designated Real Property Taxes shall be equitably prorated to cover the period of time within the fiscal tax year during which this Lease is in effect. The proration shall be made against a fixed amount equal to the lesser of (a) the total floor area of the Premises or the Property in connection with such taxes. If at any time after any tax or assessment has become due or payable Lessee or its legal representative neglects to pay such tax or assessment, Lessor shall be entitled, but not obligated, to pay the same at any time thereafter and such amount so paid by Lessor shall be repaid by Lessee to Lessor with Lessee's next rent installment together with interest at the highest rate allowable by law.

6.0 INSURANCE.

6.1 Property/Rental Insurance - Premises. During the Term, Lessor shall keep the Property insured against loss or damage by fire and those risks normally included in the term "all risk" including (a) flood coverage at the election of Lessor, (b) earthquake coverage at the reasonable election of Lessor, (c) coverage for loss of rents and (d) boiler and machinery coverage if the Lessee deems necessary. Any deductibles shall be paid by Lessee if the deductible arises from damage solely to the Premises. If the damage covers a greater portion of the Property than the Premises, then Lessee shall pay that portion of the deductible which the total floor area of the Premises bears to the total floor area of the Property which is available for lease by Lessor and which suffered damage. The amount of such insurance shall be not less than 100% of the replacement value of the Premises. Any recovery received from said insurance policy shall be paid to Lessor. Lessee, in addition to the rent and other charges provided herein, agrees to pay to Lessor its pro rata share of the premiums for insurance on the Premises, excluding that insurance applicable to Buildings A and B as shown by the insurance company (or its broker) issuing such insurance. The insurance premiums shall be paid in accordance with Paragraph 4.5. Lessee shall pay to Lessor any deductibles owing within 15 days after receipt of notice from Lessor of the amount owing.

6.2 Property Insurance - Fixtures And Inventory. During the Term, Lessee shall, at its sole expense, maintain insurance with "all risk" coverage on any
fixtures, leasehold improvements, furnishings, merchandise, equipment or personal property in or on the Premises, whether in place as of the date hereof or installed hereafter, and Lessee shall also have sole responsibility and cost for maintaining any other types of insurance relating to Lessee's use of the Premises. Any deductibles shall be paid by Lessee.

6.3 Lessor's Liability Insurance. During the Term, Lessor shall maintain a policy or policies of comprehensive general liability insurance insuring Lessor (and such others as designated by Lessor) against liability for bodily injury, death and property damage on or about the Property, with combined single limit coverage of not less than $2,000,000.

6.4 Lessee's Liability Insurance. During the Term, Lessee shall, at its sole expense for the mutual benefit of Lessor and Lessee, maintain comprehensive general liability and property damage insurance against claims for bodily injury, death or property damage occurring in or about the Premises or arising out of the use or occupancy of the Premises, with combined single limit coverage of not less than $2,000,000. The limits of such insurance shall not limit the liability of Lessee. Lessee shall furnish to Lessor prior to the Commencement Date, and at least 30 days prior to the expiration date of any policy, certificates indicating that the liability insurance required by Lessee above is in full force and effect, that Lessor has been named as an additional insured; and that all such policies will not be cancelled unless 30 days' prior written notice of the proposed cancellation has been given to Lessor. The insurance shall be with insurers reasonably approved by Lessor and with policies in form reasonably satisfactory to Lessor. Said policies shall provide that Lessor, although an additional insured, may recover for any loss suffered by Lessor by reason of Lessee's negligence, and shall include a broadform liability endorsement.

6.5 Waiver Of Subrogation. Lessor hereby releases Lessee, and Lessee hereby releases Lessor, and their respective officers, agents, employees and servants, from any and all claims or demands of damages, loss, expense or injury to the Premises, or to the furnishings and fixtures and equipment, or inventory or other property of either Lessor or Lessee in, about or upon the Premises, which is caused by or results from perils, events or happenings which are the subject of insurance carried by the respective parties and in force at the time of any such loss; provided, however, that such waiver shall be effective only to the extent permitted by the insurance covering such loss and to the extent such insurance is not prejudiced thereby. Each party shall cause each insurance policy obtained by it to provide that the insurance company waives all right of recovery by way of subrogation against either party in connection with any damage covered by any policy.

6.6 Indemnification. Except to the extent of intentional misconduct by Lessor or Lessor's negligence, Lessee will indemnify Lessor and save it harmless from and against any and all claims, actions, damages, liability and expense in connection with loss of life, personal injury and/or damage to property arising from or out of any occurrence in, upon or at the Premises, or the occupancy or use by Lessee of the Premises or any part thereof, or occasioned wholly or in part by any acts or omissions of Lessee, its agents, contractors, employees, servants, licensees or concessionaires or by anyone permitted to be on the Premises by Lessee. In case Lessor shall be made a party to any such litigation commenced by or against Lessee, then Lessee shall protect and hold Lessor harmless from all claims, liabilities, costs and expenses, and shall pay all costs, expenses and reasonable legal fees incurred by Lessor in connection with such litigation.

6.7 Plate Glass Replacement. Lessee shall replace at its sole expense, any and all plate glass and other glass in and about the Premises which is damaged or broken by vandalism. If any plate glass or other glass in and about the Premises is damaged or broken by causes other than vandalism, then Lessee shall pay Lessor an amount equal to Lessor's cost of replacement, provided that such amount shall not exceed the deductible then in effect on Lessor's insurance policy, if any, covering the damaged glass. Nothing herein shall be construed to require Lessor to carry plate glass insurance.

6.8 Workers' Compensation Insurance. Lessee shall, at its sole expense, maintain and keep in force during the Term a policy or policies of Workers' Compensation Insurance and any other employee benefit insurance sufficient to comply with all applicable laws, statutes, ordinances and governmental rules, regulations or requirements.

7.0 MAINTENANCE.

7.1 Premises. Throughout the Term, Lessee agrees to keep and maintain all improvements and appurtenances upon the Premises, including all sewer connections, plumbing, heating and cooling appliances, wiring and glass, in good order and repair including the replacement of such improvements and appurtenances when necessary. Lessee hereby expressly waives the provisions of any law permitting repairs by a tenant at the expense of a landlord, including,
Lessee agrees to the health, sanitary and police ordinances and regulations of any political subdivision having jurisdiction. Lessee further agrees to keep the interior of the Premises, such as the windows, floors, walls, doors, showcases and fixtures clean and neat in appearance and to remove all trash and debris which may be found in or around the Premises. If Lessee deems any repairs and/or maintenance to be made by Lessee necessary and Lessee refuses or neglects to commence such repairs and/or maintenance and complete the same with reasonable dispatch upon demand, Lessor may enter the Premises and cause such repairs and/or maintenance to be made and shall not be responsible to Lessee for any loss or damage occasioned thereby except to the extent that Lessee's personal property is damaged by the intentional misconduct or negligence of Lessor or its contractors. Lessee agrees that upon demand, it shall pay to Lessor the cost of any such repairs, together with accrued interest from the date of payment at the highest rate allowable by law.

7.2 Building. Lessor shall maintain the foundation, roof and exterior walls (the "Structural Components") and the common areas, including but not limited to hallways, elevators, and common bathrooms ("Building Common Areas"), of the building in which the Premises are located in reasonably good order and repair, except that damage occasioned by the act of Lessee shall be repaired by Lessor at Lessee's expense. Lessee shall have the obligation to notify Lessor, in writing, of any repairs or maintenance to the Structural Components or Building Common Areas which may be required, and Lessor shall have a reasonable time to make such repairs. The manner and method of maintenance and repair of the Structural Components and Building Common Areas shall be at the reasonable discretion of Lessor. Lessee agrees to pay to Lessor 67.2% (which for purposes of this Paragraph shall be deemed to be Lessee's pro rata share) of the costs of maintaining Building Common Areas (but not the Structural Components) as billed to Lessee by Lessor. Such percentage was calculated by comparing the total square footage of the Premises to the total square footage available for lease by Lessor of the building in which the Premises are located.

7.3 Common Areas. Lessor shall maintain the common areas of the Property which shall include without limitation the landscaping, plazas and parking lots in reasonably good order and condition, except that damage occasioned by the act of Lessee shall be repaired by Lessor at Lessee's expense. Lessee shall have the obligations of Lessee to notify Lessor, in writing, of any repairs or maintenance to the common areas which may be required, and Lessor shall have a reasonable time to make such repairs. The manner and method of maintenance and repair of the common areas shall be at the reasonable discretion of Lessor. Lessee, in addition to the rent and other charges provided herein, agrees to pay to Lessor its pro rata share of the costs of maintaining the common areas in accordance with Paragraph 4.5.

7.4 Alterations, Changes And Additions By Lessee. No changes, alterations, or additions shall be made by Lessee to the Premises without the prior written consent of Lessor which Lessor will not unreasonably withhold. Notwithstanding the above, non-structural changes aggregating no more than $10,000 in any 12 month period may be made by Lessee without Lessor's consent. As used herein, alterations include utility installations such as ducting, power panels, fluorescent fixtures, base heaters, conduit and wiring. As a condition to giving such consent, Lessor may require that Lessee agree to remove any such alterations, additions or improvements at the expiration of the Term and to restore the Premises to their prior condition. As a further condition to giving such consent, Lessee may require Lessor to provide Lessee, at Lessee's sole cost and expense, with a lien and completion bond in an amount equal to one and one-half times the estimated cost of such improvements, to insure Lessor against any liability for mechanics' and materialmen's liens and to insure completion of the work. All changes, alterations or additions to be made to the Premises shall be under the supervision of a competent architect or competent licensed structural engineer and made in accordance with plans and specifications which have been approved by Lessor prior to commencement of work. Lessor shall not unreasonably withhold its approval of such proposed alterations. If the written consent of Lessor to any proposed alterations by Lessee shall have been obtained, Lessee agrees to advise Lessor in writing of the date upon which such alterations will commence in order to permit Lessor to post a notice of nonresponsibility. All such alterations, changes and additions shall be constructed in a good and workmanlike manner in accordance with all ordinances and laws relating thereto. Any such changes, alterations or additions to or on the Premises shall remain for the benefit of and become the property of Lessor, unless Lessor requires the removal by giving Lessee written notice within 30 days before the date Lessee is to vacate the Premises, in which case Lessee shall remove such changes, alterations and additions and restore the Premises to the condition they were in prior to such changes, alterations or additions.

7.5 Plumbing. Lessee shall not use the plumbing facilities for any purpose other than that for which they were constructed. The expense of any breakage, stoppage or other damage relating to the plumbing and resulting from the
introduction by Lessee, its agents, employees or invitees of foreign substances into the plumbing facilities shall be borne by Lessee.

7.6 Liens. Lessee shall keep the Premises free from any liens arising out of work performed, materials furnished or obligations incurred by Lessee and shall indemnify, hold harmless and defend Lessor from any liens and encumbrances arising out of any work performed or materials furnished by or at the direction of Lessee. In the event that Lessee shall not, within 20 days following the imposition of such lien, cause such lien to be released of record by payment or posting of a proper bond, Lessor shall have, in addition to all other remedies provided herein and by law, the right, but not the obligation, to cause the same to be released by such means as it shall deem proper, including payment of the claim giving rise to such lien. All such sums paid by Lessor and all expenses incurred by it in connection therewith including attorneys' fees and costs shall be payable to Lessor by Lessee on demand with interest at the highest rate allowable by law. Lessor shall have the right at all times to post and keep posted on the Premises any notices permitted or required by law, or which Lessor shall deem proper, for the protection of Lessor and the Premises, and any other party having an interest therein, from mechanics' and materialmen's liens, and Lessee shall give to Lessor at least 10 business days' prior written notice of the expected date of commencement of any work relating to alterations or additions to the Premises.

8.0 MANAGEMENT.

Lessee shall bear its share of the costs to Lessor of managing the Property. Lessee understands that Wareham Property Group, or another affiliated or unaffiliated third party will be responsible for the management of the Property. For the period through April 30, 1998, Lessee shall pay to Lessor a property management fee equal to five percent of the monthly rent. Thereafter, the monthly property management fee payable by Lessee shall be equal to the monthly property management fee owing by Lessee immediately prior to May 1, 1998, subject to adjustment as follows. Commencing May 1, 1998 and each anniversary thereafter, the monthly property management fee shall be adjusted upwards by increases in the CPI between the Adjustment Date and the same date one year earlier. The monthly property management fee shall be payable with monthly rent.

9.0 UTILITIES AND SERVICES.

9.1 Premises. Lessee shall pay prior to delinquency throughout the Term the cost of water, gas, heating, cooling, sewer, telephone, electricity, garbage, air conditioning and ventilating, janitorial services and all other materials and utilities supplied to the Premises, provided that if payment is to be made to Lessor, it shall be made by Lessee within 30 days of receipt of the statement for such charges.

9.2 Common Areas. Lessor shall provide first-class landscaping, utilities, janitorial and security services for the common areas of the Property. Lessee shall bear its pro-rata share of such common area costs to Lessor in providing such services in accordance with Paragraph 4.5. Security services shall include hiring of guards in the discretion of Lessor during hours determined by Lessor. Notwithstanding the above, any extraordinary landscaping, utilities, janitorial and/or security services incurred on the Property as a result of special events held by the tenants of Buildings A and B shall not be included in such common area costs.

10.0 USE OF PREMISES.

10.1 Use. The Premises shall be used and occupied by Lessee for only the purposes specified in Paragraph 1.6 and for no other purposes whatsoever without obtaining the prior written consent of Lessor which shall not be unreasonably withheld.

10.2 Suitability. This Lease shall be subject to all applicable zoning ordinances and to any municipal, county and state laws and regulations governing and regulating the use of the Premises. Lessee acknowledges that neither Lessor nor Lessor's agent has made any representation or warranty as to the suitability of the Premises for the conduct of Lessee's business.

10.3 Uses Prohibited.

a. Rate Of Insurance. Lessee shall not do or permit anything to be done in or about the Premises which will cause the existing rate of insurance upon the Premises (unless Lessee shall pay an increased premium as a result of such use or acts) to be impaired or invalidation of any insurance policy covering said Premises, nor shall Lessee sell or permit to be kept, used or sold in or about such Premises any articles which may be prohibited by a standard form policy of fire insurance.

b. Interfere With Other Tenants. Lessee shall not do or permit anything to be done in or about the Premises which will in any way obstruct or unreasonably interfere with the rights of other tenants or occupants of the Property or
11.0 DEFAULT PROVISIONS.

11.1 Insolvency. If, during the Term, Lessee shall be declared insolvent or bankrupt, or if any assignment of Lessee's property shall be made for the benefit of creditors or otherwise, or if Lessee's leasehold interest herein shall be levied upon under execution or seized by virtue of any writ of any court of law, or a trustee in bankruptcy or a receiver be appointed for the property of Lessee, any such occurrence shall be a material default of this Lease, and entitle Lessor at its election to terminate the Lease.

11.2 Non-Payment, Breach Or Vacating. If (a) Lessee shall fail to make payment of any rent or any charge owing hereunder, or (b) any other covenant, condition, agreement or obligation of Lessee hereunder is not timely performed and either the breach is not cured within 15 days after written notice from Lessor or the cure of the breach is not commenced within 15 days after written notice diligently prosecuted towards completion, Lessee shall be in default and Lessor may pursue any other remedy available by law.

11.3 Default Under Other Leases. Any default under either the Building E Lease or the Heinz Street Lease shall be deemed a default under this Lease, entitling Lessor to take the actions set forth in Paragraphs 11.4 and 11.5 below and Lessor may pursue any other remedy available by law.

11.4 Lessee's Warranty. Lessee warrants that its use of the Premises presently complies and shall comply with applicable federal, state and local laws and regulations pertaining to (i) the use, storage and disposal of radiological materials and/or toxic chemicals, (ii) the disposal of hazardous waste and (iii) the safety of persons on the Premises, including but not limited to, the general industry safety orders as set forth in Title 8 of the California Administrative Code. Lessee further warrants that it will not interfere with any actions by Lessor made in furtherance of the above laws and regulations and it shall comply with any reasonable procedures and/or regulations promulgated by Lessor from time to time in connection with the matters covered by such laws and regulations, provided that Lessor shall have no duty to establish any procedures or regulations or to supervise in any way Lessee's activities on the Premises. Lessee warrants that all governmental inspections of the Premises as required under the laws referenced above have been made and will be made, and Lessee shall deliver within 15 days of the date hereof to Lessor a copy of the reports of each such inspection most recently conducted. Lessee shall provide a copy of the reports for each such future inspection within 15 days of Lessee's receipt of such report. Except in instances when a governmental report of such inspection has been made within the last 12 month period, Lessee shall obtain at its sole cost an inspection by a private engineering firm, resulting in a written report specifying Lessee's compliance, or enumerating the reasons for Lessee's lack of compliance, with such regulations. Lessee indemnifies and shall hold Lessor harmless from a breach of the above warranty and from any claim arising from Lessee's particular use of the Premises, including but not limited to, (a) the disposal or use of hazardous waste, or (b) the disposal or escape of odorous, carcinogenic and/or pathogenic exhaust from the Premises. Lessee shall pay all of Lessor's costs and reasonable attorneys' fees arising from a breach of Lessee's warranty set forth above, whether or not litigation is commenced, including but not limited to, the costs of defending any claims made against Lessor as a result of such breach. Lessor shall have the right to defend such claims with attorneys of its own election and Lessee shall pay the cost thereof.

Nothing herein shall suggest that Lessee shall be responsible for the condition of the Property prior to its first obtaining possession of the Premises.

11.5 Claims. If any suit or action is brought against Lessor by any person, firm, corporation or governmental body for any injury or annoyance to any person or to property arising from Lessee's use of the Premises, or arising from Lessee's particular use of the Premises, including but not limited to, (i) the use, storage and disposal of radiological materials and/or toxic chemicals, (ii) the disposal of hazardous waste, (iii) the safety of persons on the Premises, including but not limited to, the general industry safety orders as set forth in Title 8 of the California Administrative Code, (iv) the use, storage and disposal of hazardous waste, (v) the safety of persons on the Premises, (vi) the use, storage and disposal of hazardous waste, (vii) the safety of persons on the Premises, (viii) the use, storage and disposal of hazardous waste, (ix) the safety of persons on the Premises, and/or (x) the general industry safety orders as set forth in Title 8 of the California Administrative Code. Lessee further warrants that it will not interfere with any actions by Lessor made in furtherance of the above laws and regulations and it shall comply with any reasonable procedures and/or regulations promulgated by Lessor from time to time in connection with the matters covered by such laws and regulations, provided that Lessor shall have no duty to establish any procedures or regulations or to supervise in any way Lessee's activities on the Premises. Lessee warrants that all governmental inspections of the Premises as required under the laws referenced above have been made and will be made, and Lessee shall deliver within 15 days of the date hereof to Lessor a copy of the reports of each such inspection most recently conducted. Lessee shall provide a copy of the reports for each such future inspection within 15 days of Lessee's receipt of such report. Except in instances when a governmental report of such inspection has been made within the last 12 month period, Lessee shall obtain at its sole cost an inspection by a private engineering firm, resulting in a written report specifying Lessee's compliance, or enumerating the reasons for Lessee's lack of compliance, with such regulations. Lessee indemnifies and shall hold Lessor harmless from a breach of the above warranty and from any claim arising from Lessee's particular use of the Premises, including but not limited to, (a) the disposal or use of hazardous waste, or (b) the disposal or escape of odorous, carcinogenic and/or pathogenic exhaust from the Premises. Lessee shall pay all of Lessor's costs and reasonable attorneys' fees arising from a breach of Lessee's warranty set forth above, whether or not litigation is commenced, including but not limited to, the costs of defending any claims made against Lessor as a result of such breach. Lessor shall have the right to defend such claims with attorneys of its own election and Lessee shall pay the cost thereof. Nothing herein shall suggest that Lessee shall be responsible for the condition of the Property prior to its first obtaining possession of the Premises.
11.4 Lessor's Right to Relet. Upon recovery of possession of the Premises, whether with or without legal proceedings, by reason of Lessee's breach of this Lease, Lessor may, at its option, at any time and from time to time, remove any signs and property of Lessee therefrom and relet the Premises or any part thereof at such rent and upon such terms and conditions as Lessor in its discretion shall determine, and the term of such reletting may be for a term extending beyond the Term. Such reletting shall neither void nor terminate this Lease. For the purpose of such reletting, Lessor is authorized to make repairs or alterations in or to the Premises at the sole expense of Lessee as may be necessary or desirable for the purpose of such reletting. The costs and expenses of such reletting, including repairs and alterations and any reasonable real estate commissions associated with such reletting shall be paid by Lessee. If a sum shall not be realized from such reletting to equal the monthly rent payable hereunder plus all other monthly charges to be paid by Lessee hereunder, less any amount of rental loss for the same period which Lessee proves could be reasonably avoided by Lessor, Lessee will pay such deficiency each month to Lessor. In no event shall Lessor be entitled to any excess rent received by Lessor. No re-entry, taking of possession or reletting of the Premises by Lessor shall be construed as an election to terminate this Lease unless written notice of such intention is given to Lessee or unless terminated thereof is decreed by a court of competent jurisdiction.

11.5 Right To Terminate. Notwithstanding any such reletting without termination, Lessor may at any time during the Term elect to terminate the Lease by reason of a previous breach. In the event that Lessor shall at any time terminate this Lease by reason of breach thereof by Lessee, then Lessor, in addition to any other remedy it may have, may recover from Lessee any damages incurred by reason of such breach including, without limitation, the cost of recovering the Premises, and the amount by which the rent then unpaid for the balance of the Term exceeds the amount of such rental loss for the same period which the Lessee proves could be reasonably avoided by Lessor. Lessee hereby waives all statutory rights inconsistent with this Paragraph.

11.6 Default By Lessor. Lessor will be in default if Lessor fails to perform any obligation required of Lessor (other than a delay in delivery of possession) provided for in Paragraph 3.2 above) within 30 days after written notice by Lessee, specifying wherein Lessor has failed to perform such obligation; provided that if the nature of Lessor's obligation is such that more than 30 days are required for performance, then Lessor shall not be in default if Lessor commences performance within such 30 day period and thereafter diligently prosecutes the same to completion; and provided further that if the performance required by Lessor is necessary to correct a condition that poses a threat to life or property, then Lessor shall perform such obligation as soon as reasonably possible after receiving written notice from Lessee, specifying that the condition is threatening.

12.0 EXPIRATION OR TERMINATION.

12.1 Surrender Of Possession. Lessee agrees to deliver up and surrender to Lessor possession of the Premises and all improvements thereon, subject to the terms of Paragraph 7.4 above, in as good order and condition as when possession was taken by Lessee, excepting only ordinary wear and tear. Upon termination of this Lease, Lessor may reenter the Premises and remove all persons and property therefrom. If Lessee shall fail to remove any effects which it is entitled to remove from the Premises upon the termination of this Lease, for any cause whatsoever, Lessor, at its option, may remove the same and store or dispose of them, and Lessee agrees to pay to Lessor on demand any and all expenses incurred in such removal and in making the Premises free from all dirt, litter, debris and obstruction, including all storage and insurance charges. If the Premises are not surrendered at the end of the Term, Lessee shall indemnify Lessor against loss or liability resulting from delay by Lessee in so surrendering the Premises, including, without limitation, any claims made by any succeeding Lessee founded on such delay.

12.2 Holding Over. If Lessee, with Lessor's consent, remains in possession of the Premises after expiration of the term and if Lessor and Lessee have not executed an agreement as to such holding over, then such occupancy shall be a tenancy from month to month at a monthly rental equivalent to 110% of the monthly rental in effect immediately prior to such expiration, such payments to be made as herein provided. In the event of such holding over all of the terms of this Lease including the payment of all charges owing hereunder other than rent shall remain in force and effect on said month to month basis.

12.3 Voluntary Surrender. The voluntary or other surrender of this Lease by Lessee, or a mutual cancellation thereof, shall not work a merger, but shall, at the option of Lessor, terminate all or any existing subleases or subtenancies, or operate as an assignment to Lessor of any or all such subleases
13.0 CONDEMNATION OF PREMISES.

13.1 Total Condemnation. If the entire Premises, whether by exercise of governmental power or the sale or transfer by Lessor to any condemnor under threat of condemnation or while proceedings for condemnation are pending, at any time during the Term, shall be taken by condemnation such that there does not remain a portion suitable for occupation, this Lease shall then terminate as of the date transfer of possession is required. Upon such condemnation, all rent shall be paid up to the date transfer of possession is required, and Lessee shall have no claim against Lessor for the value of the unexpired term of this Lease.

13.2 Partial Condemnation. If any portion of the Premises is taken by condemnation during the Term, whether by exercise of governmental power or the sale or transfer by Lessor to any condemnor under threat of condemnation or while proceedings for condemnation are pending, this Lease shall remain in full force and effect; except that in the event a partial taking leaves the Premises unfit for normal and proper conduct of the business of Lessee, then Lessee shall have the right to terminate this Lease effective upon the date transfer of possession is required. Lessor shall have the right to terminate this Lease effective on the date transfer of possession is required if more than 33% of the total square footage of the Premises or the Property is taken by condemnation. Lessee and Lessor may elect to exercise their respective rights to terminate this Lease pursuant to this Paragraph by serving written notice to the other within 30 days of their receipt of notice of condemnation. All rent shall be paid up to the date of termination, and Lessee shall have no claim against Lessor for the value of any unexpired term of this Lease. If this Lease shall not be cancelled, the rent after such partial taking shall be that percentage of the adjusted base rent specified herein, equal to the percentage which the square footage of the untaken part of the Premises, immediately after the taking, bears to the square footage of the entire Premises immediately before the taking. Any sums owing hereunder which are calculated on the basis of Lessee's pro rata share (as set forth in Paragraph 1.4) shall also be adjusted to reflect the decreased square footage of the Premises due to the condemnation. If Lessee's continued use of the Premises requires alterations and repairs by reason of a partial taking, all such alterations and repairs shall be made by Lessee at Lessee's expense.

13.3 Award To Lessee. In the event of any condemnation, whether total or partial, Lessee shall have the right to claim and recover from the condemning authority such compensation as may be separately awarded or recoverable by Lessee for loss of business, fixtures or equipment belonging to Lessee immediately prior to the condemnation. The balance of any condemnation award shall belong to Lessor and Lessee shall have no further right to recover from Lessor or the condemning authority for any additional claims arising out of such taking.

14.0 ENTRY BY LESSOR.

Lessee shall permit Lessor and its agents to enter the Premises at all reasonable times for any of the following purposes: to inspect the Premises; to maintain the Structural Components of the Premises; to make such repairs to the Premises as Lessor is obligated or may elect to make; to make repairs, alterations or additions to any other portion of the Property; to show the Premises and post "To Lease" signs for the purposes of reletting during the last 90 days of the Term; to show the Premises as part of a prospective sale by Lessor or to post notices of nonresponsibility. Notwithstanding the above, except in the case of emergencies, Lessor shall give at least 24 hours prior written notice before entry to either the laboratories or other non-office restricted areas. Lessor shall have such right of entry without any rebate of rent to Lessee for any loss of occupancy or quiet enjoyment of the Premises thereby occasioned.

15.0 INDEMNIFICATION.

Lessee agrees not to hold Lessor liable for any injury or damage, either proximate or remote, occurring through or caused by any repairs or alterations to the Premises, except to the extent such injury or damage arises from the willful misconduct or negligence of Lessor. Lessee agrees that Lessor shall not be liable for any injury or damage occasioned by defective electric wiring, or the breaking, bursting, stoppage or leaking of any part of the plumbing, air conditioning, heating, fire-control sprinkler systems or gas, sewer or steam pipes, except to the extent such injury or damage arises from the willful misconduct or negligence of Lessor. Lessee will save and hold harmless Lessor from all injury to persons or property arising from or occurring by reason of its occupation or use of the Premises, except to the extent such losses or injuries are proximately caused by any willful misconduct or negligence of Lessor. Lessor shall not be liable for any damage to or loss of property of Lessee or other persons located on the Premises, and Lessee shall hold Lessor harmless from any claims arising out of damage to the same, except to the extent such loss or damage is proximately caused by the willful misconduct or negligence of Lessor.
16.0 ASSIGNMENT AND SUBLETTING.

Lessee shall not assign this Lease in whole or in part, or sublet the Premises or any part thereof, or license the use of all or any portion of the Premises or business conducted thereon, or encumber or hypothecate this Lease, without first obtaining the written consent of Lessor, which consent will not be unreasonably withheld. Lessee shall submit in writing to Lessor: (a) the name and legal composition of the proposed sublessee; (b) the nature of the proposed sublessee's business to be carried on in the Premises; (c) the terms and provisions of the proposed sublease; and (d) such financial and other reasonable information as Lessor may request concerning the proposed sublessee. Any assignment, subletting, licensing, encumbering, or hypothecating of this Lease without such prior written consent shall, at the option of Lessor, constitute grounds for termination of this Lease.

Lessor's consent to any assignment or sublease shall not constitute a waiver of the necessity for such consent to any subsequent assignment or sublease. This prohibition against assignment and subletting shall be construed to include a prohibition against assignment or subletting by operation of law. Notwithstanding any assignment or subletting with Lessor's consent, Lessee shall remain fully liable on this Lease and shall not be released from its obligations hereunder. In the event Lessor shall consent to a sublease or assignment under this Paragraph, Lessee shall pay Lessor's reasonable attorneys' fees incurred in connection with giving such consent. In addition, Lessee shall pay to Lessor with its regularly scheduled rent payments 75% of all sums collected by Lessee from a sublessee or assignee which are in excess of the rent and charges then owing to Lessor pursuant to this Lease.

17.0 DAMAGE OR DESTRUCTION.

17.1 Right To Terminate On Destruction Of Premises. Lessor shall have the right to terminate this Lease if, during the Term, the Premises are damaged to an extent exceeding 33% of the then reconstruction cost of the Premises as a whole. Lessor shall also have the right to terminate this Lease if any portion of the Premises is damaged by an uninsured peril. In either case, Lessor may elect to so terminate by written notice to Lessee delivered within 30 days of the happening of such damage.

17.2 Repairs By Lessor. If Lessor shall not elect to terminate this Lease pursuant to Paragraph 17.1, Lessor shall, immediately upon receipt of insurance proceeds paid in connection with such casualty, but in no event later than 90 days after such damage has occurred, proceed to repair or rebuild the Premises, on the same plan and design as existed immediately before such damage or destruction occurred, subject to such delays as may be reasonably attributable to governmental restrictions or failure to obtain materials or labor, or other causes beyond the control of Lessor. Lessee shall be liable for the repair and replacement of all fixtures, leasehold improvements, furnishings, merchandise, equipment and personal property not covered by the property insurance described in Paragraph 6.2.

17.3 Reduction Of Rent During Repairs. In the event Lessee is able to continue to conduct its business during the making of repairs, the rent then prevailing will be equitably reduced in the proportion that the unusable part of the Premises bears to the whole thereof for the period that repairs are being made. No rent shall be payable while the Premises are wholly unusable due to casualty damage.

17.4 Arbitration. Any controversy or claim arising out of or relating to this Paragraph shall be settled by arbitration in accordance with the rules of the American Arbitration Association as then in effect, and judgment upon the award rendered by the arbitration may be entered in any court having jurisdiction. The expenses of arbitration shall be borne by the parties as allocated by the arbitrators. The party desiring arbitration shall serve notice upon the other party, together with designation of the first party's arbitrator.

17.5 Lessor's Overriding Right To Terminate. Notwithstanding anything to the contrary herein, if the discounted present value of the rent due hereunder for the balance of the Term, using as the discount rate the prime commercial lending rate at the Bank of America as of the date Lessor is to commence repairs pursuant to Paragraph 17.2 hereof, is less than the cost of repairing the damage to the Premises, Lessor may at its option terminate this Lease upon 10 days' written notice.

18.0 MISCELLANEOUS PROVISIONS.

18.1 Waiver. No waiver of any breach of any of the covenants or conditions of this Lease shall be construed to be a waiver of any other breach or to be a consent to any further or succeeding breach of the same or other covenant or condition. The subsequent acceptance of rent hereunder by Lessor shall not be deemed to be a waiver of any preceding breach by Lessee of any term, covenant or condition of this Lease, other than the failure of Lessee to pay the particular rent so accepted, regardless of Lessor's knowledge of such preceding breach at
the time of acceptance of such rent.

18.2 Successors And Assigns. Except as otherwise provided herein, the provisions hereof shall be binding upon and shall inure to the benefit of the heirs, personal representatives, successors and assigns of the parties.

18.3 Notices. All notices, requests, demands and other communications required or permitted to be given hereunder shall be in writing and either personally delivered or sent by certified mail, return receipt requested, postage prepaid, properly addressed to the other party at the address set forth next to its signature below, or at such other address or addresses as may from time to time be designated in like manner by one party to the other. Any such notice shall be deemed given when personally delivered or on the date indicated on the Post Office's certified mail receipt.

18.4 Partial Invalidity. If for any reason any provision of this Lease shall be determined to be invalid or inoperative, the validity and effect of the other provisions hereof shall not be affected thereby.

18.5 Number And Gender. All terms in this Lease shall be construed to mean either the singular or the plural, masculine, feminine or neuter, as the situation may demand.

18.6 Descriptive Headings. The headings used herein and in any of the documents attached hereto as schedules, lists or exhibits are descriptive only and for the convenience of identifying provisions, and are not determinative of the meaning or effect of any such provisions.

18.7 Time Is Of The Essence. In all matters time is of the essence in the performance of all obligations under this Lease.

18.8 Entire Agreement. This Lease and the documents attached hereto as schedules, lists or exhibits, constitute the entire agreement and understanding between the parties with respect to the subject matters herein and therein, and supersede and replace any prior agreements and understandings, whether oral or written, between and among them with respect to the lease of the Premises, rental therefor, use thereof and all other such matters. The provisions of this Lease may be waived, altered, amended or repealed in whole or in part only upon the written consent of Lessor and Lessee.

18.9 Memorandum Of Lease. Lessor and Lessee mutually agree that they will not file or record a copy of this Lease, but that in the event Lessor or Lessee requests a recording, Lessor and Lessee shall execute and acknowledge a memorandum of this Lease in a form approved by the parties setting forth in said memorandum the description of the Premises, the date of the Lease, the Commencement Date and the date of termination. Said memorandum of Lease may be recorded in the Recorder's Office of the County in which the Premises are located.

18.10 Applicable Law. This Lease Agreement construed and interpreted in accordance with the laws of the State of California.

18.11 Corporate Authority. Each individual executing this Lease on behalf of a corporation represents and warrants that he is duly authorized to execute and deliver this Lease on behalf of the corporation in accordance with a duly adopted resolution of the Board of Directors of the corporation, and that this Lease is binding upon said corporation in accordance with its terms.

18.12 Litigation Expense. If any party shall bring an action against any other party hereto by reason of the breach of any covenant, warranty, representation or condition hereof, or otherwise arising out of this Agreement or any schedule, list or exhibit hereto, whether for declaratory or other relief, the prevailing party in such suit shall be entitled to such party's costs of suit and attorneys' fees, which shall be payable whether or not such action is prosecuted to judgment.

18.13 Subordination Of Leasehold. Lessee agrees that this Lease is and shall be, at all times, subject and subordinate to the lien of any mortgage or other encumbrances which Lessor may create against the Premises including all renewals, replacements and extensions thereof; provided, however, that regardless of any default under any such mortgage or encumbrance or any sale of the Premises under such mortgage, so long as Lessee performs all covenants and conditions of this Lease and continues to make all payments hereunder, this Lease and Lessee's possession and rights hereunder shall not be disturbed by the mortgagees or anyone claiming under or through such mortgages. Lessee agrees to execute any and all instruments in writing which may be required by Lessor to subordinate Lessee's rights to the lien of such mortgage.

18.14 Lessee's Certificate. Within 15 days following Lessor's request, Lessee shall complete, execute and

deliver to Lessor a Lessee's Certificate, setting forth the information requested therein including, but not limited to (a) certification that this
Lease is unmodified and in full force and effect (or if modified, stating the nature of such modification and certifying that this Lease as so modified is in full force and effect) and the date to which the rental and other charges are paid in advance, if any, (b) acknowledgement that there are not, to Lessee's knowledge, any uncured defaults on the part of Lessor hereunder, or specifying such defaults if any are claimed and (c) setting forth the date of commencement and expiration of the Term. Failure of Lessee to deliver such Certificate within said 15 days shall be deemed to be an acknowledgement that Lessor is not in default under the Lease, and that the terms of the Lease have not been modified or supplemented in any way. It is intended that such Certificate may be relied upon by any prospective purchaser, lender or assignee of any lender of the Premises.

18.15 Attornment. Lessee shall, in the event of any sale of the Premises or if proceedings are brought for the foreclosure of, or in the event of exercise of the power of sale under, any mortgage, installment land contract or deed of trust made by Lessor covering the Premises, attorn to the mortgagee or the purchaser upon any such foreclosure or sale and recognize such mortgagee or purchaser as Lessor under this Lease, provided that Lessee's possession and rights hereunder shall not be disturbed by the mortgagee or purchaser.

18.16 Day. As used herein, the term "day" shall mean, unless otherwise specifically stated, a calendar day.

18.17 Brokers. The only broker's fees in connection with this Lease shall be payable by Lessor to Coldwell Banker. Each party hereby indemnifies and agrees to hold the other harmless from any and all other broker fees.

IN WITNESS WHEREOF, the parties have executed this Lease on the day and year first written above.

LESSOR:                                   LESSEE:

SEVENTH STREET PROPERTIES II              XOMA CORPORATION
1120 Nye Street, Suite 400
San Rafael, CA 94915

(Address)

By /s/ Richard K. Robbins                 By /s/ Steven C. Mendell
(Signature)                                    (Signature)
Richard K. Robbins                        Steven C. Mendell/ CEO
(Print Name & Title)                       (Print Name & Title)

DESCRIPTION OF PREMISES AND PROPERTY

(Drawing of Building inserted here)

WORK TO BE PERFORMED BEFORE OCCUPANCY OF PREMISES

Lessor shall deliver the Premises to Lessee in shell condition. As used herein, "shell condition" shall mean that the Premises shall include all of the following: exterior walls with windows and doors, roof structure and roofing, concrete slab, exterior painting, fire sprinklers, roof drainage, standard building utilities brought to the Premises but not distributed, male and female toilets, landscaping, parking lot, storm sewers, sidewalks, electrical secondary cable and conduit, site lighting, roof hatch and ladder, and rock below slab.

Lessee shall construct all tenant improvements to be placed on the Premises in accordance with the working drawings approved in writing by Lessor. Lessee shall be entitled to an allowance of $15.00 per square foot of leaseable space (the "Allowance") for the construction of the tenant improvements and the preparation of the working drawings therefor. If the cost of the tenant improvements exceeds the Allowance, such excess shall be borne by Lessee, at its own expense. The Allowance shall be paid to Lessee in cash within 15 days of occupancy of the Premises by Lessee and approval of the tenant improvements by Lessor.
July 22, 1987

Mr. Ho Humphrey
Xoma Corporation
2910 Seventh Street
Emeryville, CA 94770

RE: BUILDINGS C, E AND F
LEASES AT AQUATIC PARK CENTER.

Dear Ho:

This will confirm our agreement modifying those certain Leases entered into by Xoma Corporation with Seventh Street Properties II dated July 22, 1987 for certain space within Buildings C, E and F at the Aquatic Park Center. Notwithstanding anything to the contrary in the Leases, if the Commencement Date under one or more of the Leases is later than May 1, 1988, then the first Adjustment Date under Paragraph 4.2 of those Leases for which there is such a delayed Commencement Date shall be changed to that date which is "X" number of days after October 1, 1990. As used above, "X" shall be the number of days falling between May 1, 1988 and the Commencement Date for the Lease. Each Lease shall be considered separately such that if, by way of example only, the Commencement Date for Buildings C and E are before May 1, 1988 and the Commencement Date for Building F is after May 1, 1988, then only the Adjustment Date for Building F shall be changed as set forth above. If an Adjustment Date is changed, then subsequent Adjustment Dates for such Lease shall be each three years thereafter on the same date as such new Adjustment Date.

Except as set forth above, the Leases remained unchanged and in full force and effect. Please indicate your acceptance of the terms of this letter by signing a copy of this letter and returning it directly to the undersigned.

SEVENTH STREET PROPERTIES II

By /s/ Richard K. Robbins
------------------------------
RICHARD K. ROBBINS,
General Partner

The terms set forth above are hereby agreed to on July 22, 1987.

XOMA CORPORATION

By /s/ Steven C. Mendell
- ----------------------------
(Signature)

Chairman/ CEO
(Print Name & Title)
<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>10.1</td>
<td>Use</td>
</tr>
<tr>
<td>10.2</td>
<td>Suitability</td>
</tr>
<tr>
<td>10.3</td>
<td>Uses Prohibited</td>
</tr>
<tr>
<td>10.3.1</td>
<td>Rate of Insurance</td>
</tr>
<tr>
<td>10.3.2</td>
<td>Interference with Other Tenants</td>
</tr>
<tr>
<td>10.3.3</td>
<td>Applicable Laws</td>
</tr>
<tr>
<td>10.3.4</td>
<td>Auctions</td>
</tr>
<tr>
<td>11.</td>
<td>DEFAULTS AND REMEDIES</td>
</tr>
<tr>
<td>11.1</td>
<td>Tenant Default</td>
</tr>
<tr>
<td>11.2</td>
<td>Landlord's Remedies</td>
</tr>
<tr>
<td>11.3</td>
<td>Landlord's Default</td>
</tr>
<tr>
<td>12.</td>
<td>EXPIRATION OR TERMINATION</td>
</tr>
<tr>
<td>12.1</td>
<td>Surrender of Possession</td>
</tr>
<tr>
<td>12.2</td>
<td>Holding Over</td>
</tr>
<tr>
<td>12.3</td>
<td>Voluntary Surrender</td>
</tr>
<tr>
<td>13.</td>
<td>CONDEMNATION OF PREMISES</td>
</tr>
<tr>
<td>13.1</td>
<td>Total Condemnation</td>
</tr>
<tr>
<td>13.2</td>
<td>Partial Condemnation</td>
</tr>
<tr>
<td>13.3</td>
<td>Award to Tenant</td>
</tr>
<tr>
<td>13.4</td>
<td>Waiver of Partial Termination Rights</td>
</tr>
<tr>
<td>14.</td>
<td>ENTRY BY LANDLORD</td>
</tr>
<tr>
<td>15.</td>
<td>LIABILITY LIMITATION AND INDEMNIFICATION</td>
</tr>
<tr>
<td>15.1</td>
<td>Limitation of Landlord's Liability</td>
</tr>
<tr>
<td>15.2</td>
<td>Limitation of Enforcement of Judgments</td>
</tr>
<tr>
<td>16.</td>
<td>ASSIGNMENT AND SUBLETTING</td>
</tr>
<tr>
<td>16.1</td>
<td>Generally</td>
</tr>
<tr>
<td>16.2</td>
<td>Tenant's Payments</td>
</tr>
<tr>
<td>17.</td>
<td>DAMAGE OR DESTRUCTION</td>
</tr>
<tr>
<td>17.1</td>
<td>Right to Terminate on Destruction of Property</td>
</tr>
<tr>
<td>17.2</td>
<td>Repairs by Landlord</td>
</tr>
<tr>
<td>17.3</td>
<td>Reduction of Rent During Repairs</td>
</tr>
<tr>
<td>17.4</td>
<td>Waiver</td>
</tr>
<tr>
<td>17.5</td>
<td>Landlord's Overriding Right to Terminate</td>
</tr>
<tr>
<td>18.</td>
<td>HAZARDOUS MATERIALS</td>
</tr>
<tr>
<td>18.1</td>
<td>Tenant's Obligations</td>
</tr>
<tr>
<td>18.1.1</td>
<td>Restrictions on Hazardous Materials</td>
</tr>
<tr>
<td>18.1.2</td>
<td>Applicable Regulations</td>
</tr>
<tr>
<td>18.1.3</td>
<td>Restoration</td>
</tr>
<tr>
<td>18.1.4</td>
<td>Removal</td>
</tr>
<tr>
<td>18.1.5</td>
<td>Tenant's Written Confirmation</td>
</tr>
<tr>
<td>18.1.6</td>
<td>Tenant's Duty to Notify Landlord</td>
</tr>
<tr>
<td>18.2</td>
<td>Landlord's Rights</td>
</tr>
<tr>
<td>18.3</td>
<td>Tenant's Duty to Indemnify</td>
</tr>
<tr>
<td>18.4</td>
<td>Right of Entry</td>
</tr>
<tr>
<td>18.5</td>
<td>Definitions</td>
</tr>
<tr>
<td>18.5.1</td>
<td>&quot;Hazardous Material&quot;</td>
</tr>
<tr>
<td>18.5.2</td>
<td>&quot;Environmental Health and Safety Requirement&quot;</td>
</tr>
<tr>
<td>18.6</td>
<td>Allocation of Responsibilities</td>
</tr>
<tr>
<td>18.7</td>
<td>Inspections</td>
</tr>
<tr>
<td>18.8</td>
<td>Survival</td>
</tr>
<tr>
<td>18.9</td>
<td>Storage Tanks</td>
</tr>
<tr>
<td>18.10</td>
<td>Landlord's Obligations</td>
</tr>
<tr>
<td>18.10.1</td>
<td>Restrictions on Hazardous Materials</td>
</tr>
<tr>
<td>18.10.2</td>
<td>Compliance With Regulations</td>
</tr>
<tr>
<td>18.10.3</td>
<td>Restoration</td>
</tr>
<tr>
<td>18.10.4</td>
<td>Duty to Notify Tenant</td>
</tr>
<tr>
<td>18.10.5</td>
<td>Landlord's Indemnity of Tenant</td>
</tr>
<tr>
<td>19.</td>
<td>MISCELLANEOUS PROVISIONS</td>
</tr>
<tr>
<td>19.1</td>
<td>Waiver</td>
</tr>
<tr>
<td>19.2</td>
<td>Successors and Assigns</td>
</tr>
<tr>
<td>19.3</td>
<td>Notices</td>
</tr>
<tr>
<td>19.4</td>
<td>Partial Invalidity</td>
</tr>
<tr>
<td>19.5</td>
<td>Number and Gender</td>
</tr>
<tr>
<td>19.6</td>
<td>Descriptive Headings</td>
</tr>
<tr>
<td>19.7</td>
<td>Time</td>
</tr>
<tr>
<td>19.8</td>
<td>Entire Agreement</td>
</tr>
<tr>
<td>19.9</td>
<td>Memorandum of Lease</td>
</tr>
<tr>
<td>19.10</td>
<td>Applicable Law</td>
</tr>
<tr>
<td>19.11</td>
<td>Authority</td>
</tr>
<tr>
<td>19.12</td>
<td>Litigation Expense</td>
</tr>
<tr>
<td>19.13</td>
<td>Subordination of Leasehold</td>
</tr>
<tr>
<td>19.14</td>
<td>Estoppel Certificate</td>
</tr>
<tr>
<td>19.15</td>
<td>Attornment</td>
</tr>
<tr>
<td>19.16</td>
<td>Compliance With Lender's Requests</td>
</tr>
<tr>
<td>19.17</td>
<td>Rules and Regulations</td>
</tr>
<tr>
<td>19.18</td>
<td>Delete</td>
</tr>
<tr>
<td>19.19</td>
<td>Submission of Lease</td>
</tr>
</tbody>
</table>
19.20 Arbitration of Disputes
19.21 Venue
19.22 Representation by Counsel
19.23 Brokerage
19.24 Parking
19.25 Use of Amenities
19.26 Signs
19.27 Cooperation
19.28 First Right of Refusal

20. TERMINATION OF OLD LEASE

Exhibit A & B

OFFICE LEASE

This Lease is made and entered into as of March 25, 1992, between 7th Street Property General Partnership ("Landlord") and Xoma Corporation, a corporation authorized to do business in California ("Tenant").

1. DEFINITIONS.

Words not defined in this section or elsewhere in this Lease have their customary meanings.

1.1. "Term" is 11 years and six months beginning with the Commencement Date and continuing through September 30, 2003.

1.2. "Commencement Date" is the first day of the Term which is April 1, 1992.

1.3. "Base Monthly Rent" means $1.85 per square foot of the Premises, subject to adjustment as provided in this Lease.

1.4. "Premises" means, subject to adjustment, the part of the Building leased to Tenant for exclusive use, consisting of approximately 29,584 square feet as shown in Exhibit A.

1.5. "Building" means the structure in which the Premises are located. The Property's address is: 2910 Seventh Street, Berkeley, California;

1.6. "Property" includes the Building and land on which it stands;

1.7. "Agents" includes employees, agents, guests, invitees and, when applied to Tenant, subtenants and assignees;

1.8. "Day" and "Month" mean calendar day/month;

1.9. "Lease Year" means consecutive 12 month periods starting on the Commencement Date;

1.10. "Common Area" means parts of the Building not for exclusive use by Tenants including halls, lobby, elevators, rest rooms, roof, exterior walls and structural components;

1.11. "Tax" means any form of assessment, license, fee, rent, tax, levy, penalty or tax imposed by any authority having direct or indirect taxing powers (including Improvement Districts) against Landlord's interest in the Property or personal property used in the operation of the Property and/or Landlord's business of renting the Property; notwithstanding the foregoing, the following shall be excluded from Tax any time that term is used to refer to payments to be made by Tenant: all property tax increases based upon the construction of new improvements on the Property which improvements have not been agreed to by Tenant (nothing in the preceding sentence shall be construed to require that Landlord obtain Tenant's approval prior to construction of any improvements upon the Property) and one half (50%) of the amount of any property tax increase based upon a reassessment of the Property upon a change of ownership of the Property;

1.12. "Alteration" includes additions, deletions, modifications and changes including utility installations such as ducting, power panels, fixtures, heaters, conduit and wiring;

1.13. "Operating Expenses" are all expenses for maintenance, servicing, management and repair of the Property and the Premises inclusive of Taxes and insurance premiums. In the event that any Operating Expenses are incurred for less than one full calendar year during the Base Year, the expense(s) shall be annualized for calculations respecting Base Year Operating Expenses. Operating Expenses shall not be interpreted to include capital expenses for structural modification of the Building;

1.14. "Base Year" for matters other than Taxes is the calendar year in which Tenant executes this Lease and for Tax matters is the Tax year in which Tenant executes this Lease;
1.15. Tenant’s “Pro Rata Share” of any item or expense means the total cost of any such item or expense multiplied by a fraction, the numerator of which is the total floor area of the Premises and the denominator of which is the total floor area of the Building exclusive of the Common Area. An appropriate adjustment to Tenant’s Pro Rata Share shall be made if the actual square footage of the Premises is other than as set forth in paragraph 2.1 or the square footage of the Premises or the Property changes. Unless adjusted, Tenant’s Pro Rata Share shall be 73.3%.

1.16. The “floor area of the Premises” is measured from the exterior surface of exterior walls and the center of walls separating the Premises from adjacent premises or common areas;

1.17. The “floor area of the Building” is measured from the exterior surface of exterior walls including common and core areas;

1.18. "consent" and "approval" require reasonable conduct by the acting party;

1.19. "Regulation" includes all laws, statutes, regulations and requirements adopted by duly constituted public authorities now in force or hereafter adopted;

1.20. "Condemnation" includes taking by exercise of governmental power or sale or transfer to any condemnor under threat of or during the pendency of condemnation proceedings.

2. PREMISES.

2.1. Description. Landlord hereby leases the Premises to Tenant for its exclusive use and occupancy subject to the provisions of this Lease. In addition to the square footage described above, Tenant shall be deemed to occupy an additional 11.1% of such square footage (an additional 3,284 square feet for a total of 32,868 square feet) for purposes of the calculation of Base Monthly Rent and the Pro Rata Share calculations. Said 11.1% represents Tenant’s share of the rental charges for the Common Area. For all calculations required under this Lease respecting proration of expenses, costs or charges, the Premises shall be deemed to consist of the square footage of the Premises augmented by the square footage of the Common Area attributable to Tenant pursuant to this paragraph (sometimes hereafter "Tenant’s Common Area"). Tenant shall have a right to the non-exclusive use of the Common Area in conjunction with all other tenants of the Property.

2.2. Tenant Improvements. The obligations of Landlord and Tenant to perform the work and supply material and labor to prepare the Premises for occupancy are set forth in Exhibit B to this Lease. Landlord and Tenant shall expend all funds and do all acts required of them in Exhibit B and shall have the work performed promptly and diligently in a workmanlike manner. Tenant shall not commence the construction of any improvements to be undertaken by Tenant until Landlord has approved in writing the final drawings for said improvements.

2.3. Possession. Tenant is already in possession of the Premises. Tenant occupies a portion of the Premises under the terms of an existing Lease agreement effective October 1, 1987 (hereafter the "Old Lease") between Tenant as "Lessee" and Landlord (incorrectly named as Seventh Street Properties) as "Lessor". Tenant occupies the remainder of the Premises under the provisions of a month to month sublet from Sybase which right of occupancy terminated upon the expiration of the Sybase lease on December 31, 1991. Tenant shall remain in possession of the Premises under the terms of this Lease.

3. TERM.

3.1. Term. The Lease shall commence on the Commencement Date and shall continue thereafter for the duration of the Term, unless sooner terminated pursuant to this Lease.

3.2. Delay in Commencement. If Landlord cannot deliver possession to Tenant of that portion of the Premises not currently occupied by Tenant on the Commencement Date, such failure shall not affect the validity of this Lease, extend the Term nor render Landlord liable to Tenant for any loss resulting therefrom. If possession of such portion of the Premises is not delivered to Tenant on the Commencement Date for any reason other than a delay attributable to Tenant and its Agents, Tenant shall not be obligated to pay rent on that portion of the Premises not delivered to Tenant until Landlord tenders possession of the Premises to Tenant. After 120 Days following the Commencement Date have elapsed, if Landlord still cannot deliver possession of any portion of the Premises to Tenant for any reason other than a delay attributable to Tenant and its Agents, Tenant shall have the right to terminate this Lease on written notice delivered to Landlord. In such event, Tenant shall have no further
Lease, Landlord shall have no obligation to pay damages or adjustments to Tenant for delays outside of Landlord's control, including, without limitation, conduct of Tenant and its Agents, acts of God, war, inclement weather and/or labor strikes (including strikes affecting the supply of labor and/or materials). Tenant's acceptance of possession of the Premises shall constitute an irrevocable waiver of Tenant's right to terminate under the provisions of this paragraph.

4. RENT.

4.1. Base Monthly Rent. On the Commencement Date and on the first Day of each Month of the Term, Tenant shall pay to Landlord, in advance, in United States dollars, as Base Monthly Rent for the Premises, the per square foot rental rate set forth in paragraph 1.3 (as adjusted pursuant to paragraph 4.2) multiplied by the square footage of the Premises as adjusted pursuant to paragraph 2.1. The initial Base Monthly Rent (inclusive of Common Area allocated to Tenant pursuant to paragraph 2.1 of this Lease) shall be $60,805.80. If the actual square footage of the Premises is determined to be other than the unadjusted amount set forth in paragraph 2.1, the Base Monthly Rent shall be adjusted in proportion to the difference between the actual floor area and the unadjusted amount set forth in paragraph 2.1. If alterations to the Premises increase the square footage of the Premises, the Base Monthly Rent shall be proportionately adjusted. If the Commencement Date is not the first Day of a Month, such installment shall be applied per diem against payment of the rent from the date rent commences until the first Day of the next succeeding Month. Any unused portion of said amount shall be applied against payment of the rent for the following Month, and the balance of the rent for that Month shall be due on the first Day thereof.

4.2. Base Monthly Rent Adjustment. The Base Monthly Rent payable under this Lease shall be adjusted pursuant to the provisions of this paragraph during the Term. All adjustments to the Base Monthly Rent shall be determined by reference to the Consumer Price Index for All Urban Consumers, San Francisco-Oakland-San Jose, California, All Items, published by the U.S. Bureau of Labor Statistics (the "C.P.I."). Such increases shall be made as of each of the third, sixth and ninth anniversaries of the Commencement Date (each such anniversary is sometimes hereafter referred to as an "Adjustment Date"). In the event that the Term is extended, in the absence of any contrary agreement of the parties, the rent will continue to adjust every anniversary of the Commencement Date divisible evenly by three (3, 6, 9, 12, etc.) Effective upon each Adjustment Date, the Base Monthly Rent shall be increased by the percentage, if any, by which the C.P.I. for the third Month prior to that Adjustment Date exceeds the C.P.I. for the third Month prior to the immediately preceding Adjustment Date (for the second and each subsequent Adjustment Date). If the C.P.I. is not published for any Month herein specified, increases in Base Monthly Rent shall be determined by reference to the C.P.I. available for the Month closest, but prior to, such Month. If the C.P.I ceases to be published prior to expiration of this Lease, the Base Monthly Rent shall be determined by using such comparable measure of the purchasing power of the consumer dollar as may reasonably be selected by Landlord and Tenant. Calculation of the adjusted Base Monthly Rent shall be computed as follows: the rent payable for the Month immediately preceding the Adjustment Date shall be multiplied by a fraction, the denominator of which shall be the C.P.I. for the third Month prior to the Commencement Date (the case of the first adjustment) or for the third Month prior to the last Adjustment Date (for the second and subsequent adjustments) and the numerator of which shall be the C.P.I. for the third Month next preceding the current Adjustment Date. The rent so calculated shall be the Calculated Adjustment to the Base Monthly Rent. Notwithstanding any other provision of this Lease shall such new Base Monthly Rent (the Calculated Adjustment) be less than the Base Monthly Rent payable for the Month immediately preceding the Adjustment Date. Notwithstanding any other provision of this Lease, the Calculated Adjustment shall never result in an annual increase of less than 2.5% or more than 5% of the Base Monthly Rent used for purposes of determining the then current Calculated Adjustment to the Base Monthly Rent. The minimum and maximum adjustments shall be cumulative so that the Base Monthly Rent shall be increased by not less than 7.5% nor more than 15% as of each Adjustment Date.

4.4. Additional Rent. Notwithstanding any other provision of this Lease, if, during any Lease Year, the Property's Operating Expenses exceed Base Year Operating Expenses, Tenant shall pay to Landlord, in addition to all other payments due under this Lease, Tenants' Pro Rata Share of the amount by which actual Operating Expenses for that year exceed Base Year Operating Expenses (the "Excess Operating Expenses"). If during any Lease Year the amount by which Tax and/or insurance premiums paid during such Lease Year exceed the amount paid for
such items in the Base Year, Tenant shall pay to Landlord as additional rent the, its Pro Rata Share of the amount of the excess payments for such item over the Base Year payments. Tenant's obligation to pay Excess Operating Expenses shall be effective in every year during the Term. Nothing in this paragraph shall entitle Landlord to double charge Tenant for Tenant's pro rata share of Tax or insurance payments.

4.5. Base Year Operating Expenses. Base Year Operating Expenses are actual Operating Expenses incurred for the Property during the Base Year. Within three months after the end of the Base Year, or as soon thereafter as may be practical, Landlord shall deliver to Tenant a list of Base Year Operating Expenses (the "Schedule"). The Schedule will fix the amount of the Base Year Operating Expenses for all purposes under this Lease. If Tenant requests, Landlord will provide Tenant with verification of amounts shown in the schedule. If Landlord, for any reason, neglects or fails to timely provide the Schedule to Tenant, such failure shall not be a default under or breach of this Lease, neither shall it be deemed a waiver of any rights of Landlord to collect Tenant's Pro Rata Share of Excess Operating Expenses, nor shall it excuse Tenant's performance of any obligations under this Lease. Prior to the Commencement of each Lease Year, Landlord shall deliver to Tenant Landlord's good faith estimate of Excess Operating Expenses for the current Lease Year (the "Estimated Excess"). Tenant shall pay its Pro Rata Share of Estimated Excess in equal monthly installments throughout the then current Lease Year. Landlord shall annually account for Excess Operating Expenses and Tenant's payment of its Pro Rata Share of Excess Operating Expenses (the "Accounting"). Forthwith upon the preparation of the Accounting, Landlord shall return to Tenant additional rent paid against Tenant's Pro Rata Share of the Estimated Excess which exceeds Tenant's Pro Rata Share of the actual Excess Operating Expenses for the year. Forthwith upon the delivery to Tenant of the Accounting, Tenant shall pay to Landlord any amount by which Tenant's Pro Rata Share of Excess Operating Expenses for the year exceeds Tenant's payments against its Pro Rata Share. Landlord may prepare the Accounting on the basis of the Lease Year or the calendar year; if Landlord uses the calendar year, an adjustment will be made for any portion of the calendar year that this Lease was not in effect. Landlord estimates Base Year Operating Expenses for the items listed below as follows: Property Taxes and Business Licenses - $49,296; Property and Liability Insurance - $8676; Maintenance $27,600; Management Fees - $37,200, Landscaping and Security Services - $28,008. Each of the foregoing estimates reflects the anticipated expenses for the Base Year. Landlord makes no warranty as to the accuracy of such numbers; nor shall such numbers serve as a minimum or maximum for such items for purposes of calculating the Base Year Operating Expenses.

4.6. Security Deposit. Concurrent with Tenant's execution of this Lease, Tenant shall deposit with Landlord $60,805.80 (the "Deposit"). Landlord shall hold the Deposit as security for Tenant's faithful performance of all terms of this Lease. Landlord may, at its option, apply the Deposit, or any portion of the Deposit, directly in the payment of rent or other charge hereunder, to repair damages to the Premises caused by Tenant and its Agents, and/or clean the Premises upon termination. If any portion of the Deposit is so used or applied, Tenant shall, within 10 Days after written demand therefor, deliver cash to Landlord in an amount sufficient to restore the Deposit to its original amount. Tenant's failure to do so shall be a default under the terms of this Lease and Tenant shall pay to Landlord as additional rent Tenant's Pro Rata Share of Excess Operating Expenses, nor shall it excuse Tenant's performance of any obligations under this Lease, either. Prior to the Commencement of each Lease Year, Landlord shall deliver to Tenant Landlord's good faith estimate of Excess Operating Expenses for the current Lease Year (the "Estimated Excess"). Tenant shall pay its Pro Rata Share of Estimated Excess in equal monthly installments throughout the then current Lease Year. Landlord shall annually account for Excess Operating Expenses and Tenant's payment of its Pro Rata Share of Excess Operating Expenses (the "Accounting"). Forthwith upon the preparation of the Accounting, Landlord shall return to Tenant additional rent paid against Tenant's Pro Rata Share of the Estimated Excess which exceeds Tenant's Pro Rata Share of the actual Excess Operating Expenses for the year. Forthwith upon the delivery to Tenant of the Accounting, Tenant shall pay to Landlord any amount by which Tenant's Pro Rata Share of Excess Operating Expenses for the year exceeds Tenant's payments against its Pro Rata Share. Landlord may prepare the Accounting on the basis of the Lease Year or the calendar year; if Landlord uses the calendar year, an adjustment will be made for any portion of the calendar year that this Lease was not in effect. Landlord estimates Base Year Operating Expenses for the items listed below as follows: Property Taxes and Business Licenses - $49,296; Property and Liability Insurance - $8676; Maintenance $27,600; Management Fees - $37,200, Landscaping and Security Services - $28,008. Each of the foregoing estimates reflects the anticipated expenses for the Base Year. Landlord makes no warranty as to the accuracy of such numbers; nor shall such numbers serve as a minimum or maximum for such items for purposes of calculating the Base Year Operating Expenses.

4.7. Late Charges. Tenant hereby acknowledges that late payment by Tenant to Landlord of rent or other sums due hereunder will cause Landlord to incur costs not contemplated by this Lease, the exact amount of which is extremely difficult to ascertain. Such costs include, without limitation, processing, accounting charges and late charges which may be imposed on Landlord by the terms of any mortgage or trust deed covering the Property. Accordingly, if any installment of Base Monthly Rent or any other sum due from Tenant shall not be received by Landlord within 5 Days after the amount is due, Tenant shall pay to Landlord a late charge equal to 5% of the overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Landlord will incur by reason of Tenant's late payment. Landlord's acceptance of a late charge shall not constitute a waiver of Tenant's default respecting the overdue amount or prevent Landlord from exercising any of the remedies available hereunder.

5. TAXES.

5.1. Real and Personal Property Taxes. Landlord shall pay all real property Tax and all Tax on personal property owned by Landlord relating to the Premises and the Property. Nothing in this paragraph shall be so construed as to modify
Tenant's obligation to pay to Landlord Tenant's Pro Rata Share of any Tax in excess of the Tax imposed during the Base Year.

5.2. Taxes on Tenant's Property. Tenant shall pay before delinquency all Tax levied or assessed on Tenant's fixtures, improvements, furnishings, merchandise, equipment and personal property in and on the Premises, whether or not affixed to the Property. If at any time after any Tax has become due or payable, Tenant neglects to pay such Tax, Landlord shall be entitled, but not obligated, to pay the same at any time thereafter and such amount so paid by Landlord shall be repaid by Tenant to Landlord with Tenant's next rent installment together with interest at the highest rate allowable by law. Notwithstanding the foregoing, Tenant shall have the right to contest personal property Tax assessed against Tenant.

6. INSURANCE.

Nothing in this section shall be construed to modify Tenant's obligation to pay Tenant's Pro Rata Share of insurance premiums in excess of the Base Year premiums. Except as otherwise provided by this Lease, Tenant shall pay its Pro Rata Share of all deductibles.

6.1. Property Insurance. Landlord shall keep the Property insured for up to 100% of replacement value against damage by fire and risks normally included by the insurance industry in the term "All Risk". Any recovery received from such insurance shall belong to Landlord. Tenant shall have no claim to any portion of any recovery under such policies.

6.2. Fixtures. Tenant shall, at its sole expense, maintain insurance with "All Risk" coverage on all fixtures, leasehold improvements, furnishings, merchandise, equipment and personal property in or on the Premises in place as of the date hereof and installed hereafter. Tenant shall maintain at its sole cost any other types of insurance Tenant deems appropriate.

6.3. Landlord's Liability Insurance. During the Term, Landlord shall maintain a policy or policies of comprehensive general liability insurance with combined single limit coverage of at least $2 million, insuring Landlord (and others designated by Landlord, but excluding Tenant) against liability for bodily injury, death and property damage on or about the Property.

6.4. Tenant's Liability Insurance. Tenant shall, at its sole expense, maintain for the mutual benefit of Landlord and Tenant, comprehensive general liability and property damage insurance against claims for bodily injury, death or property damage occurring in or about the Premises or arising out of the use or occupancy of the Premises, with combined single limit coverage of not less than $2 million. Such insurance shall include, without limitation, products liability coverage for liability arising from the consumption of any food or beverages sold at or from the Premises, and so-called host liquor and dram shop liability coverage from liability arising from the consumption of alcoholic beverages consumed at or sold from the Premises. The limits of such insurance shall not limit Tenant's liability. Tenant shall furnish to Landlord prior to the Commencement Date, and at least 30 Days prior to the expiration date of any policy, certificates indicating that the liability insurance required of Tenant is in full force and effect, that Landlord has been named as an additional insured, and that no such policy will be cancelled unless 30 Days' prior written notice of cancellation has been given to Landlord. Said policies shall provide that Landlord, as an additional insured, may recover for any loss suffered by Landlord by reason of Tenant's negligence, and shall include a broad form liability endorsement. Except as may be otherwise approved by Landlord in writing prior to the issuance of such insurance policy, all insurance policies which Tenant is required to obtain under the provisions of this Lease shall be obtained from companies with a general policy rating of A+ or better as set forth in the most current issue of "Best Insurance Guide" and a "AAA" rating by either Moody's Rating Service or Standard & Poor's Rating Service. All insurance policies obtained by Tenant pursuant to the requirement of this Lease shall be in a form satisfactory to Landlord.

6.5. Subrogation Waiver. Landlord and Tenant hereby release each other and their respective Agents from any and all claims or demands of damage, loss, expense or injury to the Premises, the Property, the furnishings and fixtures and equipment or inventory or other property of either Landlord or Tenant in, about or upon Property, which is caused by or results from perils, events which are the subject of insurance carried by the parties in force at the time of such loss; provided, however, that such waiver shall be effective only to the extent permitted by the insurance covering such loss and to the extent insurance coverage is in place. Each party shall cause each insurance policy it obtains to provide that the insurer waives all right of recovery by way of subrogation against either party in connection with damage covered by such policy.

6.6. Indemnification. Except in the case of Landlord's intentional misconduct or negligence, Tenant will indemnify Landlord and save it harmless from and against any and all claims, actions, damages, liability and expense in
connection with loss of life, personal injury and/or damage to property arising from or out of any occurrence in, upon or at the Premises, or the occupancy or use by Tenant of the Property or any part thereof, or occasioned wholly or in part by any acts or omissions of Tenant, its Agents, contractors, employees, servants, licensees or concessionaires or by anyone permitted to be on the Premises by Tenant (collectively "Tenant and its Agents"). If Landlord shall be made a party to any such litigation commenced by or against Tenant, Tenant shall protect and hold Landlord harmless from all claims, liabilities, costs and expenses, and shall pay all costs, expenses and reasonable legal fees incurred by Landlord in connection with such litigation. If Tenant is made a party to any litigation commenced by or against Landlord solely as a result of Landlord's intentional misconduct or Landlord's negligence, Landlord shall defend and indemnify Tenant against the costs of such litigation. As used herein, "litigation" includes arbitration. Nothing in this paragraph shall limit or prevent the application of the doctrine of comparative negligence; and in the event of negligence by Landlord and Tenant, each party shall bear responsibility for a proportionate share of the damages based upon the doctrine of comparative negligence.

6.7. Plate Glass Replacement. If any glass in and about the Premises is damaged or broken by cause other than the acts of Landlord and its Agents, Tenant shall pay Landlord's cost of replacement, provided that such amount shall not exceed the deductible then in effect on Landlord's insurance policy, if any, covering the damaged glass. Nothing herein shall be construed to require Landlord or Tenant to carry plate glass insurance.

6.8. Worker's Compensation. Tenant shall, at its sole expense, keep in force worker's compensation insurance and other insurance to comply with all applicable Regulations.

7. MAINTENANCE.

Nothing in this paragraph shall modify Tenant's obligation to pay its Pro Rata Share of Excess Operating Expenses.

7.1. Premises. Tenant shall repair all damage to the interior of the Premises and keep the Premises in good order, condition and repair. Tenant's obligations include all interior walls, doors, doorways, lighting fixtures, plumbing fixtures, and all windows located in the Premises. Tenant waives the provisions of any law permitting repairs by a tenant at the expense of a landlord, including, without limitation, California Civil Code ss.ss. 1941 through 1946, inclusive.

7.2. Common Areas and Systems. Landlord shall maintain the Common Areas of the Property in good order and condition. Notwithstanding the foregoing, Landlord shall be liable for damages occasioned by the acts of Tenant and its Agents at Tenant's sole expense. Tenant shall notify Landlord, in writing, of necessary repairs or maintenance to Common Areas and systems and Landlord shall make necessary repairs within a reasonable time. Landlord shall keep improvements upon the Property, including all sewer connections, plumbing, heating and cooling appliances, wiring, HVAC and landscaping in good order and repair including the replacement of such improvements, appurtenances and landscaping when necessary. The manner of maintenance and repair of the Property shall be at Landlord's sole and absolute discretion. Maintenance and repairs will be completed in a good and workmanlike manner. Landlord shall make commercially reasonable efforts to perform maintenance and repairs expeditiously and attempt to minimize interference with Tenant's normal business operations. Landlord will furnish garbage collection and janitorial services to the Property in a manner that such services are customarily furnished to comparable buildings in the area.

7.3. Alterations, Changes and Additions by Tenant. Tenant shall make no alteration to any portion of the Property without Landlord's prior written consent. As a condition to consent, Landlord may require that Tenant remove such Alterations at the expiration of the Term and restore the Premises and Property to their condition prior to the Alteration. As a further condition to consent, Landlord may require Tenant to provide Landlord, at Tenant's sole expense, with a lien and completion bond in an amount equal to 100% of the estimated cost of the Alteration to insure Landlord against any liability for mechanic's and materialman's liens and to ensure completion of the Alteration. Each Alteration shall be under the supervision of a competent architect or competent licensed structural engineer and made in accordance with plans and specifications furnished to and approved by Landlord prior to the commencement of work. In the event that any Alteration increases the floor area of the Premises, the Base Monthly Rent and Tenant's Pro Rata Share shall be proportionately increased. Tenant shall provide 14 Days written notice to Landlord of the date on which construction of each Alteration will commence in order to permit Landlord to post a notice of nonresponsibility. Each Alteration shall be constructed in a good and workmanlike manner in accordance with all Regulations relating to such construction. Every Alteration shall remain for the benefit of and become the property of Landlord, unless Landlord requires its removal by giving Tenant written notice at least 30 Days before the date Tenant is to vacate the Premises, in which case, Tenant shall remove the Alteration(s) and restore the
7.4. Use of Plumbing, Electrical and HVAC Systems. Tenant shall not use the plumbing, electrical facilities or heating and air conditioning ("HVAC") systems for any purpose other than that for which they were constructed. Tenant shall bear the expense of repair of any breakage, stoppage or other damage relating to the plumbing, electrical and/or HVAC systems resulting from the actions of Tenant and its Agents.

7.5. Liens. Tenant shall keep the the Property free from liens arising from work performed, material furnished or obligations incurred by Tenant. Tenant shall indemnify, hold harmless and defend Landlord from all liens and encumbrances arising from work performed or materials furnished by or at Tenant's direction and all actions relating to such liens. In the event that Tenant shall not, within 20 Days following Tenant becoming aware of the imposition of any such lien, cause such lien to be released of record by payment or posting of a proper bond, Landlord shall, in addition to all other remedies provided herein and by law, have the right, but not the obligation, to cause the same to be released by such means as it shall deem proper, including payment of the claim. All expenses incurred by Landlord in connection therewith, including attorneys' fees and costs, shall be paid to Landlord by Tenant on demand with interest at the highest rate allowable by law from the date paid by Landlord to the date of Tenant's reimbursement to Landlord. Landlord shall have the right at all times to post and keep posted on the Premises any notices permitted or required by law, or which Landlord shall deem proper, for the protection of Landlord and the Property.

8. MANAGEMENT.

The Wareham Property Group, Inc., an affiliate of Landlord, or another affiliated or unaffiliated third party, will be hired as property manager.

9. UTILITIES AND SERVICES.

Nothing in this paragraph modifies Tenant's obligation to pay its Pro Rata Share of Excess Operating Expenses.

9.1. Premises. Landlord shall make available to the Premises water, electricity for normal office use (including desk top office equipment and normal copying equipment) at all times. Landlord shall provide to the Premises heating, ventilation and air-conditioning ("HVAC") as required in Landlord's reasonable judgment for the comfortable use and occupancy of the Premises during the hours of 8:00 a.m. to 6:00 p.m., Monday through Friday (national holidays excluded) (hereafter "Standard Business Hours"). If Tenant desires HVAC at any other time than Standard Business Hours, Landlord will furnish the same to Tenant on a time and at a reasonable charge to Tenant. If Tenant's use of the Premises requires additional electrical power beyond the power described above ("Supplemental Electrical Power"), Landlord shall make commercially reasonable efforts to make such Supplemental Electrical Power available to Tenant. Tenant shall pay in full all costs associated with modifications to the electrical system servicing the Property to make such Supplemental Electrical Power available. Tenant shall not, without Landlord's written consent, use any device in the Premises which consumes more electricity than is usually furnished or supplied for use of Premises as general office space, as determined by Landlord. Tenant shall not connect any apparatus with electric current except through existing electrical outlets in the Premises. If Tenant uses heat generating equipment in the Premises, which affects the temperature otherwise maintained by the HVAC system, the cost of supplementary air-conditioning units, including the cost of installation, operation and maintenance thereof, shall be paid by Tenant to Landlord within 10 Days after receipt of an invoice. Throughout the Term, Landlord shall pay all "Utility Charges" (defined as charges for gas and electricity provided to the Premises). For each month of the Term, Tenant shall reimburse Landlord for all Utility Charges paid by Landlord respecting the Premises in excess of $.13 per square foot per Month of the Premises ($42,722.84 per month). The reimbursement referred to in the preceding sentence shall be made by Tenant to Landlord on a quarterly basis at the end of each calendar quarter of every year of the Term and within 10 Days of Tenant's receipt of Landlord's billing for such reimbursement. The provisions of this paragraph respecting Tenant's reimbursement of Utility Charges for the Premises supersede all other provisions of this Lease respecting payment of that portion of Operating Expenses consisting of Utility Charges. In the event that the Premises are not separately metered, Landlord shall equitably allocate Utility Charges incurred for the Property in order to determine that portion of the Utility Charges attributable to the Premises in accordance with the provisions of this paragraph.

9.2. Common Areas. Landlord shall provide utilities, landscaping, janitorial and, if Landlord deems it necessary or appropriate, security services for the Common Area.

9.3. Limitation of Liability. Landlord shall not be in breach of this Lease or be liable for damages directly or indirectly resulting from the following conditions: (1) interruption of use of equipment in connection with the furnishing of any of the services described in this section 9; (2) failure to
furnish or delay in furnishing such services caused by accident or any condition or event beyond Landlord's reasonable control; (3) limitation, curtailment or rationing of, or restrictions on, use of water, electricity, gas or any other form of energy serving the Property. Landlord shall not be liable for loss of or injury to property or business, however occurring, through or in connection with or incidental to failure to furnish any such services. Notwithstanding the foregoing, however, in the event of a deprivation of electrical services to the Premises for a continuous period of 30 Days for any reason other than the acts of Tenant and its Agents, Tenant shall have the right to abate the payment of Base Monthly Rent falling due thereafter and until such service is restored to the Premises.

10. USE OF PREMISES.

10.1. Use. Tenant shall use the Premises for general office purposes and for no other purposes whatsoever.

10.2. Suitability. This Lease is subject to all applicable Regulations governing the use of the Property. Tenant has not entered into this Lease in reliance upon any representation or warranty of Landlord or its Agents as to suitability of the Premises for the conduct of Tenant's business. Tenant has made its own analysis of the Premises suitability for Tenant's intended use.

10.3. Uses Prohibited.

10.3.1. Rate of Insurance. Tenant shall not do or permit anything to be done in or about the Premises which will cause the existing rate of insurance for the Property to increase or cause cancellation of any insurance policy covering the Property; nor shall Tenant sell or permit to be kept, used or sold in or about the Property any articles which may be prohibited by a standard form policy of fire insurance. Tenant shall pay to Landlord, as additional rent, the full amount of any increased premium resulting from Tenant's use of the Premises.

10.3.2. Interference with Other Tenants. Tenant shall not do or permit anything to be done in or about the Property which will in any way obstruct or interfere with the rights of other tenants or occupants of the Property or injure or annoy them; neither shall Tenant cause, maintain or permit any nuisance in or about the Property. Tenant shall not commit or suffer to be committed any waste in or upon the Property.

10.3.3. Applicable Laws. Tenant shall not use the Premises in violation of any applicable Regulations or permit anything to be done in or about the Property which will violate or conflict with any Regulation. Tenant shall, at its sole cost and expense, comply with all Regulations and with the requirements of any board of fire underwriters or other similar body now or hereafter constituted relating to the condition, use and occupancy of the Premises. The judgment of a court of competent jurisdiction or Tenant's admission in any action, whether Landlord be a party thereto or not, that Tenant violated a law, statute, ordinance or government rule, regulation or requirement, shall be conclusive of that fact between Landlord and Tenant.

10.3.4. Auctions. Tenant shall not conduct or allow any auction or similar sale upon the Property.

11. DEFAULTS AND REMEDIES.

11.1. Tenant's Default. Each of the following events is a default and breach of this Lease by Tenant: (a) Tenant's failure to pay any rent or charges required to be paid by Tenant under this Lease; (b) Tenant's abandonment or vacation of the Premises; (c) Tenant's failure to promptly and fully perform any other covenant, condition or agreement contained in this Lease where such failure continues for 14 Days after written notice from Landlord to Tenant of such default; (d) the levying of a writ of attachment or execution on this Lease or on any of Tenant's property located in the Premises; (e) a general assignment for the benefit of Tenant's creditors or an arrangement, composition, extension or adjustment with Tenant's creditors, the filing by or against Tenant of a petition for relief or other proceeding under the federal bankruptcy laws or state or other insolvency laws, or the assumption by any court or administrative agency, or by a receiver, trustee or custodian appointed by either, of jurisdiction, custody or control of the Premises or of Tenant or any substantial part of its assets or property; or (f) if the interest of Tenant under this Lease is held by a partnership or by more than one person or entity, the occurrence of any act or event described in part (e) above in respect of any partner in the partnership or any person or entity holding an interest in Tenant of 25% or more. In the event a nonmonetary default occurs which cannot reasonably be cured within the above time period but Tenant commences corrective action within said period, Tenant shall not be subject to penalty under this Lease if it prosecutes the corrective action diligently and continuously to completion and completes the corrective action within 90 Days of the commencement of the corrective action.

11.2. Landlord's Remedies. If Tenant defaults under this Lease, in addition to other rights or remedies Landlord may have under this Lease or the law,
Landlord may elect either of the remedies set forth in paragraphs 11.2.1 and 11.2.2 of this Lease. Notwithstanding any other provision of this Lease, Landlord has the remedy described in California Civil Code ss.1951.4 and 9

Landlord may continue this Lease in effect after Tenant's breach and abandonment and recover rent as it becomes due. For purposes of this paragraph 11 (inclusive of all subparagraphs), "worth at the time of award" of the amounts referred to in parts 11.2.1(i) and 11.2.2(ii) shall be computed by allowing interest at the highest rate allowable by law, and "worth at time of award" of the amount referred to in part 11.2.1(iii) shall be computed by discounting such amount at the rate specified in California Civil Code ss.1951.2(b) or any successor statute. In such computations, the rent due hereunder shall include Base Monthly Rent plus the aggregate amount of all other rentals, charges and other amounts payable by Tenant hereunder.

11.2.1. Landlord, at its option, shall have the right to immediately terminate this Lease and Tenant's right to possession of the Premises by giving written notice to Tenant and to recover from Tenant an award of damages equal to the sum of (i) the worth at the time of award of the unpaid rental which had been earned at the time of termination, (ii) the worth at the time of award of the amount by which the unpaid rental which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant affirmatively proves could have been reasonably avoided, (iii) the worth at the time of award of the amount by which the unpaid rental for the balance of the Term after the time of award exceeds the amount of such rental loss that Tenant affirmatively proves could be reasonably avoided, (iv) any other amount necessary to compensate Landlord for all the detriment either proximately caused by Tenant's failure to perform Tenant's obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, and (v) all such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time under applicable law; or

11.2.2. Landlord has the remedy described in California Civil Code Section 1951.4 (Landlord may continue lease in effect after Tenant's breach and abandonment and recover rent as it becomes due, if Tenant has the right to sublet or assign, subject only to reasonable limitations).

11.3. Landlord's Default. Except as otherwise provided by this Lease, Landlord's failure to perform any obligation required of Landlord (other than a delay in delivery of possession provided for in paragraph 3.2) within 30 Days after Tenant's delivery to Landlord of written notice, specifying wherein Landlord has failed to perform such obligation shall constitute a default; if, however, the nature of the obligation is such that more than 30 Days are required for performance, then Landlord shall not be in default if it commences performance within such 30 Day period and diligently prosecutes the same to completion.

12. EXPIRATION OR TERMINATION.

12.1. Surrender of Possession. On expiration or other termination (hereafter collectively "Termination") of this Lease, Tenant shall surrender to Landlord possession of the Premises and all improvements thereon, subject to the provisions of paragraph 7.3 above, in as good order and condition as when possession was taken by Tenant excepting only ordinary wear and tear. On Termination, Landlord may reenter the Premises and remove all persons and property therein. If Tenant fails to remove any effects that it is required or entitled to remove from the Premises on Termination, Landlord may remove the same and, at its option, store or dispose of them. Tenant shall pay Landlord on demand all expenses incurred in such removal and in making the Premises free from all dirt, litter, debris and obstruction, including all storage and insurance charges. If the Premises are not surrendered at the end of the Term, Tenant shall indemnify Landlord against loss or liability of resulting from Tenant's delay in surrendering the Premises, including, without limit, claims made by succeeding tenants based on such delay.

12.2. Holding Over. If Tenant, with Landlord's consent, remains in possession of the Premises after Termination and if Landlord and Tenant have not executed a written agreement as to such holding over, then such occupancy shall be a tenancy from month to month at a Base Monthly Rent of 110% of the Base Monthly Rent in effect immediately prior to Termination and such other payments to be made as herein provided. In the event of holding over, all provisions of this Lease shall remain in effect on said month to month basis. If Tenant remains in possession of the Premises after Termination without Landlord's consent, the monthly fair market rental value of the

Premises for the duration of such holding over shall be deemed to be 110% of the Base Monthly Rent payable for the last Month of the Term.

12.3. Voluntary Surrender. The voluntary or other surrender of this Lease by Tenant, if accepted by Landlord, or a mutual cancellation hereof, shall not work a merger, but shall, at Landlord's option, terminate any existing subtenancies, or operate as an assignment to Landlord of any such subleases.
13. CONDEMNATION OF PREMISES.

13.1. Total Condemnation. If the entire Premises shall be taken by Condemnation at any time during the Term, this Lease shall terminate as of the date transfer of possession is required. All rent shall be paid up to the Termination, and Tenant shall have no claim against Landlord for the value of any unexpired portion of the Term.

13.2. Partial Condemnation. If any portion of the Premises is taken by Condemnation during the Term, this Lease shall remain in full force and effect; except that in the event a partial taking leaves the Premises unsuitable for occupation, Tenant shall have the right to terminate this Lease effective upon the date transfer of possession is required unless Landlord makes other arrangements to replace Tenant's space. Landlord and Tenant shall each have the right to terminate this Lease effective on the date transfer of possession is required if more than 50% of the total square footage of the Premises taken by Condemnation. Tenant and Landlord may elect to exercise their respective rights to Terminate this Lease pursuant to this paragraph by serving written notice to the other within 30 Days of their receipt of notice of Condemnation, except that Tenant's notice shall be ineffective if within 10 Days of Tenant's delivery of notice to Landlord, Landlord serves notice upon Tenant of Landlord's election to provide alternate space equivalent to that condemned. Tenant shall have the right to approve such replacement space. All rent and other obligations of Tenant under this Lease shall be paid up to the date of Termination, and Tenant shall have no claim against Landlord for the value of any unexpired portion of the Term. If this Lease is not cancelled, the Base Monthly Rent after such partial taking shall be that percentage of the adjusted Base Monthly Rent provided for in this Lease equal to the percentage which the square footage of the untaken part of the Premises immediately after the taking plus such replacement square footage as Landlord may make available to Tenant bears to the square footage of the Premises immediately before the taking. Tenant's Pro Rata Share shall be adjusted to reflect any change in the square footage of the Premises.

13.3. Award to Tenant. In the event of any Condemnation, Tenant shall have the right to claim and recover from the condemning authority compensation as may be separately recoverable by Tenant for loss of business, Tenant's relocation expenses, fixtures or equipment belonging to Tenant immediately prior to the Condemnation. The balance of any Condemnation award shall belong to Landlord, and Tenant shall have no further right to recover from Landlord or the condemning authority for any additional claims arising out of such taking.


14. ENTRY BY LANDLORD.

Tenant shall permit Landlord and its Agents to enter the Premises at all reasonable times for any of the following purposes: to inspect the Premises; to make such repairs, alterations or additions to the Premises and/or to any other portion of the Property as Landlord is obligated or may elect to make; to post "To Lease" signs for the purposes of reletting during the last 120 Days of the Term, to show the Premises as part of a prospective lease or sale by Landlord and/or to post notices of nonresponsibility. Landlord shall have such right of entry without any rebate of rent to Tenant for any loss of occupancy or quiet enjoyment of the Premises thereby occasioned. Notwithstanding the foregoing, Landlord shall provide 24 hours advance notice to Tenant of intended entry except under circumstances of an emergency.

15. LIABILITY LIMITATION AND INDEMNIFICATION.

The provisions of this section 15 supersede every other provision of this Lease to the extent that they are inconsistent with such other provisions.

15.1. Limitation of Landlord's Liability. Tenant shall not hold Landlord liable for any amount in excess of insurance coverage maintained by Landlord pursuant to paragraph 6.3 of this Lease ("Existing Coverage") with respect to any injury or damage, either proximate or remote, occurring through or caused by any repairs or Alterations to the Property, unless such injury or damage arises from Landlord's negligence, willful misconduct, reckless disregard of Landlord's duties or breach of this Lease. Landlord shall not be liable in excess of Existing Coverage for any injury or damage occasioned by defective electric wiring, or the breaking, bursting, stoppage or leaking of any part of the plumbing, air-conditioning, heating, fire control sprinkler systems or gas, sewer or steam pipes, unless such injury or damage arises from Landlord's negligence, willful misconduct or reckless disregard of Landlord's duties or breach of this Lease.

15.2. Limitation on Enforcement of Judgments. Notwithstanding any other provision of this Lease, and with the exception of a Judgment in Tenant's favor against Landlord in which there is a finding of actual fraud in the inducement by Landlord, Tenant and its Agents shall, under all circumstances be absolutely limited to Landlord's estate in the Property for satisfaction of Tenant and its Agents' remedies, and/or for the collection of a judgment, court order or
arbitration award requiring the payment of money by Landlord as the result of any and all judgments, orders and awards relating to or arising out of Tenant and its Agents occupancy and use of the Property and/or in the event of any default by Landlord hereunder. No other property or assets of Landlord or its partners or principals, disclosed or undisclosed, shall be subject to levy, execution or other enforcement procedure for the satisfaction of Tenant and its Agents’ remedies under or with respect to this Lease, the relationship of Landlord and Tenant hereunder, or the use and occupancy of the Property and the Premises by Tenant and its Agents. Tenant, on behalf of itself and its Agents expressly waives any and all right to collect or enforce any and all orders, awards and/or judgments against Landlord in excess of the limitations imposed by this paragraph. Tenant shall require that each subtenant of Tenant and each assignee of Tenant agree to be bound by the waiver set forth in this paragraph. The Landlord’s maximum exposure as set forth in this paragraph is cumulative (as to judgments, awards and orders against Landlord in connection with this Lease, the relationship of Landlord and Tenant hereunder, or the use and occupancy of the Property by Tenant and its Agents). The limits imposed by this paragraph also apply to any and all duties of indemnity (express and/or implied) owed by Landlord to Tenant. As used in this paragraph, references to “Landlord” include all persons and entities who now or hereafter own or may own an interest in Landlord.

16. ASSIGNMENT AND SUBLETTING.

16.1. Generally. Tenant shall not directly or indirectly assign this Lease in whole or in part, sublet any part of the Premises, license the use of any part of the Premises or any business conducted thereon, or encumber or hypothecate this Lease without first obtaining Landlord’s written consent which Landlord shall not unreasonably withhold. The sale or other transfer of shares of stock, partnership interests or other ownership interests in Tenant resulting in a change in the effective control of Tenant, or any merger, consolidation or other reorganization of Tenant other than one with a comparable or greater financial position shall be regarded as an indirect assignment of Tenant’s interest in this Lease. Tenant's request for consent to any assignment, sublease or other transfer shall be in writing and shall include the following: (a) the name and legal composition of the proposed transferee; (b) the nature of the proposed transferee's business to be carried on in the Premises; (c) the Terms and provisions of the proposed assignment or sublease; and (d) such financial and other reasonable information as Landlord may request concerning the proposed transferee or concerning the proposed assignment or sublease and any transaction contemplated to occur in connection therewith. Any assignment, subletting, licensing, encumbering or hypothecating of this Lease without Landlord’s prior written consent shall constitute a default entitled Landlord to exercise all rights and remedies hereunder. Tenant's request for consent to any assignment, sublease or other transfer shall not constitute a waiver of the necessity for such consent to any subsequent assignment or sublease. The prohibition against assignment and subletting contained in this paragraph includes a prohibition against assignment or subletting by operation of law. Notwithstanding any assignment or subletting with Landlord's consent, Tenant shall remain fully liable on this Lease and shall not relieve it of its obligations hereunder. Without limiting other reasons or circumstances, Landlord and Tenant agree that it is reasonable for Landlord to withhold consent to an assignment or sublease, if (i) the financial strength of the proposed assignee or sublessee is not, in Landlord's reasonable judgment, commensurate with the obligations of the Lease; (ii) the proposed assignee's or sublessee's use would, in Landlord's reasonable judgment, be incompatible with the then current tenants, or use of the rest of the Property; or (iii) the proposed assignee's or sublessee's use would generate traffic, parking and/or wear and tear on the Premises or Property materially in excess of that generated by Tenant's use.

16.2. Tenant's Payments. If Landlord consents to a sublease or assignment, Tenant shall pay Landlord’s reasonable attorneys’ fees incurred in connection with giving such consent. Tenant shall also pay Landlord 50% of all Excess Rent received by Tenant directly or indirectly in respect of an assignment of this Lease or sublease of the Premises. As used in this Lease, "Excess Rent" means, in the case of an assignment, all consideration so received and, in the case of a sublease, all consideration so received in excess of rents and charges reserved under this Lease. The assignee or sublessee shall, on assuming Tenant's interest in this Lease, become jointly and severally liable to Landlord for the payment of Landlord's share of Excess Rent.

17. DAMAGE OR DESTRUCTION.

17.1. Right to Terminate on Destruction of Premises. Landlord and Tenant each have the right to terminate this Lease if the Premises or the Building are damaged to an extent exceeding 50% of the then replacement cost of the Premises (in the event of damage limited to the Premises) or 33% of the Building (in the event of damages not limited to the Premises). Landlord shall also have the right to terminate this Lease if the Premises or the Building are damaged by an uninsured peril to an extent exceeding 33% of the then replacement cost of the Premises (in the event of damage limited to the Premises) or 25% of the Building (in the event of damages not limited to the Premises). If a party elects to
18.  Hazardous Materials

18.1. Tenant's Obligations.

18.1.1. Restrictions on Hazardous Materials. Tenant and its Agents shall not cause or permit "Hazardous Material" (as defined below) to be brought upon, used, handled, disposed of, transported, kept, manufactured, generated or stored (hereafter collectively "Handled" or "Handling") in, on, about or under the Property without Landlord's prior written consent.

18.1.2. Applicable Regulations. If any Hazardous Material is Handled in, on, about or under the Property by Tenant and its Agents, then Tenant shall bear all financial and other responsibility for ensuring that such material is used, kept and stored in compliance with all Regulations and Environmental, Health and Safety Requirements respecting Handling of such Hazardous Material and with the highest standards prevailing in the industry for the Handling of such Hazardous Material. Without limiting Tenant's other obligations as set forth in this Lease, Tenant shall, at its own cost and expense, procure, maintain in effect and comply with all conditions and requirements of any and all permits, licenses and other governmental and regulatory approvals or authorizations required under any and all applicable Regulations and Environmental, Health and Safety Requirements relating to the Handling of such Hazardous Material by Tenant and its Agents in, on or about the Property. Tenant will provide Landlord copies of all permits, licenses, or other regulatory approvals or authorizations within 5 business Days of receipt thereof.

18.1.3. Restoration. If, as a result of actions caused or permitted by Tenant and its Agents, the presence of Hazardous Material in, on, about or under the Property or any adjoining property, existing during the Term of this Lease and/or subsequent to the Term of this Lease results in any contamination of the Property or the surrounding environment; Tenant shall promptly take all actions at its sole cost and expense as are necessary to return the Property and/or the other affected property to the condition existing prior to such contamination ("Restoration"); provided, however, that Tenant shall not undertake any Restoration respecting the Property without first providing Landlord with written notice thereof and obtaining Landlord's approval. Tenant shall carry out any approved Restoration in a manner which complies with all Environmental, Health and Safety Requirements. Tenant shall not undertake any Restoration, nor enter into any settlement agreement, consent decree or other compromise with respect to any claims, relating to any Hazardous Material in any way connected with the Property without first notifying Landlord of Tenant's intention to do so and affording Landlord ample opportunity to appear, intervene or otherwise appropriately assert and protect Landlord's interests.

18.1.4. Removal. Upon Termination, Tenant shall cause to be removed from the Property all Hazardous Material existing in, on, about or under the Property.
18.5. Definitions. The following terms shall have the following meanings:

- Landlord delivers its invoice to Tenant for such charges.
- Tenant is required to pay all costs and expenses reasonably incurred by Landlord in connection with such investigation, monitoring, and testing. Such sums shall be due and payable by Tenant when Landlord delivers its invoice to Tenant for such charges.
18.5.1. "Hazardous Material" means, without limitation, (1) petroleum or petroleum products; (2) hydrocarbon substances of any kind; (3) asbestos in any form; (4) formaldehyde; (5) radioactive substances; (6) industrial solvents; (7) flammables; (8) explosives; (9) leakage from underground storage tanks; (10) substances defined as "hazardous substances", "hazardous material", or "toxic substances" in (A) the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986 or as otherwise amended, 42 U.S.C. ss.9601, et seq., (B) the Hazardous Materials Transportation Act, 49 U.S.C. ss.1801 et seq. and any amendments thereto, or (C) the Resource Conservation and Recovery Act, 42 U.S.C. ss.6901, et seq. and any amendments thereto; (11) those substances defined as "hazardous wastes", "extremely hazardous wastes" or "restricted hazardous wastes" in ss.ss.25115, 25117, and 25122.7 or listed pursuant to ss.25140 of the California Health & Safety Code and any amendments thereto; (12) those substances defined as "hazardous substances" in ss.25316 of the California Health & Safety Code and any amendments thereto; (13) those substances defined as "hazardous material", "hazardous wastes" or "hazardous substances" in ss.ss.25501 and 25501.1 of the California Health & Safety Code and any amendments thereto; (14) those substances defined as "hazardous substances" under ss.ss.25310, 25311, and 25317.5 of the California Health & Safety Code and any amendments thereto; (15) those substances causing "pollution" or "contamination" or constituting "hazardous substances" within the meaning of (A) the Clean Water Act, 33 U.S.C. ss.1251 et seq. and any amendments thereto, (B) the Porter-Cologne Water Quality Control Act, ss.13050 of the California Water Code and any amendments thereto, and (C) the Safe Drinking Water Act, 42 U.S.C. ss.300f et seq. as are identified on the list published from time to time as provided in Chapter 6.6 of the California Health and Safety Code, as amended, as causing cancer or reproductive toxicity; (17) polychlorinated biphenyls (PCBs) set forth in the Federal Toxic Substance Control Act, as amended, 15 U.S.C. ss.2601 et seq.; (18) "toxic air contaminant" as defined in California Health and Safety Code ss.39655; (19) the wastes, substances, pollutants and contaminants identified pursuant to or set forth in the Regulations adopted or judicial or administrative orders, decisions or decrees promulgated pursuant to any of the foregoing laws; and (20) all receptacles and containers for any and all materials referred to above. The foregoing list of definitions and statutes is intended to be illustrative and not exhaustive and such list shall be deemed to include all definitions, rules, regulations and laws applicable to the subject matter of this paragraph as such rules, laws, regulations and definitions may be amended, modified, or changed from time to time.

18.5.2. "Environmental Health and Safety Requirement" means any Regulation, order, judgment or decree promulgated by any local, regional, state or federal governmental agency, court, judicial or quasi-judicial body or legislative or quasi-legislative body which relates to matters of the environment, health, industrial hygiene or safety.

18.6. Allocation of Responsibilities. ALL LIABILITIES ARISING FROM THE HANDLING OF HAZARDOUS MATERIAL IN, ON, UNDER, AND/OR ABOUT THE PROPERTY OR ANY ADJOINING PROPERTY BY TENANT AND ITS AGENTS, SHALL REMAIN TENANT'S SOLE RESPONSIBILITY. NOTWITHSTANDING ANYTHING IN THIS LEASE, NO ACT BY LANDLORD OR ITS AGENTS SHALL BE CONSTRUED AS LANDLORD'S ASSUMPTION OF ANY OBLIGATIONS, DUTIES, LIABILITIES OR RESPONSIBILITIES PERTAINING TO TENANT'S COMPLIANCE WITH ANY ENVIRONMENTAL, HEALTH OR SAFETY REQUIREMENT. NOTWITHSTANDING THE EXPIRATION OR TERMINATION OF THIS LEASE AND NOTWITHSTANDING ANY OTHER PROVISION OF THIS LEASE, TENANT SHALL RETAIN ALL LIABILITY AND RESPONSIBILITY OF COMPLIANCE WITH REGULATIONS CONCERNING TENANT AND ITS AGENTS' HANDLING OF HAZARDOUS MATERIAL EVEN IF SUCH HAZARDOUS MATERIAL ORIGINATE FROM THE PROPERTY. TENANT SHALL INDEMNIFY, DEFEND AND HOLD LANDLORD AND ITS AGENTS HARMLESS FROM ALL SUCH COSTS AND EXPENSES AS MAY BE ASSOCIATED WITH SUCH COMPLIANCE.

18.7. Inspections. Tenant warrants that Tenant will cooperate and not interfere with completion of any and all governmental inspections of the Property as required by applicable Regulation. Tenant shall provide to Landlord a copy of the reports for each such inspection within 15 Days of Tenant's receipt of such reports.

18.8. Survival. Tenant's and Landlord's covenants, agreements and indemnities set forth in this Section 18 shall survive the expiration or termination of this Lease and shall not be affected by any investigation, or information obtained as a result of any investigation, by or on behalf of Landlord or any prospective Tenant.

18.9. Storage Tanks. Tenant shall not install any storage tank (above or below the ground) on the Property without Landlord's prior written consent, which consent may be conditioned upon further requirements imposed by Landlord with respect to compliance by Tenant with any applicable Regulations and safety measures or financial responsibility requirements.

18.10. Landlord's Obligations.
18.10.1. Restrictions on Hazardous Material. Landlord shall not cause or permit Hazardous Material to be handled in, on, about or under the Property except in compliance with all Environmental Health and Safety Requirements regulating such Hazardous Material.

18.10.2. Compliance With Regulations. If any Hazardous Material is handled in, on or about the Property by Landlord, Landlord shall bear all financial and other responsibility for ensuring that such material is handled in compliance with all Environmental, Health and Safety Requirements regulating such Hazardous Material and with the highest standards prevailing in the industry for the use, keeping and storage of such Hazardous Material.

18.10.3. Restoration. If, as a result of Landlord’s handling Hazardous Material upon the Property or any adjoining property, prior to or during the Term, any contamination of the Property or the surrounding environment occurs; Landlord shall promptly take all actions at its sole cost and expense as are necessary to return the Property and/or the surrounding environment to the condition existing prior to such contamination.

18.10.4. Duty to Notify Tenant. Landlord shall notify Tenant in writing on becoming aware of: (1) any enforcement, cleanup, remediation or other action threatened, instituted or completed by any governmental or regulatory agency or private person with respect to the Property relating to Hazardous Material; (2) any claim threatened or made against Landlord with respect to the Property, Tenant or the Property for personal injury, compensation or any other matter relating to Hazardous Material; and (3) any reports made by or to any governmental or regulatory agency respecting the Property, any complaints, notices or asserted violations in connection therewith. Landlord shall also supply to Tenant copies of all claims, reports, complaints, notices, warnings, asserted violations or other documents relating to the foregoing.

18.10.5. Landlord's Indemnity of Tenant. If the presence of Hazardous Material on the Property or any adjoining property, as a result of the acts of Landlord, other Tenants or third parties invited or allowed upon the Property by Landlord (other than Tenant's Agents) results in contamination of the Property, or if any contamination of the Property exists as of the Commencement Date then Landlord shall indemnify, defend and hold Tenant, its officers, Agents and representatives harmless from and against any and all claims, damages, penalties, fines, costs, liabilities and losses, damages for the loss or restriction on use of rental or usable space or of any other amenity of the Property and sums paid in settlement of claims, attorneys' fees, consultants' fees and experts' fees) which arise during or after the Term as a result of such contamination.

19. MISCELLANEOUS PROVISIONS.

19.1. Waiver. No waiver of any breach of a covenant or condition of this Lease shall be construed as a waiver of any other breach or as a consent to any further or succeeding breach of the same covenant or condition. Landlord’s acceptance of rent after Tenant’s breach shall not be deemed a waiver of any preceding breach by Tenant of any term, covenant or condition of this Lease, other than Tenant's failure to pay the rent so accepted, regardless of Landlord's knowledge of such preceding breach at the time Landlord accepts the rent.

19.2. Successors and Assigns. Except as otherwise provided, this Lease shall bind inure to the benefit of the heirs, personal representatives, successors and assigns of the parties.

19.3. Notices. All notices, requests, demands and other communications required or permitted to be given hereunder shall be in writing and either personally delivered or sent by certified mail, return receipt requested, postage prepaid, properly addressed to the other party at the address set forth next to its signature below, or at such other address as may, from time to time, be designated in writing by one party to the other. Notice shall be deemed given when personally delivered or on the date indicated on the post office's certified mail receipt of delivery.

19.4. Partial Invalidity. If any provision of this Lease is determined to be invalid or inoperative, the other provisions of this Lease shall not be affected.

19.5. Number and Gender. All terms of this Lease shall be construed to mean either the singular or the plural, masculine, feminine or neuter, as the situation may demand.

19.6. Descriptive Headings. The headings used herein and in documents annexed as schedules, lists or exhibits are descriptive only for the convenience of identifying provisions, and not deterministic of the meaning or effect of any such provision.

19.7. Time. In all matters, time is of the essence in the performance of all obligations under this Lease. The provisions of this paragraph are material
19.8. Entire Agreement. This Lease and the documents annexed hereto as schedules, lists or exhibits, constitutes the entire agreement and understanding between the parties respecting the subject matters addressed. This Lease supersedes and replaces all prior agreements and understandings, (oral or written), between the parties with respect to the hiring of the Premises and all related matters. The provisions of this Lease may be waived, altered, amended or repealed only upon Landlord’s and Tenant's written consent.

19.9. Memorandum of Lease. If Landlord requests a recorded memorandum of this Lease, all parties shall execute and acknowledge such memorandum identifying: the Premises, the parties, the Commencement Date and the Termination. The memorandum may be recorded in the county where the Premises are located. No other memorandum of the Lease shall be recorded.

19.10. Applicable Law. This Lease shall be construed and interpreted in accordance with the laws of the State of California.

19.11. Authority. Each individual executing this Lease on behalf of a corporation represents and warrants that he is duly authorized to execute and deliver this Lease on behalf of the corporation in accordance with a duly adopted resolution of the Board of Directors of the corporation, and that this Lease is binding upon said corporation in accordance with its Terms. Each individual executing this Lease on behalf of a partnership represents and warrants that he is duly authorized to execute and deliver this Lease on behalf of the partnership and that this Lease is binding upon said partnership in accordance with its terms.

19.12. Litigation Expense. If any party brings an action or arbitration proceeding against any other party hereto by reason of the breach of any covenant, warranty, representation or condition hereof, or otherwise arising out of this Lease, whether for declaratory or other relief, the prevailing party shall be entitled to costs of suit and attorneys’ fees, which shall be payable whether or not such action is prosecuted to judgment.

19.13. Subordination of Leasehold. This Lease is and shall be, at all times, subject and subordinate to the lien of any mortgage or other encumbrances which Landlord may create against the Property, including all renewals, replacements and extensions. Tenant shall execute all written instruments which may be required by Landlord to subordinate Tenant's rights to the lien of such mortgage which obligation by Tenant is conditioned upon the holder of such lien providing to Tenant a written nondisturbance agreement providing, in essence, that as long as Tenant is not in default under the provisions of this Lease, the lender will, in the event of a foreclosure, allow Tenant to remain in possession of the Premises for the duration of the unexpired Term.

19.14. Estoppel Certificate. Within 15 Days following Landlord's request, Tenant shall complete, execute and deliver to Landlord an estoppel certificate in a form provided by Landlord, setting forth the information requested therein, including, but not limited to, (a) certification that this Lease is unmodified and in full force and effect (or if modified, stating the nature of such modification and specifying that this Lease as so modified is in full force and effect) and the date to which the rental and other charges are paid in advance, if any, (b) acknowledgment that there are not, to Tenant's knowledge, any uncured defaults on the part of Landlord hereunder, or specifying such defaults, if any are claimed, and (c) setting forth the Commencement Date and expiration of the Term. Tenant's failure to deliver the certificate within said 15 Days shall be deemed, for all purposes, to be a certification that Landlord is not in default under the Lease, and that the Terms of the Lease are in force and have not been modified in any way. Any prospective purchaser, lender or assignee of any lender against the Property may rely upon such certification.

19.15. Attornment. In the event of any sale of the Property or if proceedings are brought for the foreclosure of, or in the event of exercise of the power of sale under, any mortgage, installment land contract or deed of trust covering the Property, Tenant shall attorn to the mortgagee or the purchaser upon any such foreclosure or sale and recognize such mortgagee or purchaser as Landlord under this Lease, which obligation by Tenant is conditioned upon Tenant receiving a written nondisturbance agreement providing, in essence, that as long as Tenant is not in default under the provisions of this Lease, Tenant will be allowed to remain in possession of the Premises for the unexpired duration of the Term.

19.16. Compliance with Lender's Requests. Tenant shall consent to amendments to this Lease from time to time as may be requested by any current or future mortgagee or holder of other encumbrance which Landlord may create against the Property, provided that such amendments do not materially affect Tenant's rights or obligations under this Lease. Tenant agrees to timely supply, financial information reasonably requested by Landlord for lenders analysis of Tenant's financial condition as a condition of any encumbrance of the Property.
19.17. Rules and Regulations. Tenant shall faithfully observe and comply with all rules and regulations and all modifications thereof and additions thereto from time to time promulgated by Landlord. Landlord shall not be responsible for any loss, injury or damage resulting from the nonperformance by any other tenant or occupant of said rules and regulations.

19.18. Deleted.

19.19. Submission of Lease. Submission of this document for Tenant's examination or signature does not constitute a reservation of or option for lease, nor does it create any obligation on Landlord's part until execution and delivery by both Landlord and Tenant.

19.20. Arbitration of Disputes. IF A CONTROVERSY, CLAIM OR DISPUTE (COLLECTIVELY "DISPUTE") BETWEEN THE PARTIES ARISES OUT OF THIS LEASE, THE DISPUTE SHALL BE SUBMITTED TO BINDING ARBITRATION TO BE CONDUCTED UNDER THE COMMERCIAL ARBITRATION RULES OF THE AMERICAN ARBITRATION ASSOCIATION; JUDGMENT ON THE ARBITRATOR'S AWARD MAY BE ENTERED IN ANY COURT OF COMPETENT JURISDICTION. CALIFORNIA CODE OF CIVIL PROCEDURE ss.1283.05 SHALL APPLY TO SUCH ARBITRATION.

NOTICE: BY INITIALLING IN THE SPACE BELOW YOU ARE AGREEING TO HAVE ANY DISPUTE ARISING OUT OF THE MATTERS INCLUDED IN THE "ARBITRATION OF DISPUTES" PROVISIONS DECIDED BY NEUTRAL ARBITRATION AS PROVIDED BY CALIFORNIA LAW AND YOU ARE GIVING UP ANY RIGHTS YOU MIGHT POSSESS TO HAVE THE DISPUTE LITIGATED IN A COURT OR JURY TRIAL. BY INITIALLING IN THE SPACE BELOW YOU ARE GIVING UP YOUR JUDICIAL RIGHTS TO DISCOVERY AND APPEAL UNLESS THOSE RIGHTS ARE SPECIFICALLY INCLUDED IN THE "ARBITRATION OF DISPUTES" PROVISION. IF YOU REFUSE TO SUBMIT TO ARBITRATION AFTER AGREEING TO THIS PROVISION YOU MAY BE COMPULSORY TO ARBITRATE UNDER THE AUTHORITY OF THE CALIFORNIA CODE OF CIVIL PROCEDURE. YOUR AGREEMENT TO THIS ARBITRATION PROVISION IS VOLUNTARY.

WE HAVE READ AND UNDERSTAND THE FOREGOING AND AGREE TO SUBMIT DISPUTES ARISING OUT OF THE MATTERS INCLUDED IN THE "ARBITRATION OF DISPUTES" PROVISION TO NEUTRAL ARBITRATION.

/s/RR /s/CLD
Initial Initial

19.21. Venue. Any action or arbitration arising out of or brought to enforce or interpret the provisions of this Lease shall be venued in Alameda County, California.

19.22. Representation by Counsel. This Lease reflects negotiations previously entered into by the parties acting as principals for their own accounts. This Lease has been drafted by Graves, Allen, Cornelius & Celestre, Attorneys acting solely and exclusively as attorneys for Landlord. GACC has not represented Tenant in any manner with respect to the transaction. GACC has not provided any legal or tax advice whatsoever to Tenant in conjunction with any aspect of this transaction. Tenant understands that this Lease significantly affects its legal rights and acknowledges that it has had the opportunity to obtain legal and tax counsel and has obtained such counsel and advice as it deems necessary. Tenant expressly waives any objection to GACC representing Landlord in any Dispute concerning or arising out of this Lease.

19.23. Brokerage. Tenant represents and warrants to Landlord that Tenant has not contacted or been contacted by any real estate licensee with respect to the negotiation of this Lease or the availability of the Premises for lease.

19.24. Parking. Tenant shall have nonexclusive rights to parking as designated in a plan to be developed by Landlord and reasonably approved by Tenant. Parking areas shall be on the Property. Landlord will provide a minimum of three spaces parking spaces per thousand usable square feet of Tenant’s Premises (defined as that portion of the Premises allocated to Tenant's exclusive use and exclusive of any Common Area allocated to Tenant).

19.25. Use of Amenities. Tenant shall have a non-exclusive right to use of all Common Area amenities for the Property on the same basis as all other tenants of the Property.

19.26. Signs. Tenant shall place no signs upon the Property. Landlord may provide, as an expense of the Property, a monument sign and/or directory sign, which may include Tenant's sign. The design of any such sign for Tenant shall conform to the style and quality of signs used for other tenants of the Property.

19.27. Cooperation. Tenant will not interfere with any actions by Landlord made in furtherance of the Regulation affecting the Property. Tenant shall comply with all reasonable procedures and regulations promulgated by Landlord from time to time in connection with the matters covered by such Regulations.

Nothing in this paragraph shall impose upon Landlord any duty to establish any procedures or regulations or to supervise, in any way, Tenant's activities upon the Premises or the Property for any purpose including, without limitation, the regulation of the storage, use and handling of Hazardous Material.
19.28. First Right of Refusal. If, at any time during the Term, any portion of 
the Building currently occupied by Natural Language, Inc. (the "NLI Space") 
shall be vacated by Natural Language, Inc., Landlord shall offer such space to 
Tenant prior to making it available to any other party. Landlord shall advise 
Tenant in writing of the availability of the NLI Space (the "Availability 
Notice") and Tenant shall have 10 Days following delivery of the Availability 
Notice within which to elect, in writing delivered to Landlord, to rent the NLI 
Space. Tenant's failure to timely deliver to Landlord Tenant's written election 
(the "Election Notice") to rent the NLI Space shall be deemed Tenant's 
irrevocable waiver of the First Right of Refusal created by this paragraph. As 
used in this paragraph, "NLI Space" includes all and any portion of the space 
currently occupied by Natural Language, Inc.). If Tenant elects to exercise the 
First Right of Refusal created by this paragraph, Tenant shall assume occupancy 
of the NLI Space forthwith upon Natural Language, Inc. vacating the NLI Space. 
Tenant's timely delivery of its Election Notice to Landlord shall act as an 
amendment to this Lease which amendment modifies the terms of this Lease by 
incorporation of the NLI Space and adjustment of the square footage of the 
Premises to reflect the additional space. Pursuant to the provisions of this 
Lease, such modification of the square footage of the Premises will also cause 
the Lease to be amended to reflect the additional square footage in the 
calculation of the Pro Rata Share and the Base Monthly Rent. Tenant shall occupy 
the NLI Space incorporated through the Election Notice under the same terms and 
conditions as are in force under the provisions of this Lease for the remainder 
of the Term. Landlord shall have no obligation to make any alterations or 
modifications or improvements to the NLI Space.

20. TERMINATION OF OLD LEASE.

Landlord and Tenant hereby agree that the Old Lease shall be terminated and 
cancelled effective December 31, 1991 which termination and cancellation is 
conditioned upon the execution of this Lease by Landlord and Tenant. Upon the 
cancellation of the Old Lease, Landlord and Tenant shall each be released from 
any and all obligations one to the other under the provisions of the Old Lease 
and this Lease shall be the sole document setting forth the obligations of 
Landlord and Tenant to each other with respect to the Property and Tenant's 
occupancy of the Premises.

IN WITNESS WHEREOF, the parties have executed this Lease on the date first 
written above.

LANDLORD:                                   TENANT:

By /s/ Randy K. Robbins                     By /s/ Clarence L. Dellio
- ----------------------------                ------------------------------
General Partner                             Authorized Officer

Address for Notices:                        Address for Notices:
1120 Nye Street                             2910 Seventh Street 
Suite 400                                   Suite 100
San Rafael, California 94901                Berkeley, California 94710
1. Parties. This Lease, dated, for reference purposes only, June 22, 1992, is made by and between Richard B. Gomez, Josephine L. Gomez, TTEE U/A/D, 10, 31-90 FBO Gomez Family Trust (herein called "Lessor") and XOMA Corp. 2910 Seventh St, Berkeley, Ca. 94710 (herein called "Lessee").

2. Premises. Lessor hereby leases to Lessee and Lessee leases from Lessor for the term, and upon all of the conditions set forth herein, that certain real property situated in the County of Los Angeles State of Ca., commonly known as 1701 Colorado and 1553 - 17th St. Santa Monica, Ca. 90404 and described as two separate adjacent Brick buildings consisting of approximately 7500 sq. ft. and 2500 sq. ft. with a total of approximately 18 cars, of parking area. Said real property including the land and all improvements therein, is herein called "the Premises".

3. Term.

3.1 Term. The term of this Lease shall be for Three years (36) months commencing on January 1, 1993 and ending on December 31, 1995 unless sooner terminated pursuant to any provision hereof. See ADDENDUM #2, Option Period: #50

3.2 Delay in Possession. Notwithstanding said commencement date, if for any reason Lessor cannot deliver possession of the Premises to Lessee on said date, Lessor shall not be subject to any liability therefor, nor shall such failure affect the validity of this Lease or the obligations of Lessee hereunder or extend the term hereof, but in such case, Lessee shall not be obligated to pay rent until possession of the Premises is tendered to Lessee; provided, however, that if Lessor shall not have delivered possession of the Premises within sixty (60) days from said commencement date, Lessee may, at Lessee's option, by notice in writing to Lessor within ten (10) days thereafter, cancel this Lease, in which event the parties shall be discharged from all obligations hereunder; provided further, however, that if such written notice of Lessee is not received by Lessor within said ten (10) day period, Lessee's right to cancel this Lease hereunder shall terminate and be of no further force or effect.

3.3 Early Possession. If Lessee occupies the Premises prior to said commencement date, such occupancy shall be subject to all provisions hereof, such occupancy shall not advance the termination date, and Lessee shall pay rent for such period at the initial monthly rates set forth below.

4. Rent. See additional rent schedule. Lessee shall pay Lessor upon the execution hereof $11,500.00 as rent for Feb, 1993. See additional rent schedule ADDENDUM paragraph #48. Rent for any period during the term hereof which is for less than one month shall be a pro rata portion of the monthly installment. Rent shall be payable in lawful money of the United States to Lessor at the address stated herein or to such other persons or at such other places as Lessor may designate in writing.

5. Security Deposit. Lessee shall deposit with Lessor upon execution hereof (See Paragraph #49) as security for Lessee's faithful performance of Lessee's obligations hereunder. If Lessee fails to pay rent or other charges due hereunder, or otherwise defaults with respect to any provision of this Lease, Lessor may use, apply or retain all or any portion of said deposit for the payment of any rent or other charge in default or for the payment of any other sum to which Lessor may become obligated by reason of Lessee's default, or to compensate Lessor for any loss or damage which Lessor may suffer thereby. If Lessor so uses or applies all or any portion of said deposit, Lessee shall within ten (10) days after written demand therefor deposit cash with Lessor in an amount sufficient to restore said deposit to the full amount hereinabove stated and Lessee's failure to do so shall be a material breach of this Lease. If the monthly rent shall, from time to time, increase during the term of this Lease, Lessee shall thereupon deposit with Lessor additional security deposit so that the amount of security deposit held by Lessor shall at all times bear the same proportion with respect as the original security deposit bears the original monthly rent set forth in paragraph 4 hereof. Lessor shall not be required to keep said deposit separate from its general accounts. If Lessor performs all of Lessee's obligations hereunder, said deposit, or so much thereof as has not theretofore been applied by Lessor, shall be returned, without payment of interest or other increment for its use, to Lessee (or, at Lessor's option, to that last assignee, if any, of Lessee's interest hereunder) at the expiration of the term hereof, and after Lessee has vacated the Premises. No trust relationship is created herein between Lessor and Lessee with respect to said Security Deposit.

6. Use.

6.1 Use. The Premises shall be used and occupied only for research, light manufacturing, laboratories and offices and all other lawful uses or any
other use which is reasonably comparable and for no other purpose.

6.2 Compliance with Law.

(a) Lessor warrants to Lessee that the Premises, in its state existing on the date that the Lease term commences, but without regard to the use for which Lessee will use the Premises, does not violate any covenants or restrictions of record, or any applicable building code, regulation or ordinance in effect on such Lease term commencement date. In the event it is determined that this warranty has been violated, then it shall be the obligation of the Lessor, after receipt of written notice from Lessee setting forth with specificity the nature of the violation, to promptly, at Lessor's sole cost and expense, rectify any such violation. In the event Lessee does not give to Lessor written notice of the violation of this warranty within six months from the date that the Lease term commences, the correction of same shall be the obligation of the Lessee at Lessee's sole cost. The warranty contained in this paragraph 6.2 (a) shall be of no force or effect if, prior to the date of this Lease, Lessee was the owner or occupant of the Premises, and, in such event, Lessee shall correct any such violation at Lessee's sole cost.

(b) Except as provided in paragraph 6.2(a), Lessee shall, at Lessee's expense, comply promptly with all applicable statutes, ordinances, rules, regulations, orders, covenants and restrictions of record, and requirements in effect during the term or any part of the term hereof, regulating the use by Lessee of the Premises. Lessee shall not use nor permit the use of the Premises in any manner that will tend to create waste or a nuisance or, if there shall be more than one tenant in the building containing the Premises, shall tend to disturb such other tenants.

6.3 Condition of Premises

(a) Lessor shall deliver the Premises to Lessee clean and free of debris on Lease commencement date (unless Lessee is already in possession) and Lessor further warrants to Lessee that the plumbing, lighting, air conditioning, heating, and loading doors in the Premises shall be in good operating condition on the Lease commencement date. In the event that it is determined that this warranty has been violated, then it shall be the obligation of Lessor, after receipt of written notice from Lessee setting forth with specificity the nature of the violation, to promptly, at Lessor's sole cost, rectify such violation. Lessee's failure to give written notice to Lessor within thirty (30) days after the Lease commencement date shall cause the conclusive presumption that Lessor has complied with all of Lessor's obligations hereunder. The warranty contained in this paragraph 6.3(a) shall be of no force or effect if prior to the date of this Lease, Lessee was the owner or occupant of the Premises.

(b) Except as otherwise provided in this Lease, Lessee hereby accepts the Premises in their condition existing as of the Lease commencement date or the date that Lessee takes possession of the Premises, whichever is earlier, subject to all applicable zoning, municipal, county and state laws, ordinances and regulations governing and regulating the use of the Premises, and any covenants or restrictions of record, and accepts this Lease subject thereto and to all matters disclosed thereby and by any exhibits attached hereto. Lessee acknowledges that neither Lessor nor Lessor's agent has made any representation or warranty as to the present or future suitability of the Premises for the conduct of Lessee's business.

7. Maintenance, Repairs and Alterations.

7.1 Lessee's Obligations. Lessee shall keep in good order, condition and repair the Premises and part thereof, structural and non structural, (whether or not such portion of the Premises requiring repair, or the means of repairing the same are reasonably or readily accessible to Lessee, and whether or not the need for such repairs occurs as a result of Lessee's use, any prior use, the elements or the age of such portion of the Premises) including, without limiting the generality of the foregoing, all plumbing, heating, air conditioning, (Lessee shall procure and maintain, at Lessee's expense, an air conditioning maintenance contract) ventilating, electrical, lighting facilities and equipment within the Premises, fixtures, walls (interior and exterior), ceilings, roofs (interior and exterior), floors, windows, doors, plate glass and skylights located within the Premises, and all landscaping, driveways, parking lots, fences and signs located on the Premises and sidewalks and parkways adjacent to the Premises.

7.2 Surrender. On the last day of the term hereof, or on any sooner termination, Lessee shall surrender the Premises to Lessor in the same condition as when received, ordinary wear and tear excepted, clean and free of debris.

Lessee shall repair any damage to the Premises occasioned

Initials: /s/CLD

/s/BRG

by the installation or removal of Lessee's trade fixtures, furnishings and equipment. Notwithstanding anything to the contrary otherwise stated in this Lease, Lessee shall leave the air lines, power panels, electrical distribution systems, lighting fixtures, space heaters, air conditioning, plumbing and fencing on the premises in good operating condition.

7.3 Lessor's Rights. If Lessee fails to perform Lessee's obligations under this Paragraph 7, or under any other paragraph of this Lease, Lessor may at its option (but shall not be required to) enter upon the Premises after ten (10) days' prior written notice to Lessee (except in the case of an emergency, in which case no notice shall be required), perform such obligations on Lessee's behalf and put the same in good order, condition and repair, and the cost thereof together with interest thereon at the maximum rate then allowable by law shall become due and payable as additional rental to Lessor together with
Lessee's next rental installment.

7.4 Lessor's Obligations. Except for the obligations of Lessor under Paragraph 6.2(a) and 6.3(a) (relating to Lessor's warranty), Paragraph 9 (relating to destruction of the Premises) and under Paragraph 14 (relating to condemnation of the Premises), it is intended by the parties hereto that Lessor have no obligation, in any manner whatsoever, to repair and maintain the Premises nor the building located thereon nor the equipment therein, whether structural or non-structural, all of which obligations are intended to be that of the Lessee, under Paragraph 7.1 hereof. Lessee expressly waives the benefit of any statute now or hereinafter in effect which would otherwise afford Lessee the right to make repairs at Lessor's expense or to terminate this Lease because of Lessor's failure to keep the premises in good order, condition and repair.

7.5 Alterations and Additions

(a) Lessee shall not, without Lessor's prior written consent make any alterations, improvements, additions, or Utility Installations in, on or about the Premises except for nonstructural alterations not exceeding $20,000.00 in cumulative costs during the term of this Lease. In any event, whether or not in excess of $20,000.00 in cumulative cost, Lessee shall make no change or alteration to the exterior of the Premises nor the exterior of the building(s) on the Premises without Lessor's prior written consent. As used in this Paragraph 7.5 the term "Utility Installation" shall mean carpeting, window coverings, air lines, electrical distribution systems, lighting fixtures, space heaters, air conditioning, plumbing, and fencing. Lessor may require that Lessee remove any or all of said alterations, improvements, additions or Utility Installations at the expiration of the term, and restore the Premises to their prior condition. Lessor may require Lessee to provide Lessor, at Lessee's sole cost and expense, a lien and completion bond in an amount equal to one and one-half times the estimated cost of such improvements, to insure Lessor against any liability for mechanic's and materialmen's liens and to insure completion of the work. Should Lessee make any alterations, improvements, additions or Utility Installations without the prior approval of Lessor, Lessee may require that Lessor remove any or all of the same.

(b) Any alterations, improvements, additions or Utility Installations in, or about the Premises that Lessee shall desire to make and which requires the consent of the Lessor shall be presented to Lessor in written form, with proposed detailed plans. If Lessor shall give its consent, the consent shall be deemed conditioned upon Lessee acquiring a permit to do so from appropriate governmental agencies, the furnishing of a copy thereof to Lessor prior to the commencement of the work and the compliance by Lessee of all conditions of said permit in a prompt and expeditious manner. When due, all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for use in the Premises, which claims are or may be secured by any mechanics' or materialmen's lien against the Premises or any interest therein. Lessee shall give Lessor not less than ten (10) days' notice prior to the commencement of any work in the Premises, and Lessor shall have the right to post notices of non-responsibility on the Premises or any of said alterations and the commencement thereof against the Lessor or the Premises, upon the condition that if Lessor shall require, Lessee shall furnish to Lessor a surety bond satisfactory to such contested lien claim or demand indemnifying Lessor against liability for the same and holding the Premises free from the effect of such lien or claim. In addition, Lessor may require to pay Lessor's attorneys fees and costs in participating in such action if Lessor shall decide it is to its best interest to do so.

(d) Unless Lessee requires their removal, as set forth in Paragraph 7.5(a), all alterations, improvements, additions and Utility Installations (whether or not such Utility Installations constitute trade fixtures of Lessee), which are made on the Premises, shall become the property of Lessor and remain upon and be surrendered with the Premises at the expiration of the term. Notwithstanding the provisions of this Paragraph 7.5(d), Lessee's machinery and equipment, other than that which is affixed to the Premises so that it cannot be removed without material damage to the Premises, shall remain the property of Lessee and may be removed by Lessee in by Lessee in accordance with the provisions of Paragraph 7.2, or can be removed and building returned to its initial state.

8. Insurance Indemnity

8.1 Insuring Party. As used in this Paragraph 8, the term "Insuring party" shall mean the party who has the obligation to obtain the Property Insurance described in Paragraph 6.1 hereof. The insuring party shall be designated in Paragraph 46 hereof. In the event Lessor is the insuring party, Lessor shall also maintain the liability insurance described in paragraph 8.2 hereof, in addition to, and not in lieu of, the insurance required to be maintained by Lessee under said paragraph 8.2, but Lessor shall not be required to name Lessee as an additional insured on such policy. Whether the insuring party is the Lessor or Lessee, as additional rent for the Premises, pay the cost of all insurance required hereunder, except for that portion of the cost attributable to Lessor's liability insurance coverage in excess of $1,000,000 per occurrence. If Lessor is the insuring party Lessee shall, within ten (10) days following demand by Lessor, reimburse Lessor for the cost of the insurance so obtained.

8.2 Liability Insurance. Lessee shall, at Lessee's expense obtain and keep in force during the term of this Lease a policy of Combined Single Limit,
thereon; and in case any action or proceeding be brought against Lessor by
incurred in the defense of any such claim or any action or proceeding brought
and from and against all costs, attorney’s fees, expenses and liabilities
negligence of the Lessee, or any of Lessee’s agents, contractors, or employees,
arising from any breach or default in the performance of any obligation on
further indemnify and hold harmless Lessor from and against any and all claims
conduct of Lessee’s business or from any activity, work or things done,
due to the negligence of Lessor or Lessee or their agents, employees,
for loss or damage arising out of or incident to the perils insured against
relieve the other, and waive their entire right of recovery against the other
insurance policies referred to in Paragraph 8. No such policy shall be
cancellable or subject to reduction of coverage or other modification except
procure and maintain the same, but at the expense of Lessee. If such insurance
shall be payable by Lessee upon demand. Lessee shall not do or permit to be done
shall invalidate the insurance policies referred to in Paragraph 8.3. If Lessee does or permits to be done anything which shall increase the cost
insurance the other party may, but shall not be required to, procure and maintain the same, but at the expense of Lessee. If such insurance
coverage has a deductible clause, the deductible amount shall not exceed
$5,000.00 per occurrence, and Lessee shall be liable for such deductible amount.
(b) If the Premises are part of a larger building, or if the
Lessee shall pay for any increase in the property insurance of
such other building or buildings if said increase is caused by Lessee’s acts,
inspections, use or occupancy of the Premises.
(c) If the Lessor is the insuring party the Lessor will not
insure Lessee’s fixtures, equipment or tenant improvements unless the tenant
improvements have become a part of the Premises under paragraph 7, hereof. But
if Lessee is the insuring party the Lessee shall insure its fixtures, equipment
and tenant improvements.

8.4 Insurance Policies. Insurance required hereunder shall be in
companies holding a “General Policyholders Rating” of at least B plus, or such
other rating as may be required by a lender having a lien on the Premises, as
set forth in the most current issue of “Best’s Insurance Guide”. The insuring
party shall deliver to the other party copies of policies of such insurance or
certificates evidencing the existence and amounts of such insurance with loss
payable clauses as required by this paragraph 8. No such policy shall be
cancelable or subject to reduction of coverage or other modification except
after thirty (30) days’ prior written notice to Lessee. If Lessee is the
insuring party Lessee shall, at least thirty (30) days prior to the expiration
of such policies, furnish Lessor with renewals or “binders” thereof, or Lessor
may order such insurance and charge the cost thereof to Lessee, which amount
shall be paid by Lessee upon demand. Lessee shall not do or permit to be done
anything which shall invalidate the insurance policies referred to in Paragraph
8.3. If Lessee does or permits to be done anything which shall increase the cost
of the insurance policies referred to in Paragraph 8.3, then Lessee shall
forthwith upon Lessor’s demand reimburse Lessor for any additional premiums
attributable to any act or omission or operation of Lessee causing such increase
in the cost of insurance. If Lessor is the insuring party, and if the insurance
policies maintain coverage to cover other improvements in addition to the
Premises, Lessor shall deliver to Lessee a written statement setting forth the
amount of any such insurance cost increase and showing in reasonable detail the
manner in which it has been computed.

8.5 Waiver of Subrogation. Lessee and Lessor each hereby release and
relieve their entire right of recovery against the other for loss or damage arising out of or incident to the perils insured against
under paragraph 8.3, which perils occur in, on or about the Premises, whether
due to the negligence of Lessor or Lessee or their agents, employees,
contractors and/or invitees. Lessee and Lessor shall, upon obtaining the
policies of insurance required hereunder, give notice to the insurance carrier or carriers that the foregoing mutual waiver of subrogation is contained in this
Lease.

8.6 Indemnity. Lessee shall indemnify and hold harmless Lessor from and
against any and all claims arising from Lessee’s use of the Premises, or from
the conduct of Lessee’s business or from any activity, work or things done,
permitted by or on or about the Premises or elsewhere and shall further indemnify and hold harmless Lessor from and against any and all claims
arising from any breach or default in the performance of any obligation on
Lessee’s part of be performed under the terms of this Lease, or arising from any
negligence of the Lessee, or any of Lessee’s agents, contractors, or employees,
and from and against all costs, attorney’s fees, expenses and liabilities
incurred in the defense of any such claim or any action or proceeding brought
thereon; and in case any action or proceeding be brought against Lessor by

reason of any such claim, Lessee upon notice from Lessor shall defend the same at Lessee's expense by counsel satisfactory to Lessor.

8.7 Exemption of Lessor from Liability. Lessee hereby agrees that Lessor shall not be liable for injury to Lessee's business or any loss of income therefrom or for damage to the goods, wares, merchandise or other property of Lessee, Lessee's employees, invitees, customers, or any other person in or about the Premises, nor shall Lessor be liable for injury to the person of Lessee, Lessee's employees, agents or contractors whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures, or from any other cause, except for Lessor's negligence or breach of its warranties, whether the said damage or injury results from conditions arising upon the Premises or upon other portions of the building of which the Premises are a part, or from other sources or places and regardless of whether the cause of such damage or injury or the means of repairing the same is inaccessible to Lessee. Lessor shall not be liable for any damages arising from any act or neglect of any other tenant, if any, of the building in which the Premises are located.

Initials /s/CLD
/s/RGB

9. Damage or Destruction.

9.1 Definitions.

(a) "Premises Partial Damage" shall herein mean damage or destruction to the Premises to the extent that the cost of repair is less than 50% of the then replacement cost of the Premises. "Premises Building Partial Damage" shall herein mean damage or destruction to the building of which the Premises are a part to the extent that the cost of repair is less than 50% of the then replacement cost of such building as a whole.

(b) "Premises Total Destruction" shall herein mean damage or destruction to the Premises to the extent that the cost of repair is 50% or more of the then replacement cost of the Premises. "Premises Building Total Destruction" shall herein mean damage or destruction to the building of which the Premises are a part to the extent that the cost of repair is 50% or more of the then replacement cost of such building as a whole.

(c) "Insured Loss" shall herein mean damage or destruction which was caused by an event required to be covered by the insurance described in paragraph 8.

9.2 Partial Damage - Insured Loss. Subject to the provisions of paragraphs 9.4, 9.5 and 9.6, if at any time during the term of this Lease there is damage which is an insured Loss and which falls into the classification of Premises Partial Damage or Premises Building Partial Damage, then Lessor shall, at Lessor's expense, repair such damage, but not Lessee's fixtures, equipment or tenant improvements unless the same have become a part of the Premises pursuant to Paragraph 7.5 hereof as soon as reasonably possible and this Lease shall continue in full force and effect. Lessor shall make such repairs as soon as reasonably possible and this Lease shall continue in full force and effect.

9.3 Partial Damage - Uninsured Loss. Subject to the provisions of Paragraphs 9.4, 9.5 and 9.6, if at any time during the term of this Lease there is damage which is not an Insured Loss and which falls within the classification of Premises Partial Damage or Premises Building Partial Damage, unless caused by a negligent or willful act of Lessee (in which event Lessor shall make the repairs at Lessee's expense), Lessor may at Lessor's option either (i) repair such damage as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) give written notice to Lessee within thirty (30) days after the date of the occurrence of such damage of Lessor's intention to cancel and terminate this Lease, as of the date of the occurrence of such damage. In the event Lessor elects to give such notice of Lessor's intention to cancel and terminate this Lease, Lessee shall have the right within ten (10) days after the receipt of such notice to give written notice to Lessor of Lessee's intention to repair such damage at Lessee's expense, without reimbursement from Lessor, in which event this Lease shall continue in full force and effect, and Lessee shall proceed to make such repairs as soon as reasonably possible. If Lessee does not give such notice within such 10-day period this Lease shall be cancelled and terminated as of the date of the occurrence of such damage.

9.4 Total Destruction. If at any time during the term of this Lease there is damage, whether or not an Insured Loss, (including destruction required by any authorized public authority), which falls into the classification of Premises Total Destruction or Premises Building Total Destruction, this Lease shall automatically terminate as of the date of such total destruction.

9.5 Damage Near End of Term
(b) Notwithstanding paragraph 9.5(a), in the event that Lessee has an option to extend or renew this Lease, and the time within which said option may be exercised has not yet expired, Lessee shall exercise such option, if it is to be exercised at all, no later than 20 days after the occurrence of an Insured Loss falling within the classification of Premises Partial Damage during the last six months of the term of this Lease. If Lessee duly exercises such option during said 20 day period, Lessor shall, at Lessor's expense, repair such damage as is practicable and this Lease shall continue in full force and effect. If Lessee fails to exercise such option during said 20 day period, then Lessor may at Lessor's option terminate and cancel this Lease as of the expiration of said 20 day period by giving written notice to Lessee of Lessor's election to do so within 10 days after the expiration of said 20 day period, notwithstanding any term or provision in the grant of option to the contrary.

9.6 Abatement of Rent; Lessee's Remedies

(a) In the event of damage described in paragraphs 9.2 or 9.3, and Lessor or Lessee repairs or restores the Premises pursuant to the provisions of this Paragraph 9, the rent payable hereunder for the period during which such damage, repair or restoration continues shall be abated in proportion to the degree to which Lessee's use of the Premises is impaired. Except for abatement of rent, if any, Lessee shall have no claim against Lessor for any damage suffered by reason of any such damage, destruction, repair or restoration.

(b) If Lessor shall be obligated to repair or restore the Premises under the provisions of this Paragraph 9 and shall not commence such repair or restoration within 90 days after such obligations shall accrue, Lessee may at Lessee's option cancel and terminate this Lease by giving Lessor written notice of Lessee's election to do so at any time prior to the commencement of such repair or restoration. In such event this Lease shall terminate as of the date of such notice.

9.7 Termination - Advance Payments. Upon termination of this Lease pursuant to this Paragraph 9, an equitable adjustment shall be made concerning advance rent and any advance payments made by Lessee to Lessor. Lessor shall, in addition, return to Lessee so much of Lessee's security deposit as has not theretofore been applied by Lessor.

9.8 Waiver. Lessor and Lessee waive the provisions of any statutes which relate to termination of leases when leased property is destroyed and agree that such event shall be governed by the terms of this Lease.

10. Real Property Taxes.

10.1 Payment of Taxes. Lessee shall pay the real property tax, as defined in paragraph 10.2, applicable to the Premises during the term of this Lease. All such payments shall be made at least ten (10) days prior to the delinquency date of such payment. Lessee shall promptly furnish Lessor with satisfactory evidence that such taxes have been paid. If any such taxes paid by Lessee shall cover any period of time prior to or after the expiration of the term hereof, Lessee's share of such taxes shall be equitably prorated to cover only the period of time within the tax fiscal year during which this Lease shall be in effect, and Lessor shall reimburse Lessee to the extent required. If Lessee fails to pay any such taxes, Lessor shall have the right to pay the same, in which case Lessee shall repay such amount to Lessor with Lessee's next rent installment together with interest at the maximum rate then allowable by law.

10.2 Definition of "Real Property Tax". As used herein, the term "real property tax" shall include any form of real estate tax or assessment, general, special, ordinary or extraordinary, and any license fee, commercial rental tax, improvement bond or bonds, levy or tax (other than inheritance, personal income or estate taxes) imposed for a service or right not charged prior to June 1, 1978, or, if previously charged, has been increased since June 1, 1978, or (iv) which is imposed by reason of this transaction, any modifications or changes hereto or
10.3 Joint Assessment. If the Premises are not separately assessed, Lessee's liability shall be an equitable proportion of the real property taxes for all of the land and improvements included within the tax parcel assessed, such proportion to be determined by Lessor from the respective valuations assigned in the assessor's work sheets or such other information as may be reasonably available. Lessor's reasonable determination thereof, in good faith, shall be conclusive.

10.4 Personal Property Taxes.

(a) Lessee shall pay prior to delinquency all taxes assessed against and levied upon trade fixtures, furnishings, equipment and all other personal property of Lessee contained in the Premises or elsewhere. When possible, Lessee shall cause said trade fixtures, furnishings, equipment and all other personal property to be assessed and billed separately from the real property of Lessor.

(b) If any of Lessee's said personal property shall be assessed with Lessor's real property, Lessee shall pay Lessor the taxes attributable to Lessee within 10 days after receipt of a written statement setting forth the taxes applicable to Lessee's property.

11. Utilities. Lessee shall pay for all water, gas, heat, light, power, telephone and other utilities and services supplied to the Premises, together with any taxes thereon. If any such services are not separately metered to Lessee, Lessee shall pay a reasonable proportion to be determined by Lessor of all charges jointly metered with other premises.

12. Assignment and Subletting.

12.1 Lessor's Consent Required. Lessee shall not voluntarily or by operation of law assign, transfer, mortgage, sublet, or otherwise transfer or encumber all or any part of Lessee's interest in this Lease or in the Premises, without Lessor's prior written consent, which Lessor shall not unreasonably withhold. Lessor shall respond to Lessee's request for consent hereunder in a timely manner and any attempted assignment, transfer, mortgage, encumbrance or subletting without such consent shall be void, and shall constitute a breach of this Lease.

12.2 Lessee Affiliate. Notwithstanding the provisions of paragraph 12.1 hereof, Lessee may assign or sublet the Premises, or any portion thereof, without Lessor's consent, to any corporation which controls, is controlled by or is under common control with Lessee, or to any corporation resulting from the merger or consolidation with Lessee, or to any person or entity which acquires all the assets of Lessee as a going concern of the business that is being conducted on the Premises, provided that said assignee assumes, in full, the obligations of Lessee under this Lease. Any such assignment shall not, in any way, affect or limit the liability of Lessee under the terms of this Lease even if after such assignment or subletting the terms of this Lease are materially changed or altered without the consent of Lessee, the consent of whom shall not be necessary.

12.3 No Release of Lessee. Regardless of Lessor's consent, no subletting or assignment shall release Lessee of Lessee's obligation or alter the primary liability of Lessee to pay the rent and to perform all other obligations to be performed by Lessee hereunder. The acceptance of rent by Lessor from any other person shall not be deemed to be a waiver by Lessor of any provision hereof. Consent to one assignment or subletting shall not be deemed consent to any subsequent assignment or subletting. In the event of default by any assignee of Lessee or any successor of Lessee, in the performance of any of the terms hereof, Lessor may proceed directly against Lessee without the necessity of exhausting remedies against said assignee. Lessor may consent to subsequent assignments or subletting of this Lease or amendments or modifications to this Lease with assignees

Initials: /s/CLD
/s/RBG

-3-
of Lessee, without notifying Lessee, or any successor of Lessee, and without obtaining its or their consent thereto and such action shall not relieve Lessee of liability under this Lease.

12.4 Attorney's Fees. In the event Lessee shall assign or sublet the Premises or request the consent of Lessor to any assignment or subletting or if Lessee shall request the consent of Lessor for any act Lessee proposes to do then Lessee shall pay Lessor's reasonable attorneys fees incurred in connection therewith, such attorneys fees not to exceed $350.00 for each such request.

13. Defaults; Remedies.

13.1 Defaults. The occurrence of any one or more of the following events shall constitute a material default and breach of this Lease by Lessee:
(a) The vacating or abandonment of the Premises by Lessee.

(b) The failure by Lessee to make any payment of rent or any other payment required to be made by Lessee hereunder, as and when due, where such failure shall continue for a period of three days after written notice thereof from Lessor to Lessee. In the event that Lessor serves Lessee with a Notice to Pay Rent or Quit pursuant to applicable Unlawful Detainer statutes such Notice to Pay Rent or Quit shall also constitute the notice required by this subparagraph.

(c) The failure by Lessee to observe or perform any of the covenants, conditions or provisions of this Lease to be observed or performed by Lessee, other than described in paragraph (b) above, where such failure shall continue for a period of 30 days after written notice thereof from Lessor to Lessee; provided, however, that if the nature of Lessee's default is such that more than 30 days are reasonably required for its cure, then Lessee shall not be deemed to be in default if Lessee commenced such cure within said 30-day period and thereafter diligently prosecutes such cure to completion.

(d) (i) The making by Lessee of any general arrangement or assignment for the benefit of creditors; (ii) Lessee becomes a "debtor" as defined in 11 U.S.C. 101 or any successor statute thereto (unless, in the case of a petition filed against Lessee, the same is dismissed within 60 days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where possession is not restored to Lessee within 30 days; or (iv) the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where such seizure is not discharged within 30 days. Provided, however, in the event that any provision of this paragraph 13.1(d) is contrary to any applicable law, such provision shall be of no force or effect.

(e) The discovery by Lessor that any financial statement given to Lessor by Lessee, any assignee of Lessee, any subtenant of Lessee, any successor in interest of Lessee or any guarantor of Lessee's obligation hereunder, and any of them, was materially false.

13.2 Remedies. In the event of any such material default or breach by Lessee, Lessor may at any time thereafter, with or without notice or demand and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such default or breach:

(a) Terminate Lessee's right to possession of the Premises by any lawful means, in which case this Lease shall terminate and Lessee shall immediately surrender possession of the Premises to Lessor. In such event Lessor shall be entitled to recover from Lessee all damages incurred by Lessor by reason of Lessee's default including, but not limited to, the cost of recovering possession of the Premises; expenses of reletting, including necessary renovation and alteration of the Premises, reasonable attorney's fees, and any real estate commission actually paid; the worth at the time of award by the court having jurisdiction thereof of the amount by which the unpaid rent for the balance of the term after the time of such award exceeds the amount of such rental loss for the same period that Lessee proves could be reasonably avoided; that portion of the leasing commission paid by Lessor pursuant to Paragraph 15 applicable to the unexpired term of this Lease.

(b) Maintain Lessee's right to possession in which case this Lease shall continue in effect whether or not Lessee shall have abandoned the Premises. In such event Lessor shall be entitled to enforce all of Lessor's rights and remedies under this Lease, including the right to recover the rent as it becomes due hereunder.

(c) Pursue any other remedy now or hereafter available to Lessor under the laws or judicial decisions of the state wherein the Premises are located. Unpaid installments of rent and other unpaid monetary obligations of Lessee under the terms of this Lease shall bear interest from the date due at the maximum rate then allowable by law.

13.3 Default by Lessor. Lessor shall not be in default unless Lessor fails to perform obligations required of Lessor within a reasonable time, but in no event later than thirty days after written notice by Lessee to Lessor and to the holder of any first mortgage or deed of trust covering the Premises whose name and address shall have theretofore been furnished to Lessee in writing, specifying wherein Lessor has failed to perform such obligation; provided, however, that if the nature of Lessor's obligation is such that more than thirty (30) days are required for performance then Lessor shall not be in default if Lessor commences performance within such 30-day period and thereafter diligently prosecutes the same to completion.

13.4 Late Charges. Lessee hereby acknowledges that late payment by Lessee to Lessor of rent and other sums due hereunder will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed on
Lessor by the terms of any mortgage or trust deed covering the Premises. Accordingly, if any installment of rent or any other sum due from Lessee shall not be received by Lessor or Lessor's designee within ten (10) days after such amount shall be due, then, without any requirement for notice to Lessee, Lessee shall pay to Lessor a late charge equal to 6% of such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of late payment by Lessee. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's default, nor prevent Lessor from exercising any of the other rights and remedies granted hereunder. In the event that a late charge is payable hereunder, whether or not collected, for three (3) consecutive installments of rent, then rent shall automatically become due and payable quarterly in advance, rather than monthly, notwithstanding paragraph 4 or any other provision of this Lease to the contrary.

13.5 Impounds. In the event that a late charge is payable hereunder, whether or not collected, for three (3) installments of rent or any other monetary obligation of Lessee under the terms of this Lease, Lessee shall pay to Lessor, if Lessor shall so request, in addition to any other payments required under this Lease, a monthly advance installment, payable at the same time as the monthly rent, as estimated by Lessor, for real property tax and insurance expenses on the Premises which are payable by Lessee under the terms of this Lease. Such fund shall be established to insure payment when due, before delinquency, of any or all such real property taxes and insurance premiums. If the amounts paid to Lessor by Lessee under the provisions of this paragraph are insufficient to discharge the obligations of Lessee to pay such real property taxes and insurance premiums as the same become due, Lessee shall pay to Lessor, upon Lessee's demand, such additional sums necessary to pay such obligations. All moneys paid to Lessor under this paragraph may be intermingled with other moneys of Lessor and shall not bear interest. In the event of a default in the obligations of Lessee to perform under this Lease, then any balance remaining from funds paid to Lessor under the provisions of this paragraph may, at the option of Lessor, be applied to the payment of any monetary default of Lessee in lieu of being applied to the payment of real property tax and insurance premiums.

14. Condemnation. If the Premises or any portion thereof are taken under the power of eminent domain, or sold under the threat of the exercise of said power (all of which are herein called "condemnation"), this Lease shall terminate as to the part so taken as of the date the condemning authority takes title or possession thereof. If more than 10% of the floor area of the building on the Premises, or more than 25% of the land area of the Premises which is not occupied by any building, is taken by condemnation, Lessee, at Lessee's option, to be exercised in writing only within ten (10) days after Lessor shall have given Lessee written notice of such taking (or in the absence of such notice, within ten (10) days after the condemning authority shall have taken possession) terminate this Lease as of the date the condemning authority takes such possession. If Lessee does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the Premises remaining, except that the rent shall be reduced in the proportion that the floor area of the building taken bears to the total floor area of the building situated on the Premises. No reduction of rent shall occur if the only area taken is that which does not have a building located thereon. Any award for the taking of all or any part of the Premises under the power of eminent domain or any payment made under threat of the exercise of such power shall be the property of Lessor, whether such award shall be made as compensation for diminution in value of the leasehold or for the taking of the fee, or as severance damages; provided, however, that Lessee shall be entitled to any awards as Lessee's trade fixtures and removable personal property. In the event that this Lease is not terminated by reason of such condemnation, Lessor shall to the extent of severance damages received by Lessor in connection with such condemnation, repair any damage to the Premises caused by such condemnation except to the extent that Lessee has been reimbursed therefor by the condemning authority. Lessee shall pay any amount in excess of such severance damages required to complete such repair.

15. Broker's Fee.

(a) Upon execution of this Lease by both parties, Lessor shall pay to (blank) Licensed real estate broker(s) a fee as set forth in a separate agreement between Lessor and said broker(s), or in the event there is no separate agreement between Lessor and said broker(s), the sum of $ (blank), for brokerage services rendered by said broker(s) to Lessor in this transaction.

(b) Lessor further agrees that if Lessee exercises any Option as defined in paragraph 39.1 of this Lease, which is granted to Lessee under this Lease, or any subsequently granted option which is substantially similar to an Option under this Lease, or if Lessee acquires any rights to the Premises or other premises described in this Lease which are substantially similar to what Lessee would have acquired had an Option herein granted to Lessee been exercised, or if Lessee remains in possession of the Premises after the expiration of the term of this Lease after having failed to exercise an Option, or if said broker(s) are the procuring cause of any other lease or sale entered into between the parties pertaining to the Premises and/or any adjacent property in which Lessor has an interest, then as to any of said
transactions, Lessor shall pay said broker(s) a fee in accordance with the schedule of said broker(s) in effect at the time of execution of this Lease.

(c) Lessor agrees to pay said fee not only on behalf of Lessor but also on behalf of any person, corporation, association, or other entity having an ownership interest in said real property or any part thereof, when such fee is due hereunder. Any transferee of Lessor's interest in this Lease, whether such transfer is by agreement or by operation of law, shall be deemed to have assumed Lessor's obligation under this Paragraph 15. Said broker shall be a third party beneficiary of the provisions of this Paragraph 15.


(a) Lessee shall at any time upon not less than ten (10) days' prior written notice from Lessor execute, acknowledge and deliver to Lessor a statement in writing (i) certifying that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect) and the date to which the rent and other charges are paid in advance, if any, and (ii) acknowledging that there are not, to Lessee's knowledge, any unsecured defaults on the part of Lessor hereunder, or specifying such defaults if any are claimed. Any such statement may be conclusively relied upon by any prospective purchaser or encumbrancer of the Premises.

(b) At Lessor's option, Lessee's failure to deliver such statement within such time shall be a material breach of this Lease or shall be conclusive upon Lessee (i) that this Lease is in full force and effect, without modification except as may be represented by Lessor, (ii) that there are no unsecured defaults in Lessor's performance, and (iii) that not more than one month's rent has been paid in advance or such failure may be considered by Lessor as a default by Lessee under this Lease.

(c) If Lessor desires to finance, refinance, or sell the Premises, or any part thereof, Lessee hereby agrees to deliver to any lender or purchaser designated by Lessor such financial statements of Lessee as may be reasonably required by such lender or purchaser. Such statements shall include the past three years' financial statements of Lessee. All such financial statements shall be received by Lessor and such lender or purchaser in confidence and shall be used only for the purposes herein set forth.

17. (Deleted)

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

19. Interest on Past-due Obligations. Except as expressly herein provided, any amount due to Lessor not paid when due shall bear interest at the maximum rate then allowable by law from the date due. Payment of such interest shall not excuse or cure any default by Lessee under this Lease, provided, however, that interest shall not be payable on late charges incurred by Lessee nor on any amounts upon which late charges are paid by Lessee.

20. Time of Essence. Time is of the essence.

21. Additional Rent. Any monetary obligations of Lessee to Lessor under the terms of this Lease shall be deemed to be rent.

22. Incorporation of Prior Agreements; Amendments. This Lease contains all agreements of the parties with respect to any matter mentioned herein. No prior agreement or understanding pertaining to any such matter shall be effective. This Lease may be modified in writing only, signed by the parties in interest at the time of the modification. Except as otherwise stated in this Lease, Lessee hereby acknowledges that neither the real estate broker listed in Paragraph 15 hereof nor any cooperating broker on this transaction nor the Lessor or any employees or agents of any of said persons has made any oral or written warranties or representations to Lessee relative to the condition or use by Lessee of said Premises and Lessee acknowledges that Lessee assumes all responsibility regarding the Occupational Safety Health Act, the legal use and adaptability of the Premises and the compliance thereof with all applicable laws and regulations in effect during the term of this Lease except as otherwise specifically stated in this Lease.

23. Notices. Any notice required or permitted to be given hereunder shall be in writing and may be given by personal delivery or by certified mail, and if given personally or by mail, shall be deemed sufficiently given if addressed to Lessee or to Lessor at the address noted below the signature of the respective parties, as the case may be. Either party may by notice to the other specify a different address for notice purposes except that upon Lessee's taking possession of the Premises, the Premises shall constitute Lessee's address for notice purposes. A copy of all notices required or permitted to be given to Lessor hereunder shall
be concurrently transmitted to such party or parties at such addresses as Lessor
can designate. The same is hereby acknowledged by Lessee.

24. Waivers. No waiver by Lessor or any provision hereof shall be deemed a
waiver of any other provision hereof or of any subsequent breach by Lessor of
the same or any other provision. Lessor's consent to, or approval of, any act
shall not be deemed to render unnecessary the obtaining of Lessor's consent to
or approval of any subsequent act by Lessee. The acceptance of rent hereunder by
Lessor shall not be a waiver of any preceding breach by lessee of any provision
hereof, other than the failure of Lessee to pay the particular rent so accepted,
regardless of Lessor's knowledge of such preceding breach at the time of
acceptance of such rent. Lessee's consent to, or approval of, any act
shall not be deemed to render unnecessary the obtaining of Lessor's consent to
or approval of any subsequent act by Lessee. The acceptance of rent hereunder by
Lessee shall not be a waiver of any preceding breach by Lessee of any provision
hereof, other than the failure of Lessee to pay the particular rent so accepted,
regardless of Lessor's knowledge of such preceding breach at the time of
acceptance of such rent. Lessee's consent to, or approval of, any act
shall not be deemed to render unnecessary the obtaining of Lessor's consent to
or approval of any subsequent act by Lessee. The acceptance of rent hereunder by
Lessee shall not be a waiver of any preceding breach by Lessee of any provision
hereof, other than the failure of Lessee to pay the particular rent so accepted,
regardless of Lessor's knowledge of such preceding breach at the time of
acceptance of such rent.

25. Recording. Either Lessor or Lessee shall, upon request of the other,
execute, acknowledge and deliver to the other a "short form" memorandum of this
Lease for recording purposes.

26. Holding Over. If Lessee, with Lessor's consent, remains in possession of the
Premises or any part thereof after the expiration of the term hereof, such
occupancy shall be a tenancy from month to month upon all the provisions of this
Lease pertaining to the obligations of Lessee, but all options and rights of
first refusal, if any, granted under the terms of this Lease shall be deemed
terminated and be of no further effect during said month to month tenancy.

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

28. Covenants and Conditions. Each provision of this Lease performable by Lessee
shall be deemed both a covenant and a condition.

29. Binding Effect; Choice of Law. Subject to any provisions hereof restricting
assignment or subletting by Lessee and subject to the provisions of Paragraph
17, this Lease shall bind the parties, their personal representatives,
successors and assigns. This Lease shall be governed by the laws of the State
wherein the Premises are located.

30. Subordination. (a) This Lease, at Lessor's option, shall be subordinate to any ground
lease, mortgage, deed of trust, or any other hypothecation or security now or
hereafter placed upon the real property of which the Premises are a part and to
any and all advances made on the security thereof and to all renewals,
modifications, consolidations, replacements and extensions thereof.
Notwithstanding such subordination, Lessee's right to quiet possession of the
Premises shall not be disturbed if Lessee is not in default and so long as
Lessee shall pay the rent and observe and perform all of the provisions of this
Lease, until such time as the term hereof is either further extended pursuant to its terms. If any
mortgagee, trustee or ground lessor shall elect to have this Lease prior to the
lien of its mortgage, deed of trust or ground lease, and shall give written
notice thereof to Lessee, this Lease shall be deemed prior to such mortgage,
deed of trust, or ground lease, whether this Lease is dated prior or subsequent
to the date of said mortgage, deed of trust or ground lease or the date of
recording thereof.

(b) Lessee agrees to execute any documents required to effectuate an
attornment, a subordination or to make this Lease prior to the lien of any
mortgage, deed of trust or ground lease, as the case may be. Lessee's failure to
execute such documents within 10 days after written demand shall constitute a
material default by Lessee hereunder, or, at Lessor's option, Lessor shall
execute such documents on behalf of Lessee or Lessee's attorney-in-fact. Lessee
does hereby make, constitute and irrevocably appoint Lessor as Lessee's
attorney-in-fact and in Lessee's name, place and stead, to execute such
documents in accordance with this paragraph 30(b).

31. Attorney's Fees. If either party or the broker named herein brings an action
to enforce the terms hereof or declare rights hereunder, the prevailing party in
any such action, on trial or appeal, shall be entitled to his reasonable
attorney's fees to be paid by the losing party as fixed by the court. The
provisions of this paragraph shall inure to the benefit of the broker named
herein who seeks to enforce a right hereunder.

32. Lessor's Access. Lessor and Lessor's agents shall have the right to enter
the Premises at reasonable times for the purpose of inspecting the same, showing
the same to prospective purchasers, lenders, or lessees, and making such
alterations, repairs, improvements or additions to the Premises or to the
building of which they are a part as Lessor may deem necessary or desirable.
Lessor may at any time place on or about the Premises any ordinary "For Sale"
signs and Lessor may at any time during the last 120 days of the term hereof
place on or about the Premises any ordinary "For Lease" signs, all without
rebate of rent or liability to Lessee.

33. Auctions. Lessee shall not conduct, nor permit to be conducted, either
voluntarily or involuntarily, any auction upon the Premises without first having
obtained Lessor's prior written consent. Notwithstanding anything to the
contrary in this Lease, Lessor shall not be obligated to exercise any standard
of reasonableness in determining whether to grant such consent.

34. Signs. Lessee shall not place any sign upon the Premises without Lessor's prior written consent except that Lessee shall have the right, without the prior permission of Lessor to place ordinary and usual for rent or sublet signs thereon.

35. Merger. The voluntary or other surrender of this Lease by Lessee, or a mutual cancellation thereof, or a termination by Lessor, shall not work a merger, and shall, at the option of Lessor, terminate all or any existing subtenancies or may, at the option of Lessor, operate as an assignment to Lessor of any or all of such subtenancies.

36. Consents. Except for paragraph 33 hereof, wherever in this Lease the consent of one party is required to an act of the other party such consent shall not be unreasonably withheld.

37. Guarantor. In the event that there is a guarantor of this Lease, said guarantor shall have the same obligations as Lessee under this Lease.

38. Quiet Possession. Upon Lessee paying the rent for the Premises and observing and performing all of the covenants, conditions and provisions on Lessee's part to be observed and performed hereunder, Lessee shall have quiet possession of the Premises for the entire term hereof subject to all of the provisions of this Lease. The individuals executing this Lease on behalf of Lessor represent and warrant to Lessee that they are fully authorized and legally capable of executing this Lease on behalf of Lessor and that such execution is binding upon all parties holding an ownership interest in the Premises.

39. Options.

39.1 Definition. As used in this paragraph the word "Options" has the following meaning: (1) the right or option to extend the term of this Lease or to extend or renew any lease that Lessee has on other property of Lessor; (2) the option or right of first refusal to lease the Premises or the right of first offer to lease the Premises or the right of first refusal to lease other property of Lessor or the right of first offer to lease other property of Lessor; (3) the right or option to purchase the Premises, or the right of first refusal to purchase the Premises, or the right of first offer to purchase the Premises, or the right or option to purchase other property of Lessor, or the right of first refusal to purchase other property of Lessor or the right of first offer to purchase other property of Lessor.

Initials: /s/CLD
/s/RBG
commence to cure a default specified in paragraph 13.1(c) within 30 days after
the date that Lessor gives notice to Lessee of such default and/or Lessee fails
thereafter to diligently prosecute said cure to completion, or (iii) Lessee
commits a default described in paragraph 13.1(a), 13.1(d) or 13.1 (e) (without
any necessity of Lessor to give notice of such default to Lessee), or (iv)
Lessor gives to Lessee three or more notices of default under paragraph 13.1(b),
where a late charge becomes payable under paragraph 13.4 for each such default,
or paragraph 13.1(c), whether or not the defaults are cured.

40. Multiple Tenant Building. In the event that the Premises are part of a
larger building or group of buildings then Lessee agrees that it will abide by,
keep and observe all reasonable rules and regulations which Lessor may make from
time to time for the management, safety, care, and cleanliness of the building
and grounds, the parking of vehicles and the preservation of good order therein
as well as for the convenience of other occupants and tenants of the building.
The violations of any such rules and regulations shall be deemed a material
breach of this Lease by Lessee.

41. Security Measures. Lessee hereby acknowledges that the rental payable to
Lessor hereunder does not include the cost of guard service or other security
measures, and that Lessor shall have no obligation whatsoever to provide same.
Lessee assumes all responsibility for the protection of Lessee, its agents and
invitees from acts of third parties.

42. Easements. Lessor reserves to itself the right, from time to time, to grant
such easements, rights and dedications that Lessor deems necessary or desirable,
and to cause the recordation of Parcel Maps and restrictions, so long as such
easements, rights, dedications, Maps and restrictions do not unreasonably
interfere with the use of the Premises by Lessee. Lessee shall sign any of the
aforementioned documents upon request of Lessor and failure to do so shall
constitute a material breach of this Lease.

43. Performance Under Protest. If at any time a dispute shall arise as to any
amount or sum of money to be paid by one party to the other under the provisions
hereof, the party against whom the obligation to pay the money is asserted shall
have the right to make payment "under protest" and such payment shall not be
regarded as a voluntary payment, and there shall survive the right on the part
of said party to institute suit for recovery of each sum. If it shall be
adjudged that there was no legal obligation on the part of said party to pay
such sum or any part thereof, said party shall be entitled to recover such sum
or so much thereof as it was not legally required to pay under the provisions of
this Lease.

44. Authority. If Lessee is a corporation, trust, or general or limited
partnership, each individual executing this Lease on behalf of such entity
represents and warrants that he or she is duly authorized to execute and deliver
this Lease on behalf of said entity. If Lessee is a corporation, trust or
partnership, Lessee shall, within thirty (30) days after execution of this
Lease, deliver to Lessor evidence of such authority satisfactory to Lessor.

45. Conflict. Any conflict between the printed provisions of this Lease and the
typewritten or handwritten provisions shall be controlled by the typewritten or
handwritten provisions.

46. Insuring Party. The insuring party under this lease shall be the XOMA
CORPORATION.

47. Addendum. Attached hereto is an addendum or addenda containing paragraphs
#48 through #51 which constitutes a part of this Lease.

LESSOR AND LESSEE HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND
PROVISION CONTAINED HEREIN AND, BY EXECUTION OF THIS LEASE, SHOW THEIR INFORMED
AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE THAT, AT THE TIME THIS
LEASE IS EXECUTED, THE TERMS OF THIS LEASE ARE COMMERCIALLY REASONABLE AND
EFFECTUATE THE INTENT AND PURPOSE OF LESSOR AND LESSEE WITH RESPECT TO THE
PREMISES.

IF THIS LEASE HAS BEEN FILLED IN IT HAS BEEN PREPARED FOR SUBMISSION TO YOUR
ATTORNEY FOR HIS APPROVAL. NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE
AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION OR BY THE REAL ESTATE BROKER OR ITS
AGENTS OR EMPLOYEES AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT, OR TAX
CONSEQUENCES OF THIS LEASE OR THE TRANSACTION RELATING THERETO; THE PARTIES
SHALL RELY SOLELY UPON THE ADVICE OF THEIR OWN LEGAL COUNSEL AS TO THE LEGAL AND
TAX CONSEQUENCES OF THIS LEASE.

The parties hereto have executed this Lease at the place on the dates specified
immediately adjacent to their respective signatures.

Executed
By       Richard B. Gomez, Josephine L. Gomez
TTEE-U/A/D  10-31-90, FBO Gomez Fam. Trust.
          /s/R. B. Gomez
          /s/J. L. Gomez
          "LESSOR"
Address: 13233 #F. Fiji Way
ADDENDUM TO LEASE

Re: 1701 Colorado Blvd. & 1553 17th St.
Santa Monica, Ca. 90404

Between, Lessee; Xoma Corporation
Lessor; Richard B. Gomez, Josephine L. Gomez
U/A/D -10-31-90 Gomez Fam. Trust.

Paragraph #48.0 Lease term to be January 1, 1993 through December 31, 1995. Lessee shall pay to Lessor as rent for premises in advance on the first day of each month according to the following schedule hereof.

From: February 1, 1993 To: December 31, 1993
$11,500.00

From: January 1, 1994 To: December 31, 1994
$12,075.00

From: January 1, 1995 To: December 31, 1995
$12,679.00

Paragraph #49.0 A security deposit of $27,300.00 is still in deposit with Lessor. Upon execution of said Lease, Lessor shall credit Lessee $11,500.00 (Eleven Thousand Five Hundred) and applied as rent for the first month's rent of this lease.

A security deposit balance of $15,800.00 will remain in deposit with Lessor.

ADDENDUM TO LEASE OPTION PERIOD

Re: 1701 Colorado Blvd. & 1553-17th St.
Santa Monica, Ca. 90404

Paragraph #50.0 The term and conditions of the OPTION PERIOD shall be the same as the terms and conditions prevailing during the term of this Lease, with the following conditions. (option for 24 months) The said option to extend and renew the lease must be exercised, if at all by notice in writing given to Lessor not less than 90 days prior to the expiration of the term hereof, and may not be exercised at such time that Lessee is in default under any provisions of this lease.

Lessee and Lessor agree, that Lessee will pay then Lessor as rent for premises in advance on the first day of each month, according to the following schedule:

From: January 1, 1996 To: December 31, 1996
$13,566.00

From: January 1, 1997 To: December 31, 1997
$14,515.00

Paragraph #51.0 Paragraph #10 remains as is, only to add clarification. Lessee agrees to make each payment for reimbursement to Lessor within ten (10) days from the date Lessor presents Lessee copies of tax bills reflecting the assessments and amounts due thereon.

The Lessee and Lessor agree that this Addendum attached hereto constitute a part
of said Lease containing Paragraphs 48- through 51.

Initials: /s/CLD
/s/RGB

PAGE #2
1. Parties. This Sublease, dated, for reference purposes only, January 20, 1997, is made by and between UroGenesys, Inc. (herein called "Lessor") and XOMA Corporation (herein called "Lessee").

2. Premises. Sublessor hereby leases to Sublessee and Sublessee hereby leases from Sublessor for the term, at the rental, and upon all of the conditions set forth herein, that certain real property situated in the County of Los Angeles, State of California, commonly known as 1701 Colorado Ave. & 1553 17th St., Santa Monica, CA 90404 and described as approximately One Thousand Two Hundred and Fifty Square Feet (1,1250 square feet) portion of a larger premises only, of a brick building at the aforementioned address. Said real property including the land and all improvements therein, is herein called "the Premises".

3. Term.

3.1 Term. The term of this Sublease shall be for 3 years (36) months commencing on March 1, 1997 and ending on February 29, 2000 unless sooner terminated pursuant to any provision hereof.

3.2 Delay in Commencement. Notwithstanding said commencement date, if for any reason Sublessor cannot deliver possession of the Premises to Sublessee on said date, Sublessor shall not be subject to any liability therefore, nor shall such failure affect the validity of this Sublease or the obligations of Sublessee hereunder. Sublessee shall not be obligated to pay rent until possession of the Premises is tendered to Sublessee; provided, however, that if Sublessor shall not have delivered possession of the Premises within sixty (60) days from said commencement date, Sublessee may, at Sublessee's option, by notice in writing to Sublessor within ten (10) days thereafter, cancel this Sublease, in which event the parties shall be discharged from all obligations thereunder. If Sublessee occupies the Premises prior to said commencement date, such occupancy shall be subject to all provisions hereof, such occupancy shall not advance the termination date, and Sublessee shall pay rent for such period at the initial monthly rates set forth below.

4. Rent. Sublessee shall pay to Sublessor as rent for the Premises equal monthly payments of $1,437.50, in advance, on the 1st day of each month of the term hereof. Sublessee shall pay Sublessor upon the execution hereof $1,437.50 as rent for March 1997. Rent for any period during the term hereof which is for less than one month shall be a pro rata portion of the monthly installment. Rent shall be payable in lawful money of the United States to Sublessor at the address stated herein or to such other persons or at such other places as Sublessor may designate in writing.

5. Security Deposit. Sublessee shall deposit with Sublessor upon execution hereof $NIL as security for Sublessee's faithful performance of Sublessee's obligations hereunder. If Sublessee fails to pay rent or other charges due hereunder, or otherwise defaults with respect to any provision of this Sublease, Sublessor may use, apply or retain all or any portion of said deposit for the payment of any rent or other charge in default or for the payment of any other sum to which Sublessor may become obligated by reason of Sublessee's default, or to compensate Sublessor for any loss or damage which Sublessor may suffer thereby. If Sublessor so uses or applies all or any portion of said deposit, Sublessee shall within ten (10) days after written demand therefor deposit cash with Sublessor in an amount sufficient to restore said deposit to the full amount hereinabove stated and Sublessee's failure to do so shall be a material breach of this Sublease. If the monthly rent shall, from time to time, increase during the term of this Sublease, Sublessee shall thereupon deposit with Sublessor additional security deposit so that the amount of security deposit held by Sublessor shall at all times bear the same proportion to current rent as the original security deposit bears the original monthly rent set forth in paragraph 4 hereof. Sublessor shall not be required to keep said deposit separate from its general accounts. If Sublessee performs all of Sublessee's obligations hereunder, said deposit, or so much thereof as has not theretofore been applied by Sublessor, shall be returned, without payment of interest or other increment for its use, to Sublessee (or, at Sublessor's option, to that last assignee, if any, of Sublessee's interest hereunder) at the expiration of the term hereof, and after Sublessee has vacated the Premises. No trust relationship is created herein between Sublessor and Sublessee with respect to said Security Deposit.

6. Use.

6.1 Use. The Premises shall be used and occupied only for research, laboratories and offices and related lawful uses and for no other purpose.
6.2 Compliance with Law.
   (a) (deleted)
   (b) Sublessee shall, at Sublessee's expense, comply promptly with all applicable statutes, ordinances, rules, regulations, orders, covenants and restrictions of record, and requirements in effect during the term or any part of the term hereof, regulating the use by Sublessee of the Premises. Sublessee shall not use nor permit the use of the Premises in any manner that will tend to create waste or a nuisance or, if there shall be more than one tenant in the building containing the Premises, shall tend to disturb such other tenants.

6.3 Condition of Premises. Sublessee hereby accepts the Premises in their condition existing as of the execution hereof, subject to all applicable zoning, municipal, county and state laws, ordinances and regulations governing and regulating the use of the Premises, and accepts this Sublease subject thereto and to all matters disclosed thereby and by any exhibits attached hereto. Sublessee acknowledges that neither Sublessor nor Sublessor's agents has made any representation or warranty as to the suitability of the Premises for the conduct of Sublessee's business.

7. Master Lease

7.1 Sublessor is the lessee of the Premises by virtue of a lease, hereinafter referred to as the "Master Lease", a copy of which is attached hereto marked Exhibit 1, dated January 1991 wherein Richard B. Gomez and Josefine L. Gomez, TTEE, U/A.D 10-31-1990 FBO Gomez Family Trust is the lessor, hereinafter referred to as the "Master Lease".

7.2 This Sublease is and shall be at all times subject and subordinate to the Master Lease.

7.3 The terms, conditions and respective obligations of Sublessor and Sublessee to each other under this Sublease shall be the terms and conditions of the Master Lease except for those provisions of the Master Lease which are directly contradicted by this Sublease in which event the terms of this Sublease document shall control over the Master Lease. Therefore, for the purpose of this Sublease, wherever in the Master Lease the work "Lessor" is used it shall be deemed to mean the Sublessor herein and wherever in the Master Lease the word "Lessee" is used it shall be deemed to mean the Sublessee herein.

7.4 During the term of this Sublease and for all periods subsequent for obligations which have arisen prior to the termination of this Sublease, Sublessee does hereby expressly assume and agree to perform and comply with, for the benefit of Sublessor and Master Lessor, each and every obligation of Sublessor under the Master Lease except for the following paragraphs which are excluded therefrom: NIL.

7.5 The obligations that Sublessee has assumed under paragraph 7.4 hereof are hereinafter referred to as the "Sublessee's Assumed Obligations". The obligations that Sublessee has not assumed under paragraph 7.4 hereof are hereinafter referred to as the "Sublessor's Remaining Obligations".

7.6 Sublessee shall hold Sublessor free and harmless of and from all liability, judgments, costs, damages, claims or demands, including reasonable attorneys fees, arising out of Sublessee's failure to comply with or perform Sublessee's Assumed Obligations.

7.7 Sublessor agrees to maintain the Master lease during the entire term of this Sublease, subject, however, to any earlier termination of the Master Lease without the fault of the Sublessor, and to perform Sublessor's Remaining Obligations and to hold Sublessee free and harmless of all liability, judgments, costs, damages, claims or demands arising out of Sublessor's failure to comply with or perform Sublessor's Remaining Obligations.

7.8 Sublessor represents that the Master Lease is in full force and effect and that no default exists on the part of any party to the Master Lease.

8. Assignment of Sublease and Default.

8.1. Sublessor hereby assigns and transfers to Master Lessor the Sublessor's interest in this Sublease and all rentals and income therefrom, subject however to terms of Paragraph 8.2 hereof.

8.2 Master Lessor, by executing this document, agrees that until a default shall occur in the performance of the Sublessor's Obligations under the Master Lease, Sublessor may at its option, receive and collect, directly from Sublessee, all rent owing and to be owed under this Sublease. However, if Sublessor shall default in the performance of its obligations to Master Lessor then Master Lessor may, at its option, receive and collect, directly from Sublessee, all rent owing and to be owed under this Sublease. Master Lessor shall not, by reason of this assignment of the Sublease nor by reason of the collection of the rents from the Sublessee, be deemed liable to Sublessee for any failure of the Sublessor to perform and comply with Sublessor's Remaining Obligations.
8.3 Sublessor hereby irrevocably authorizes and directs Sublessee, upon receipt of any written notice from the Master Lessor stating that a default exists in the performance of Sublessor's obligations under the Master Lease, to pay to Master Lessor the rents due and to become due under the Sublease. Sublessor agrees that Sublessee shall have the right to rely upon any such statement and request from Master Lessor, and that Sublessee shall pay such rents to Master Lessor without any obligation or right to inquire as to whether such default exists and notwithstanding any notice from or claim from Sublessor to the contrary and Sublessee shall have no right or claim against Sublessee for any such rents so paid by Sublessee.

8.4 No changes or modifications shall be made to this Sublease without the consent of Master Lessor.

9. Consent of Master Lessor

9.1 In the event that the Master Lease requires that Sublessor obtain the consent of Master Lessor to any subletting by Sublessor then this Sublease shall not be effective unless, within 10 days of the date hereof, Master Lessor signs this Sublease thereby giving its consent to this Subletting.

9.2 In the event that the obligations of the Sublessor under the Master Lease have been guaranteed by third parties then this Sublease, nor the Master Lessor's consent, shall not be effective unless, within 10 days of the date hereof, said guarantors sign this Sublease thereby giving guarantors consent to this Sublease and the terms hereof.

9.3 In the event that Master Lessor does give such consent then:
(a) Such consent will not release Sublessor of its obligations or alter the primary liability of Sublessor to pay the rent and perform and comply with all of the obligations of Sublessor to be performed under the Master Lease.
(b) The acceptance of rent by Master Lessor from Sublessee or any one else liable under the Master Lease shall not be deemed a waiver by Master Lessor of any provisions of the Master Lease.
(c) The consent to this Sublease shall not constitute a consent to any subsequent subletting or assignment.
(d) In the event of any default of Sublessor under the Master Lease, Master Lessor may proceed directly against Sublessor, any guarantors or any one else liable under the Master Lease or this Sublease without first exhausting Master Lessor's remedies against any other person or entity liable thereon to Master Lessor.
(e) (deleted)
(f) In the event that Sublessor shall default in its obligations under the Master Lease, then Master Lessor, at its option and without being obliged to do so, may require Sublessee to attorn to Master Lessor in which event Master Lessor shall undertake the obligations of Sublessor under this Sublease from the time of the exercise of said option to termination of this Sublease but Master Lessor shall not be liable for any prepaid rents nor any security deposit paid by Sublessee, nor shall Master Lessor be liable for any other defaults of the Sublessor under the Sublease.

9.4 The signatures of the Master Lessor and any Guarantors or Sublessor at the end of this document shall constitute their consent to the terms of this Sublease.

9.5 Master Lessor acknowledges that, to the best of Master Lessor's knowledge, no default presently exists under the Master Lease of obligations to be performed by Sublessor and that the Master Lease is in full force and effect.

9.6 In the event that Sublessor defaults under its obligations to be performed under the Master Lease by Sublessor, Master Lessor agrees to deliver to Sublessee a copy of any such notice of default. Sublessee shall have the right to cure any default of Sublessor described in any notice of default within ten days after service of such notice of default on Sublessee. If such default is cured by Sublessee then Sublessee shall have the right of reimbursement and offset from and against Sublessee.

(deleted)

11. Attorney's fees. If any party named herein brings an action to enforce the terms hereof or to declare rights hereunder, the prevailing party in any such action, on trial and appeal, shall be entitled to his reasonable attorney's fees to be paid by the losing party as fixed by the Court.

  /s/DBR  /s/WCM  1/20/97

ADDENDUM TO SUBLEASE
BETWEEN UROGENESYS, INC. AND XOMA CORPORATION
DATED: JANUARY 20, 1997

13. Sublessee shall be entitled to the use of the westerly storage sheds located in the parking area of Sublessor's premises. In addition to all requirements contained in the Master Lease regarding Hazardous Substances and Environmental Matters, Sublessee shall ensure that any chemicals or hazardous substances stored upon the subleased premises are stored, controlled and disposed of in conformity with all governmental requirements and standards.

14. Sublessee shall comply with all insurance provisions of the referenced Master Lease, in respect of Sublessee's premises.

15. Sublessor and Sublessee hereby agree that the list of laboratory equipment and systems identified in Exhibit I hereto shall be used jointly by Sublessee and Sublessor during the term of this Sublease and shall remain the property of Sublessee.

16. The following space and/or equipment is to be shared without payment from either party to the other through February 29, 2000. Notwithstanding paragraphs 15 and 16, UroGenesys reserves the right to control access to shared equipment and areas located within its laboratory space, but shall ensure reasonable access to shared equipment and areas.

   a. Back entrance to 1553 17th Street
   b. Autoclaves in 1701 Colorado facility
   c. Restrooms
   d. Conference room and lunch room in 1545 17th Street
   e. All parking spaces currently available to the facility
   f. Ice machine
   g. Custodial cleaning of floors in 1701 Colorado facility
   h. Vacuum system
   i. Deionized water system

17. The following costs are to be shared as agreed to by the parties:

   a. utilities and maintenance for the items in Exhibit I hereto; and
   b. security systems

18. Paragraph 6.2(e) of the Master Lease is hereby deleted. Sublessee agrees to indemnify, defend and hold Sublessor harmless for any and all claims, damages, fines, penalties, costs, and liabilities (including without limitation attorneys', consultants', and experts' fees) attributable to the use or ownership of the premises prior to the Start Date and the migration, presence, suspected presence or discharge of Hazardous Substances in, on or affecting the premises. This indemnification obligation shall include without limitation any costs of investigation, removal, remediation, restoration and/or abatement, and shall survive the expiration or termination of this Sublease.

/s/DBR  /s/WCM  1/20/97

EXHIBIT I

AMSCO 3030 Autoclave  Re:
Vacuum System
Deionized Water System
Ice Machine
Telephones

/s/DBR  /s/WCM  1/20/97

APPENDIX A

January 20, 1997

Donald B. Rice
Re: XOMA Continuing Obligations and Indemnity 1701 Colorado and 1553 17th Street, Santa Monica, California 90404

Dear Dr. Rice:

Further to our recent telephone conversations, this letter serves to confirm our agreement as follows:

XOMA Corporation ("XOMA") acknowledges that UroGenesys, Inc. ("UroGenesys") will be entering into a 36 month (with 36 month option) lease agreement with the Gomez Family Trust in respect of the above referenced properties, previously subject to a STANDARD INDUSTRIAL LEASE - NET (the "Lease") dated June 22, 1992 in favor of XOMA. XOMA agrees that its obligations in terms of Paragraph 7.2 (as detailed below) of the Lease, shall survive through the term of the aforementioned UG' obligation to surrender the premises, excluding all items purchased from XOMA, at the end of the lease term in the same condition as when received by UG, ordinary wear and tear excepted, clean and free of debris. In addition, XOMA agrees to indemnify and defend UG against all claims by the Gomez Family Trust with respect to Paragraph 7.4(c) of the UG lease agreement except for any claims that result from a violation by UG of the proviso in the second sentence of this paragraph.

"7.2 Surrender. On the last day of the term hereof, or on any sooner termination, Lessee shall surrender the premises to Lessor in the same condition as when received, ordinary wear and tear excepted, clean and free of debris. Lessee shall repair any damage to the premises occasioned by the installation or removal of Lessee's trade fixtures, furnishings and equipment. Notwithstanding anything to the contrary otherwise stated in this Lease, Lessee shall leave the air lines, power panels, electrical distribution systems, lighting fixtures, space heaters, air conditioning, plumbing and fencing on the premises in good operating condition."

Yours truly,

/s/W. Courtney McGregor
Vice President,
Technical Development and
Santa Monica Operations

We agree to the above terms and conditions.

UroGenesys, Inc.

/s/Donald B. Rice
Donald B. Rice
President and CEO
Date: 1/20/97

(logo) American Industrial Real Estate Association
Standard Industrial/Commercial Single-Tenant Lease - Net
(Do Not Use This Form For Multi-Tenant Buildings)

1. Basic Provisions ("Basic Provisions")

1.1 Parties: This Lease ("Lease"), dated for reference purposes only, January 20, 1997, is made by and between Richard B. Gomez, Josephine L. Gomez, TTEE U/A/D 10-31/1990 FBO Gomez Family Trust ("Lessor") and Uro Genesys, Inc., a California corporation ("Lessee"), (collectively the "Parties," or individually a "Party").

1.2 Premises: That certain real property, including all improvements therein or to be provided by Lessor under the terms of this Lease, and commonly known as 1701 Colorado and 1553 17th St., Santa Monica, CA 90404 located in the County of Los Angeles, State of California and generally described as Two separate adjacent brick buildings consisting of approximately 10,000 sq. ft., with a total of 18 cars of parking area.

1.3 Term: 3 years and months ("Original Term") commencing March 1, 1997 ("Commencement Date") and ending ("Expiration Date"). (See also Paragraph 3)

1.4 Early Possession: upon vacating of existing tenant ("Early Possession Date"). (See also Paragraphs 3.2 and 3.3)

1.5 Base Rent: $11,500 per month ("Base Rent"), payable on the first day of each month commencing March 1, 1997. (See also Paragraph 4)

1.6 Base Rent Paid Upon Execution: $11,500 as Base Rent for the period March 1 through March 31, 1997.
1.7 Security Deposit: $11,500 ("Security Deposit"). (See also Paragraph 5)

1.8 Agreed Use: Bio-tech laboratory, general office or related lawful biomedical development uses. (See also Paragraph 6)

1.9 Insuring Party: Lessee is the "Insuring Party" unless otherwise stated herein. (See also Paragraph 8)

1.10 Real Estate Brokers: (See also Paragraph 15)
   (a) Representation: The following real estate brokers (collectively, the "Brokers") and brokerage relationships exist in this transaction (check applicable boxes): (checked box) CB Commercial, Robert P. Dubbins represents both Lessor and Lessee ("Dual Agency").
   (b) Payment to Brokers: Upon execution and delivery of this Lease by both Parties, Lessor shall pay to the Broker the fee agreed to in their separate written agreement (if there is no such agreement, the sum of (blank)% of the total Base Rent for the brokerage services rendered by said Broker). Lessee shall have no commission obligation.

1.11 Guarantor. The obligations of the Lessee under this Lease are to be guaranteed by N/A ("Guarantor"). (See also Paragraph 37)

1.12 Addenda and Exhibits. Attached hereto is an Addendum or Addenda consisting of Paragraphs 50 through 59 and Exhibits A, all of which constitute a part of this Lease.

2. Premises

2.1 Letting. Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, the Premises, for the term, at the rental, and upon all of the terms, covenants and conditions set forth in this Lease. Unless otherwise provided herein, any statement of size set forth in this Lease, or that may have been used in calculating rental, is an approximation which the Parties agree is reasonable and the rental based thereon is not subject to revision whether or not the actual size is more or less.

2.2 Condition. Lessor shall deliver the Premises to Lessee broom clean and free of debris on the Commencement Date or the Early Possession Date, whichever first occurs ("Start Date"), and, so long as the required service contracts described in Paragraph 7.1(b) below are obtained by Lessee within thirty (30) days following the Start Date, warrants that the exterior roof, existing electrical, plumbing, fire sprinkler, lighting, heating, ventilating and air conditioning systems ("HVAC"), loading doors, if any, and all other such elements in the Premises, other than those constructed by Lessee, shall be in good operating condition on said date and that the structural elements of the roof, bearing walls and foundation of any buildings on the Premises (the "Building") shall be free of material defects. If a non-compliance with said warranty exists as of the Start Date, Lessor shall, as Lessor's sole obligation with respect to such matter, except as otherwise provided in this Lease, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, rectify the same at Lessor's expense. If, after the Start Date, Lessee does not give Lessor written notice of any non-compliance with this warranty within (i) one year as to the surface of the roof and the structural portion of the roof foundations and bearing walls, (ii) six (6) months as to the HVAC systems (iii) one hundred twenty (120) days as to the remaining systems and other elements of the Building, correction of such non-compliance shall be the obligation of Lessee at Lessee's sole cost and expense.

2.3 Compliance. Lessor warrants that the improvements on the Premises comply with all applicable laws, covenants or restrictions of record, building codes, regulations and ordinances ("Applicable Requirements") in effect on the Start Date. Said warranty does not apply to the use to which Lessee will put the Premises or to any Alterations or Utility Installations (as defined in Paragraph 7.3(a)) made or to be made by Lessee. NOTE: Lessee is responsible for determining whether or not the zoning is appropriate for Lessee's intended use, and acknowledges that past uses of the Premises may no longer be allowed. If the Premises do not comply with said warranty, Lessor shall, except as otherwise provided, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, rectify the same at Lessor's expense. If Lessee does not give Lessor written notice of a non-compliance with this warranty within six (6) months following the Start Date, correction of that non-compliance shall be the obligation of Lessee at Lessee's sole cost and expense. If the Applicable Requirements are hereafter changed (as opposed to being in existence at the Start Date, which is addressed in Paragraph 6.2(e) below) so as to require during the term of this Lease the construction, alteration of the Building, the remediation of any Hazardous Substance, or the reinforcement or other physical modification of the Building ("Capital Expenditure"), Lessor and Lessee shall allocate the cost of such work as follows:

(a) Subject to Paragraph 2.3(c) below, if such Capital Expenditures are required as a result of the specific and unique use of the
Premises by Lessee as compared with uses by tenants in general, Lessee shall be fully responsible for the cost thereof, provided, however, that if such Capital Expenditure is required during the last two (2) years of this Lease and the cost thereof exceeds six (6) months' Base Rent, Lessee may instead terminate this Lease unless Lessee notifies Lessee, in writing, within ten (10) days after receipt of Lessee's termination notice that Lessee has elected to pay the difference between the actual cost thereof and the amount equal to six (6) months' Base Rent. If Lessee elects termination, Lessee shall immediately cease the use of the Premises and deliver to Lessor written notice specifying a termination date at least ninety (90) days thereafter. Such termination date shall, however, in no event be earlier than the last day that Lessee could legally utilize the Premises without commencing such Capital Expenditure.

(b) If such Capital Expenditure is not the result of the specific and unique use of the Premises by Lessee (such as, governmentally mandated seismic modifications), then Lessor and Lessee shall allocate the obligation to pay for such costs pursuant to the provisions of Paragraph 7.1(c); provided, however, that if such Capital Expenditure is required during the last six (6) months of this Lease or if Lessor reasonably determines that it is not economically feasible to pay its share thereof, Lessor shall have the option to terminate this Lease upon ninety (90) days prior written notice to Lessee unless Lessee notifies Lessor, in writing, within ten (10) days after receipt of Lessor's termination notice that Lessee will pay for such Capital Expenditure. If Lessor fails to tender its share of any such Capital Expenditure, Lessor may advance such funds and deduct same, with Interest, from Rent until Lessor's share of such costs have been fully paid. If Lessee is unable to finance Lessor's share, or if the balance of the Rent due and payable for the remainder of this Lease is not sufficient to fully reimburse Lessee on an offset basis, Lessee shall have the right to terminate this Lease upon thirty (30) days written notice to Lessor.

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

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

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

3. Term

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

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

3.3 Delay in Possession. Lessor agrees to use its best commercially reasonable efforts to deliver possession of the Premises to Lessee by the Commencement Date. If, despite said efforts, Lessor is unable to deliver possession as agreed, Lessor shall not be subject to any liability therefor, nor shall such failure affect the validity of this Lease. Lessee shall not, however, be obligated to pay Rent or perform its other obligations until it receives possession of the Premises. If possession is not delivered within sixty (60) days after the Commencement Date, Lessee may, at its option, by notice in writing within ten (10) days after the end of such sixty (60) day period, cancel this Lease, in which event the Parties shall be discharged from all obligations hereunder. If such written notice is not received by Lessor within said ten (10) day period, Lessee's right to cancel shall terminate. Except as otherwise provided, if possession is not tendered to Lessee when required and Lessee does not terminate this Lease, as aforesaid, any period of rent abatement that Lessee
would otherwise have enjoyed under the terms hereof, but minus any days of delay caused by the acts or omissions of Lessee. If possession of the Premises is not delivered within four (4) months after the Commencement Date, this Lease shall terminate unless other agreements are reached between Lessor and Lessee, in writing.

3.4 Lessee Compliance. Lessor shall not be required to tender possession of the Premises to Lessee until Lessee complies with its obligation to provide evidence of insurance (Paragraph 8.5). Pending delivery of such evidence, Lessee shall be required to perform all of its obligations under this Lease from and after the Start Date, including the payment of Rent, notwithstanding Lessor's election to withhold possession pending receipt of such evidence of insurance. Further, if Lessee is required to perform any other conditions prior to or concurrent with the Start Date, the Start Date shall occur but Lessor may elect to withhold possession until such conditions are satisfied.

4. Rent

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

4.2 Payment. Lessee shall cause payment of Rent to be received by Lessor in lawful money of the United States, without offset or deduction, on or before the day on which it is due. Rent for any period during the term hereof which is for less than one (1) full calendar month shall be prorated based upon the actual number of days of said month. Payment of Rent shall be made to Lessor at its address stated herein or to such other persons or place as Lessor may from time to time designate in writing. Acceptance of a payment which is less than the amount then due shall not be a waiver of Lessor's rights to the balance of such Rent, regardless of Lessor's endorsement of any check so stating.

5. Security Deposit. Lessee shall deposit with Lessor upon execution hereof the Security Deposit as security for Lessee's faithful performance of its obligations under this Lease. If Lessee fails to pay Rent, or otherwise Defaults under this Lease, Lessor may use, apply or retain all or any portion of said Security Deposit for the payment of any amount due Lessor or to reimburse or compensate Lessor for any liability, expense, loss or damage which Lessor may suffer or incur by reason thereof. If Lessor uses or applies all or any portion of said Security Deposit, Lessor shall within ten (10) days after written request therefor deposit monies with Lessor sufficient to restore said Security Deposit to the full amount required by this Lease. If the Base Rent increases during the term of this Lease, Lessee shall, upon written request from Lessor, deposit additional moneys with Lessor so that the total amount of the Security Deposit shall at all times bear the same proportion to the increased Base Rent as the Initial Security Deposit bore to the initial Base Rent. Should the Agreed Use be amended to accommodate a material change in the business of Lessee or to accommodate a sublessee or assignee, Lessor shall have the right to increase the Security Deposit to the extent necessary, in Lessor's reasonable judgement, to account for any increased wear and tear that the Premises may suffer as a result thereof. If a change in control of Lessee occurs during this Lease and following such change the financial condition of Lessee is, in Lessor's reasonable judgment, significantly reduced, Lessee shall deposit such additional monies with Lessor as shall be sufficient to cause the Security Deposit to be at a commercially reasonable level based on said change in financial condition.

Lessor shall not be required to keep the Security Deposit separate from its general accounts. Within fourteen (14) days after the expiration or termination of this Lease, if Lessor elects to apply the Security Deposit only to unpaid Rent, and otherwise within thirty (30) days after the Premises have been vacated pursuant to Paragraph 7.4(c) below, Lessor shall return that portion of the Security Deposit not used or applied by Lessor. No part of the Security Deposit shall be considered to be held in trust, to bear interest, or to be prepayment for any monies to be paid by Lessee under this Lease.

6. Use.

6.1 Use. Lessee shall use and occupy the Premises only for the Agreed Use, or any other legal use which is reasonably comparable thereto, and for no other purpose. Lessee shall not use or permit the use of the Premises in a manner that is unlawful, creates damage, waste or a nuisance, or that disturbs owners and/or occupants of, or causes damage to neighboring properties. Lessor shall not unreasonably withhold consent to any written request for a modification of the Agreed Use, so long as the same will not impair the structural integrity of the improvements to the Premises or the mechanical or electrical systems therein, is not significantly more burdensome to the Premises. If Lessor elects to withhold consent, Lessor shall within five (5) business days after such request give written notification of same, which notice shall include an explanation of Lessor's objections to the change in use.

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

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

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

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

(e) Lessor Indemnification. Lessor and its successors and assigns shall indemnify, defend, reimburse and hold Lessee, its employees and lenders, harmless from and against any and all Damages arising out of or involving the presence, migration or discharge of Hazardous Substances on or affecting the Premises prior to the Start Date or which are caused by the negligence, or other acts of Lessor, its agents or employees. Lessor’s obligations shall include, but not be limited to, the Effects, the cost of investigation, removal, remediation, restoration and/or abatement, and shall survive the expiration or termination of this Lease.

(f) Investigations and Remediations. Lessor shall retain the responsibility and pay for any investigations or remediation measures required by governmental entities having jurisdiction with respect to the existence of Hazardous Substances on the Premises prior to the Start Date. Lessor shall cooperate with such activities at the request of Lessor, including allowing Lessor and Lessor’s agents to have reasonable access to the Premises at reasonable times in order to carry out Lessor’s investigative and remedial responsibilities.

(g) Landlord Termination Option. If a Hazardous Substance Condition occurs during the term of this Lease, unless Lessee is legally responsible therefor (in which case Lessee shall make the investigation and remediation thereof required by the Applicable Requirements and this Lease shall
continue in full force and effect, but subject to Lessor's rights under Paragraph 6.2(d) and Paragraph 13), Lessor may, at Lessor's option, either (i) investigate and remediate a Hazardous Substance Condition, if required, as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) if the estimated cost to remediate such condition exceeds twelve (12) times the then monthly Base Rent or $100,000, whichever is greater, give written notice to Lessee, within thirty (30) days after receipt by Lessor of knowledge of the occurrence of such Hazardous Substance Condition. At Lessor's desire to terminate this Lease as of the date sixty (60) days following the date of such notice. In the event Lessor elects to give a termination notice, Lessee may, within ten (10) days thereafter, give written notice to Lessor of Lessee's commitment to pay the amount by which the cost of the remediation of such Hazardous Substance Condition exceeds an amount equal to twelve (12) times the then monthly Base Rent or $100,000, whichever is greater. Lessee shall provide Lessor with said funds or satisfactory assurance thereof within thirty (30) days following such commitment. In such event, this Lease shall continue in full force and effect, and Lessor shall proceed to make such remediation as soon as reasonably possible after the required funds are available. If Lessee does not give such notice and provide the required funds or assurance thereof within the time provided, this Lease shall terminate as of the date specified in Lessor's notice of termination.

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

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

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

7.1 Lessee's Obligations.
(a) In General. Subject to the provisions of Paragraph 2.2 (Condition), 2.3 (Compliance), 6.3 (Lessee's Compliance with Applicable Requirements), 7.2 (Lessor's Obligations), 9 (Damage or Destruction), and 14 (Condemnation), Lessee shall, at Lessor's sole expense, keep the Premises, Utility Installations, and Alterations in good order, condition and repair (whether or not the portion of the Premises requiring repairs, or the means of repairing the same, are reasonable or readily accessible to Lessee, and whether or not the need for such repairs occurs as a result of Lessee's use, any prior use, the elements or the age of such portion of the Premises), including, but not limited to, all equipment or facilities, such as plumbing, HVAC, electrical, lighting facilities, boilers, pressure vessels, fire protection system, fixtures (interior and exterior), foundations, ceilings, roofs, floors, windows, doors, plate glass, skylights, landscaping, driveways, parking lots, fences, retaining walls, signs, sidewalks and parkways located in, on, or adjacent to the Premises. Lessee, in keeping the Premises in good order, condition and repair, shall exercise and perform good maintenance practices, specifically including the procurement and maintenance of the service contracts required by Paragraph 7.1(b) below. Lessee's obligations shall include restorations (including restoration required by Santa Monica City Ordinance), replacements or renewals when necessary to keep the Premises and all improvements thereon or a part thereof in good order, condition and state of repair. Lessee shall, during the term of this Lease, keep the exterior appearance of the Building in a first-class condition consistent with the exterior appearance of other similar facilities of comparable age and size in the vicinity, including, when necessary, the exterior repainting of the Building.

(b) deleted.

(c) Replacement. Subject to Lessee's indemnification of Lessor as set forth in Paragraph 8.7 below, and without relieving Lessee of liability resulting from Lessee's failure to exercise and perform good maintenance practices, if the Basic Elements described in Paragraph 7.1(b) cannot be
7.2 Lessor's Obligations. Subject to the provisions of Paragraphs 2.2 (Condition), 2.3 (Compliance), 7.1 (Repairs), 9 (Damage and Destruction) and 14 (Condemnation), it is intended by the Parties hereto that Lessor have no obligation, in any manner whatsoever, to repair and maintain the Premises, or the equipment therein, all of which obligations of the Parties as to maintenance and repair of the Premises, and they expressly waive the benefit of any statute now or hereafter in effect to the extent it is inconsistent with the terms of this Lease.

7.3 Utility Installations; Trade Fixtures; Alterations.
(a) Definitions; Consent Required. The term "Utility Installations" refers to all floor and window coverings, air lines, power panels, electrical distribution, security and fire protection systems, communication systems, lighting fixtures, HVAC equipment, plumbing, and fencing in or on the Premises. The term "Trade Fixtures" shall mean Lessee's machinery and equipment that can be removed without doing material damage to the Premises. The term "Alterations" shall mean any modification of the improvements, other than Utility Installations or Trade Fixtures, whether by addition or deletion. "Lessee Owned Alterations and/or Utility Installations" are defined as Alterations and/or Utility Installations made by Lessee that are not yet owned by Lessor pursuant to Paragraph 7.4(a). Lessee shall not make any alterations of Utility Installations to the Premises without Lessor's prior written consent. Lessee may, however, make non-structural Utility Installations to the interior of the Premises (excluding the roof) without such consent but upon notice to Lessor, as long as they are not visible from the outside, do not involve puncturing, relocating or removing the roof or any existing walls, and the cumulative cost thereof during this Lease as extended does not exceed $50,000 in the aggregate or $10,000 in any one year.
(b) Consent. Any Alterations or Utility Installations that Lessee shall desire to make and which require the consent of the Lessor shall be presented to Lessor in written form with detailed plans. Consent shall be deemed conditioned upon Lessor's: (i) acquiring all applicable governmental permits, (ii) furnishing Lessor with copies of both the permits and the plans and specifications of the work, and (iii) compliance with all conditions of said permits and other Applicable Requirements in a prompt and expeditious manner. Any alterations or Utility Installations shall be performed in a workmanlike manner with good and sufficient materials. Lessee shall promptly upon completion furnish Lessor with as-built plans and specifications. For work which costs an amount equal to the greater of one month's Base Rent, or $10,000, Lessee shall provide a lien and completion bond in an amount equal to one and one-half times the estimated cost of such alteration or Utility Installation and/or Lessee's posting an additional Security Deposit with Lessor.
(c) Indemnification. Lessee shall pay, when due, all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for use on the Premises, which claims are or may be secured by any mechanic's or materialmen's lien against the Premises or any interest therein. Lessee shall give Lessor not less than ten (10) days' notice prior to the commencement of any work in, on or about the Premises, and Lessor shall have the right to post notices of non-responsibility. If Lessee shall contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense defend and protect itself, Lessor and the Premises against the same and shall pay and satisfy any such adverse judgment that may be rendered thereon before the enforcement thereof. If Lessor shall require, Lessee shall furnish a surety bond in an amount equal to one and one-half times the amount of such contested lien, claim or demand, indemnifying Lessor against liability for the same. If Lessor elects to participate in any such action, Lessee shall pay Lessor's attorneys' fees and costs.

7.4 Ownership; Removal; Surrender; and Restoration.
(a) Ownership. Subject to Lessor's right to require removal or elect ownership as hereinafter provided, all Alterations and Utility Installations made by Lessee shall be the property of Lessee, but considered a part of the Premises. Lessor may, at any time, elect in writing to be the owner of all or any specified part of the Lessee Owned Alterations and Utility Installations. Unless otherwise instructed per Paragraph 7.4(b) hereof, all Lessee Owned Alterations and Utility Installations shall, at the expiration or termination of this Lease, become the property of Lessor and be surrendered by Lessee with the Premises.
(b) Removal. By delivery to Lessee of written notice from Lessor not later than ninety (90) days prior to the end of the term of this Lease, Lessor may require that any or all Lessee Owned Alterations or Utility
Installations be removed by the expiration or termination of this Lease. Lessor may require the removal at any time of all or any part of any Lessee Owned Alterations or Utility Installations made without the required consent.

(c) Surrender/Restoration. Lessee shall surrender the Premises by the Expiration Date or any earlier termination date, with all of the improvements, parts and surfaces thereof broom clean and free of debris, and in good operating order, condition and state of repair, ordinary wear and tear excepted. "Ordinary wear and tear" shall not include any damage or deterioration that would have been prevented by good maintenance practice. Lessee shall repair any damage occasioned by the installation, maintenance or removal of Trade Fixtures, furnishings, and equipment as well as the removal of any storage tank installed by or for Lessee and the removal, replacement, or remedies of any soil, material, or groundwater contaminated by Lessee. Trade Fixtures shall remain the property of Lessee and shall be removed by Lessee. The failure by Lessee to timely vacate the Premises pursuant to this Paragraph 7.4(c) without the express written consent of Lessor shall constitute a holdover under the provisions of Paragraph 26 below.

8. Insurance; Indemnity.

8.1 Payment For Insurance. Lessee shall pay for all insurance required under Paragraph 8 except to the extent of the cost attributable to liability insurance carried by Lessor under Paragraph 8.2(b) in excess of $2,000,000 per occurrence. Premiums for policy periods commencing prior to or extending beyond the Lease term shall be prorated to correspond to the Lease term. Payment shall be made by Lessee to Lessor within ten (10) days following receipt of an invoice.

8.2 Liability Insurance.

(a) Carried by Lessee. Lessee shall obtain and keep in force a Commercial General Liability Policy of Insurance protecting Lessee and any Lender insuring loss or damage to the Premises. The amount of such insurance shall be equal to the full replacement cost of the Premises, as the same shall exist from time to time, or the amount required by an Lender, but in no event more than the commercially reasonable and available insurable value thereof. If Lessor is the Insuring Party, however, Lessee Owned Alterations and Utility Installations, Trade Fixtures, furnishings, and equipment, and Lessee's personal property shall be insured by Lessee under Paragraph 8.4 rather than by Lessor. If the coverage is available and commercially appropriate, such policy or policies shall insure against all risks of direct physical loss or damage (except the peril of flood and/or earthquake), including coverage for debris removal and the enforcement of any Applicable Requirements requiring the upgrading, demolition, reconstruction or replacement of the Premises as the result of a covered loss. Said policy or policies shall also contain an agreed valuation provision in lieu of any coinsurance clause, waiver of subrogation, and inflation guard protection causing an increase in the annual property insurance coverage amount by a factor of not less than the adjusted U.S. Department of Labor Consumer Price Index for all Urban Consumers for the city nearest to where the Premises are located. If such insurance coverage has a deductible clause, the deductible amount shall not exceed $50,000 per occurrence and Lessee shall be liable for such deductible amount in the event of an Insured Loss.

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

8.3 Property Insurance - Building, Improvements and Rental Value.

(a) Building and Improvements. The Insuring party shall obtain and keep in force the following policies in the name of Lessor, with and to any Lender:

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

(ii) Carried by Lessee. Lessee shall obtain and maintain insurance coverage on all of Lessee's personal property, Trade fixtures, and Lessee Owned Alterations and Utility Installations. Such insurance shall be full replacement cost coverage with a deductible of not to exceed $25,000 per occurrence. The proceeds from any such insurance shall be used by Lessee for the replacement of personal property, Trade Fixtures and Lessee Owned Alterations.
and Utility Installations. Lessee shall provide Lessor with written evidence that such insurance is in force.

(b) Business Interruption. If reasonably available, and if Lessor requests Lessee to do so in writing, Lessee shall obtain and maintain insurance for direct or indirect loss of earnings attributable to all perils commonly insured against by prudent lessees in the business of Lessee or attributable to prevention of access to the Premises as a result of such perils.

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

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

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

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

8.8 Exemption of Lessor from Liability. Lessor shall not be liable for injury to the person or goods, wares, merchandise or other property of Lessee, Lessee's employees, contractors, invitees, customers, or any other person in or about the Premises, whether the said damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, fire sprinklers, wires, appliances, plumbing, HVAC or lighting fixtures, or from any other cause, whether the said damage or injury results from conditions arising upon the Premises or upon other portions of the Building of which the Premises are a part, or from other sources or places. Lessor shall not be liable for any damages arising from any act or neglect of any other tenant of Lessor. Notwithstanding Lessor's negligence or breach of this Lease, Lessor shall under no circumstances be liable for injury to Lessee's business or for any loss of income or profit therefrom.

9. Damage or Destruction.

9.1 Definitions.

(a) "Premises Partial Damage" shall herein mean damage or destruction to the improvements on the Premises, other than Lessee Owned Alterations and Utility Installations, which can be repaired in six (6) months or less from the date of the damage or destruction. Lessor shall notify Lessee in writing thirty (30) days from the date of the damage or destruction as to whether or not the damage is Partial or Total.

(b) "Premises Total Destruction" shall mean damage or destruction to improvements on the Premises, other than Lessee Owned Alterations and Utility Installations, which cannot reasonably be repaired in six (6) months or less from the date of the damage or destruction. Lessor shall notify Lessee in writing thirty (30) days from the date of the damage or destruction as to whether or not the damage is Partial or Total.
(c) "Insured Loss" shall herein mean damage or destruction to improvements on the Premises, other than Lessee Owned Alterations and Utility Installations and Trade Fixtures, which was caused by an event required to be covered by the insurance described in paragraph 8.3(a), irrespective of any deductible amounts of coverage limits involved.

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

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

9.2 Partial Damage - Insured Loss. If a Premises partial Damage that is an Insured Loss occurs, then Lessor shall, at Lessee's, at Lessor's expense, repair such damage, (but not Lessee's Trade Fixtures or Lessee Owned Alterations and Utility Installations) as soon as reasonably possible and this Lease shall continue in full force and effect; provided, however, that Lessee shall, at Lessor's election, make the repair of any damage or destruction the total cost to repair of which is $10,000 or less, and, in such event, Lessor may make any applicable insurance proceeds available to Lessee on a reasonable basis for that purpose. Notwithstanding the foregoing, if the required insurance was not in force or the insurance proceeds are not sufficient to effect such repair, the Insuring Party shall contribute the shortage in proceeds (except as to the deductible which is Lessee's responsibility) as and when required to complete said repairs. In the event, however, such shortage was due to the fact that, by reason of the unique nature of the improvements, full replacement cost insurance coverage was not commercially reasonable and available, Lessor shall have no obligation to pay for the shortage in insurance proceeds or to fully restore the unique aspects of the Premises unless Lessee provides Lessor with the funds to cover same, or adequate assurance thereof, within ten (10) days following receipt of written notice of such shortage and request therefor. If Lessor receives said funds or adequate assurance therefor within said ten (10) day period, the party responsible for making the repairs shall complete them as soon as reasonably possible and this Lease shall remain in full force and effect. If such funds or assurance are not received, Lessor may nevertheless elect by written notice to Lessee within ten (10) days thereafter to: (i) make such restoration and repair as is commercially reasonable with Lessor paying any shortage in proceeds, in which case this Lease shall remain in full force and effect, or have this Lease terminate thirty (30) days thereafter. Lessee shall not be entitled to reimbursement of any funds contributed by Lessee to repair any such damage or destruction. Premises Partial Damage due to flood or earthquake shall be governed by Paragraph 9.3, notwithstanding that there may be some insurance coverage, but the net proceeds of any such insurance shall be made available for the repairs if made by either Party.

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

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

9.5 Damage Near End of Term. If any time during the last six (6) months of this Lease, damage occurs for which the cost to repair exceeds one (1) month's Base Rent, whether or not an Insurance Loss, Lessor may terminate this Lease effective ninety (90) days following the date of occurrence of such damage by giving a written termination notice to Lessee within thirty (30) days after the date of occurrence of such damage. Notwithstanding the foregoing, if Lessee at that time has an exercisable option to extend this Lease or to purchase the Premises, then Lessee may preserve this Lease by, (a) exercising such options and (b) providing Lessee with any shortage in insurance proceeds (or adequate...
assurance therefor) needed to make the repairs on or before the earlier of (i) the date which is ten days after Lessee's receipt of Lessor's written notice purporting to terminate this Lease, or (ii) the day prior to the date upon which such option expires. If Lessee duly exercises such option during such period and provides Lessor with funds (or adequate assurance thereof) to cover any shortage in insurance proceeds, Lessor shall, at Lessor's commercially reasonable expense, repair such damage as soon as reasonably possible and this Lease shall continue in full force and effect. If Lessee fails to exercise such option and provide such funds or assurance during such period, then this Lease shall terminate on the date specified in the termination notice and Lessee's option shall be extinguished.

9.6 Abatement of Rent: Lessee's Remedies
(a) Abatement. In the event of Premises Partial Damage or Premises Total Destruction or a Hazardous Substance Condition for which Lessee is not responsible under this Lease, the Rent payable by Lessee for the period required for the repair, remediation or restorations of such damage shall be abated in proportion to the degree to which Lessee's use of the Premises is impaired, but not to exceed the proceeds received from the Rental Value insurance. All other obligations of Lessee hereunder shall be performed by Lessee, and Lessor shall have no liability for any such damage, destruction, remediation, repair or restoration except as provided herein.

(b) Remedies. If Lessor shall be obligated to repair or restore the Premises and does not commence, in a substantial and meaningful way, such repair or restoration within ninety (90) days after such obligation shall accrue, Lessee may, at any time prior to the commencement of such repair or restoration, give written notice to Lessor and to any Lenders of which Lessee has actual notice, of Lessee's election to terminate this lease on a date not less than sixty (60) days following the giving of such notice. If Lessee give such notice and such repair or restoration is not commenced within thirty (30) days thereafter, this Lease shall terminate as of the date specified in said notice. If the repair or restoration is commenced within said thirty (30) days, this Lease shall continue in full force and effect. "Commence' shall mean either the unconditional authorization of the preparation of the required plans, or the beginning of the actual work on the Premises, whichever first occurs.

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

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

10. Real Property Taxes.

10.1 Definition of "Real Property Taxes." As used herein, the term "Real Property Taxes" shall include any form of assessment; real estate, general, special, ordinary or extraordinary, or rental levy or tax (other than inheritance taxes) improvement bond; and/or license fee imposed upon or levied against any legal or equitable interest of Lessor in the Premises, Lessor's right to other income therefrom, and/or Lessor's business of leasing, by any authority having the direct or indirect power to tax and where the funds are generated with reference to the Building address and where the proceeds so generated are to be applied by the city, county or other local taxing authority of a jurisdiction within which the Premises are located. The term "Real Property Taxes" shall also include any tax, fee, levy, assessment or charge, or any increase therein, imposed by reason of events occurring during the term of this Lease, including but not limited to, a change in the ownership of the Premises.

10.2 (a) Payment of Taxes. Lessee shall pay the Real Property Taxes applicable to the Premises during the term of this Lease. Subject to paragraph 10.2(b), all such payments shall be made at least ten (10) days prior to any delinquency date. Lessee shall promptly furnish Lessor with satisfactory evidence that such taxes have been paid. If any such taxes shall cover any period of time prior to or after the expiration or termination of this Lease, Lessee's share of such taxes shall be prorated to cover only that portion of the tax bill applicable to the period that this Lease is in effect, and Lessor shall reimburse Lessee for any overpayment. If Lessee fail to pay any required Real property Taxes, Lessor shall have the right to pay the same, and Lessor shall reimburse Lessee therefor upon demand.

(b) Advance Payment. In the event Lessee incurs a late charge for 3 consecutive months on any Rent payment, Lessor may, at Lessor's option, estimate the current Real Property Taxes, and required that such taxes be paid in advance to Lessor by Lessee, either: (i) in a lump sum amount equal to the installment due, at least twenty (30) days prior to the applicable delinquency date, or (ii) monthly in advance with the payment of the Base Rent. If Lessor elects to require payment monthly in advance, the monthly payment shall be an
amount equal to the amount of the estimated installment of taxes divided by the
number of months remaining before the month in which said installment become
delinquent. When the amount of the applicable tax bill is known, the
amount of such equal monthly advance payment shall be adjusted as required to
provide the funds needed to pay the applicable taxes. If the amount collected by
Lessor is insufficient to pay such Real Property Taxes when due, Lessee shall
pay Lessor, upon demand, such additional sums as are necessary to pay such
obligations. All monies paid to Lessor under this Paragraph may be intermingled
with other moneys of Lessor and shall not bear interest. In the event of a
Breach by lessee in the performance of its obligations under this Lease, then
any balance of funds paid to Lessor under the provisions of this Paragraph may
at the option of Lessor, be treated as an additional Security Deposit.

10.3 Joint Assessment. If the premises are not separately assessed,
lessee's liability shall be an equitable proportion of the Real Property Taxes
for all of the land and improvements included within the tax parcel assessed,
such proportion to be conclusively determined by Lessor from the respective
valuations assigned in the assessor's work sheets or such other information as
may be reasonably available.

10.4 Personal Property Taxes. Lessee shall pay, prior to delinquency,
tax assessed against and levied upon Lessee Owned Alteration, Utility
Installations, Trade Fixtures, furnishings, equipment and all personal property
of Lessee. When possible, Lessee shall cause such property to be assessed and
billed separately from the real property of Lessor. If any of Lessee's said
personal property shall be assessed with Lessor's real property, Lessee shall
pay Lessor the taxes attributable to Lessee's property within ten (10) days
after receipt of a written statement.

11. Utilities. Lessee shall pay for all water, gas, heat, light, power,
telephone, trash disposal and other utilities and services supplied to the
Premises, together with any taxes thereon. If any such services are not
separately metered to Lessee, Lessee shall pay a reasonable proportion, to be
determined by Lessor, of all charges jointly metered.

12. Assignment and Subletting.

12.1 Lessor's Consent Required.
(a) Lessee shall not voluntarily or by operation of law
assign, transfer, mortgage or encumber (collectively, "assign or assignment") or
sublet all or any part of Lessee's interest in this lease or in the Premises
without Lessor's prior written consent.
(b) A change in the control of Lessee shall constitute an
assignment requiring consent. The transfer, on a cumulative basis, of fifty
percent (50%) or more of the voting control of Lessee shall constitute a change
in control for this purpose.
(c) The involvement of Lessee or its assets in any
transaction, or series of transactions (by way of merger, sale, acquisition,
financing, transfer, leveraged buy-out or otherwise), whether or not a formal
assignment or hypothecation of this Lease or Lessee's assets occurs, which
results or will result in a reduction of the Net Worth of Lessee by an amount
greater than twenty-five percent (25%) of such Net Worth as it was represented
at the time of this Lease or at the time of the most recent
assignment to which Lessor has consented, or as it exists immediately prior to
said transaction or transactions constituting such reduction, whichever was or
is greater, shall be considered an assignment of this Lease to which Lessor may
withhold its consent. "Net Worth of Lessee" shall mean the net worth of Lessee
(excluding any guarantors) established under generally accepted accounting
principles.
(d) An assignment or subletting without consent shall, at
Lessor's option, be a Default curable after notice per Paragraph 13.1(c), or a
noncurable Breach without the necessity of any notice and grace period. If
Lessor elects to treat such unapproved assignment or subletting as a noncurable
Breach, Lessor may either: (i) terminate this Lease, or (ii) upon thirty (30)
days written notice, increase the monthly Base Rent to one hundred ten percent
(110%) of the Base Rent then in effect. Further, in the event of such Breach and
rental adjustment, (i) the purchase price of any option to purchase the Premises
held by Lessee shall be subject to similar adjustment to one hundred ten percent
(110%) of the price previously in effect, and (ii) all fixed and non-fixed
rental adjustments scheduled during the remainder of the Lease term shall be
increased to One Hundred Ten Percent (110%) of the scheduled adjusted rent.
(e) Lessee's remedy for any breach of Paragraph 12.1 by Lessor
shall be limited to compensatory damages and/or injunctive relief.

12.2 Terms and Conditions Applicable to Assignment and Subletting.
(a) Regardless of Lessor's consent, any assignment or
subletting shall not: (i) be effective without the express written assumption by
such assignee or sublessee of the obligations of Lessee under this Lease, (ii)
release lessee of any obligations hereunder, or (iii) alter the primary
liability of Lessee for the payment of Rent or for the performance of any other
obligations to be performed by Lessee.
(b) Lessor may accept Rent or performance of Lessee's
obligations from any person other than Lessee pending approval or disapproval of
an assignment. Neither a delay in the approval or disapproval of such assignment
nor the acceptance of Rent or performance shall constitute a waiver or estoppel
of Lessor's right to exercise its remedies for Lessee's Default or Breach.

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

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

(e) Each request for consent to an assignment or subletting shall be in writing, accompanied by information relevant to Lessor's determination as to the financial and operational responsibility and appropriateness of the proposed assignee or sublessee, including but not limited to the intended use and/or required modification of the premises, if any, together with a fee or exact attorney invoice of the current monthly Base Rent applicable to the portion of the Premises which is the subject of the proposed assignment or sublease, whichever is greater, as consideration for Lessor's considering and processing said request. Lessor agrees to provide Lessor with such other or additional information and/or documentation as may be reasonably requested.

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

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

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

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

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

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

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

13. Default; Breach; Remedies.

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

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

(b) The failure of Lessee to make any payment of Rent or any other monetary payment required to be made by Lessee hereunder, whether to Lessor or to a third party, when due, to provide reasonable evidence of insurance or surety bond or to fulfill any obligation under this Lease which endangers or threatens life or property, where such failure continues for a period of five (5) days following written notice thereof to Lessee.

(c) The failure by Lessee to provide upon request (i)
reasonable written evidence of compliance with Applicable Requirements, (ii) (deleted), (iii) the rescission of an unauthorized assignment or subletting, (iv) a Termination, (v) a requested subordination, (vi) evidence concerning any guaranty and/or Guarantor, (vii) any document requested under Paragraph 42 (easements), or (viii) any other documentation or information which Lessor may reasonably require of Lessee under the terms of this Lease, where any such failure continues for a period of ten (10) days following written notice to Lessee. o observe or perform any of the covenants, conditions or provisions of this Lease to be observed or performed by Lessee, other than described in paragraph (b) above, where such failure shall continue for a period of 30 days after written notice thereof from Lessor to Lessee; provided, however, that if the nature of Lessee's default is such that more than 30 days are reasonably required for its cure, then Lessee shall not be deemed to be in default if Lessee commenced such cure within said 30-day period and thereafter diligently prosecutes such cure to completion.

13.2 Remedies. If Lessee fails to perform any of its affirmative duties or obligations, within ten (10) days after written notice (or in case of emergency, without notice), Lessor may, at its option, perform such duty or obligation on Lessee's behalf, including but not limited to the obtaining of reasonably required bonds, insurance policies, or governmental licenses, permits or approvals of any such performance by Lessor shall be due and payable by Lessee upon receipt of invoice therefore. If any check given to Lessor by Lessee shall not be honored by the bank upon which it is drawn, Lessor, at its option, may require all future payments to be made by Lessee to be by cashier's check. In the event of a Breach, Lessor may, with or without further notice or demand, and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such Breach:

(a) Terminate Lessee's right to possession of the Premises by any lawful means, in which case this Lease shall terminate and Lessee shall immediately surrender possession of the Premises to Lessor. In such event Lessor shall be entitled to recover from Lessee: (i) the unpaid Rent which had been earned at the time of termination; (ii) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the amount of such rental loss that the Lessee proved could have been reasonably avoided; (iii) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that the Lessee proved could be reasonably avoided; and (iv) any other amount necessary to compensate Lessor for all the detriment proximately caused by the Lessee's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom including but not limited to the cost of recovering possession of the Premises, expenses of reletting, including necessary renovation and alteration of the Premises, reasonable attorneys' fees, and that portion of any leasing commission paid by Lessor in connection with this Lease applicable to the unexpired term of this Lease. The worth at the time of award in provision (iii) of the immediately preceding sentence shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of the District within which the Premises are located at the time of award plus one percent (1%). Efforts by Lessor to mitigate damages caused by Lessee's Breach of this Lease shall not waive Lessor's right to recover damages under Paragraph 12. If termination of this Lease is obtained as an incidental remedy of unlawful detainer, Lessor shall have the right to recover in such proceeding any unpaid Rent and damages are recoverable therein, or Lessor may reserve the right to recover all or any part thereof in a separate suit. IF a notice and grace period required under Paragraph 13.1 and the unlawful detainer statute shall run concurrently, and the failure of Lessee to cure the Default within the greater of the two grace periods shall constitute both an unlawful detainer and a Breach of this Lease entitling Lessor to the remedies provided for in this Lease and/or said statute.
(b) Continue the Lease and Lessee's right to possession and recover the Rent as it becomes due, in which event Lessee may sublet or assign, subject only to reasonable limitation. Acts of maintenance, efforts to relet, and/or the appointment of a receiver to protect the Lessor's interests, shall not constitute a termination of the Lessee's right to possession.

(c) Pursue any other remedy now or hereafter available under the laws or judicial decisions of the state wherein the Premises are located.

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

13.3 Inducement Recapture. Any agreement for free or abated rent or other charges, or for the giving or paying by Lessor to or for Lessee of any cash or other bonus, inducement or consideration for Lessee's entering into this Lease, all of which provisions are hereinafter referred to as "Inducement Provisions", shall be deemed conditioned upon Lessee's full and faithful performance of all of the terms, covenants, and conditions of this Lease. Upon Breach of this Lease by Lessee, any such Inducement Provision shall automatically be deemed deleted from this Lease and of no further force or effect, and any rent, other charge, bonus, inducement or consideration theretofore abated, given or paid by Lessor under such Inducement Provision shall be immediately due and payable by Lessee to Lessor, notwithstanding any subsequent cure of said Breach by Lessee. The acceptance by Lessor of rent or the cure of the Breach which initiated the operation of this paragraph shall not be deemed a waiver by Lessor of the provisions of this paragraph unless specifically so stated in writing by Lessor at the time of such acceptance.

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

13.5 Interest. Any monetary payment due Lessor hereunder, other than late charges, not received by Lessor within thirty (30) days following the date on which it was due, shall bear interest from the thirty-first (31st) day after it was due. The interest ("Interest") charged shall be equal to the prime rate charged by the largest state chartered bank in the state in which the Premises are located plus 4%, but shall not exceed the maximum rate allowed by law. Interest is payable in addition to the potential late charge provided for in Paragraph 13.4.

13.6 Breach by Lessor.

(a) Notice of Breach. Lessor shall not be deemed in breach of this Lease unless Lessor fails within a reasonable time to perform an obligation required to be performed by Lessor. For purposes of this paragraph, a reasonable time shall in no event be less than thirty (30) days after receipt by Lessor, and any Lender whose name and address shall have been furnished Lessee in writing for such purpose, of written notice specifying wherein such obligation of Lessor has not been performed; provided however, that if the nature of Lessor's obligation is such that more than thirty (30) days are reasonably required for its performance, then Lessor shall not be in breach if performance is commenced within such thirty (3) day period and thereafter diligently pursued to completion.

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

14. Condemnation. If the Premises or any portion thereof are taken under the power of eminent domain or sold under the threat of the exercise of said power (collectively "Condemnation"), this Lease shall terminate as to the part taken as of the date the condemning authority takes title or possession, whichever first occurs. If more than ten percent (10%) of any building, or more than twenty-five percent (25%) of the land area not occupied by any building, is taken by Condemnation, Lessee may, at Lessee's option, to be exercised in
writing within ten (10) days after Lessor shall have given lessee written notice of such taking (or in the absence of such notice, within ten (10) days after the condemning authority takes such possession) terminate this Lease as of the date the condemning authority takes such possession. If Lessee does not terminate this Lease in accordance with the foregoing, this lease shall remain in full force and effect as to the portion of the Premises remaining, except that the Base Rent shall be reduced in proportion to the reduction in utility of the Premises caused by such Condemnation. Condemnation awards and/or payments shall be the property of Lessor, whether such award shall be made as compensation for diminution in value of the leasehold, the value of the part taken, or for severance damages; provided, however, that Lessee shall be entitled to any compensation for Lessee's relocation expense, loss of business goodwill and/or Trade Fixtures, without regard to whether or not this Lease is terminated pursuant to the provisions of this Paragraph. All Alterations and Utility Installations made to the Premises by Lessee, for purposes of Condemnation only, shall be considered the property of the Lessee and Lessee shall be entitled to any and all compensation which is payable therefor. In the event that this Lease is not terminated by reason of the Condemnation, Lessor shall repair any damage to the Premises caused by such Condemnation.

15. Brokers' Fee.

15.1 Additional Commission. In addition to the payment sawed pursuant to paragraph 1.10 above, and unless Lessor and the Brokers otherwise agree in writing, Lessor agrees that: (a) if Lessee exercises any Option, (b) if Lessee acquires any rights to the Premises or other premises owned by Lessor and located within the same Project, if any, within which the Premises is located, (c) if Lessee remains in possession of the Premises, with the consent of Lessor, after the expiration of this Lease, or (d) if Base Rent is increased, whether by agreement or operation of an escalation clause herein, then, Lessor shall pay Brokers a fee in accordance with the schedule of said Brokers in effect at the time of the execution of this Lease.

15.2 Assumption of Obligations. Any buyer or transferee of Lessor's interest in this Lease shall be deemed to have assumed Lessor's obligation hereunder. Each Broker shall be a third party beneficiary of the provisions of Paragraphs 1.10, 15, 22 and 31. If Lessor fails to pay to a Broker any amounts due as and for commissions pertaining to this Lease when due, then such amounts shall accrue interest. In addition, if Lessor fails to pay any amounts to Lessee's Broker when due, Lessee's Broker may send written notice to Lessor and Lessee of such failure to pay such amounts within ten (10) days after said notice, Lessee shall pay said monies to its Broker and offset such amounts against Rent. In addition, Lessee's Broker shall be deemed to be a third party beneficiary of any commission agreement entered into by and/or between Lessor and Lessor's Broker.

15.3 Representations and Indemnities of Broker Relationships. Lessee and Lessor each represent and warrant to the other that it has had no dealings with any person, firm, broker or finder (other than the Brokers, if any) in connection with this Lease, and that no one other than said named Brokers is entitled to any commission or finder's fee in connection herewith. Lessee and Lessor do each hereby agree to indemnify, protect, defend and hold the other harmless from and against liability for compensation or charges which may be claimed by any such unnamed broker, finder or other similar party by reason of any dealings or actions of the indemnifying Party, including any costs, expenses, attorney's fees reasonably incurred with respect thereto.

16. Tenancy Statement/Estoppel Certificate

16.1 Each party (as "Responding Party") shall within ten (10) days' prior written notice from the other Party (the "Requesting Party") execute, acknowledge and deliver to the Requesting Party and estoppel certificate in writing, in form similar to the then most current "Tenancy Statement" form published by the American Industrial Real Estate Association, plus any additional information, confirmation and/or statements as may be reasonably requested by the Requested Party.

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

17. Definition of Lessor. The term "Lessor" as used herein shall mean the owner or owners at the time in question of the fee title to the Premises, or, if this is a sublease or assignment of a lease, the owner or owner's interest in the prior lease. In the event of a transfer of Lessor's title or interest in the Premises or this Lease, Lessor shall deliver to the transferee or assignee (in cash or by credit) any unused Security Deposit held by Lessor. Except as provided in Paragraph 15, upon such transfer or assignment and delivery of the Security Deposit, as aforesaid, the prior Lessor shall be relieved of all liability with respect to the obligations and/or covenants under this Lease thereafter to be performed by the Lessor. Subject to the foregoing, the obligations and/or covenants in this lease to be
performed by the Lessor shall be binding only upon the Lessor as hereinabove defined. Notwithstanding the above, the original lessor under this lease, and all subsequent holders of Lessor's interest in this Lease shall remain liable and responsible with regard to the potential duties and liabilities of Lessor pertaining to hazardous Substances as outlined in paragraph 6 above and the addendum.

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

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

20. (deleted)

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

22. No Prior or Other Agreements; Broker Disclaimer. This Lease contains all agreements between the Parties with respect to any matter mentioned herein, and no other prior or contemporaneous agreement or understanding shall be effective. Lessor and Lessee each represents and warrants to the Brokers that it has made, and is relying solely upon, its own investigation as to the nature, quality, character and financial responsibility of the other Party to this Lease and as to the nature, quality and character of the Premises. Brokers have no responsibility with respect thereto or with respect to any default or breach hereof by either party. The liability (including court costs and Attorney's fees), of any Broker with respect to negotiation, execution, delivery or performance by either Lessor or Lessee under this Lease or any amendment or modification hereof shall be limited to an amount up to the fee received by such Broker pursuant to this lease; provided, however, that the foregoing limitation on each Broker's liability shall not be applicable to any gross negligence or willful misconduct of such Broker.


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

23.2 Date of Notice. Any notice sent by registered or certified mail, return receipt requested, shall be deemed given on the date of delivery shown on the receipt card, or if no delivery date is shown, the postmark thereon. If sent by regular mail the notice shall be deemed given forty-eight (48) hours after the same is addressed as required herein and mailed with postage prepaid. Notices delivery by United States Express mail or overnight courier that guarantee next day delivery shall be deemed given twenty-four (24) hours after delivery of the same to the Postal Service or courier. Notices transmitted by facsimile transmission or similar means shall be deemed delivered upon telephone confirmation of receipt, provided a copy is also delivered via delivery or mail. If notice is received on a Saturday, Sunday or legal holiday, it shall be deemed received on the next business day.

24. Waivers. No waiver by Lessor of the Default or Breach of any term, covenant or condition hereof by Lessee, shall deemed a waiver of any other terms, covenant or condition hereof, or of any subsequent Default or Breach by Lessee of the same or any other term, covenant or condition hereof. Lessor's consent to, or approval of, any act shall not be deemed to render unnecessary the obtaining of Lessor's consent to, or approval of, any subsequent act by Lessee, or be construed as the basis of an estoppel to enforce the provision or provisions of this lease requiring such consent. The acceptance of Rent hereunder by Lessor shall not be a waiver of any Default or Breach by Lessee. Any payment made by Lessee in connection therewith, which such statements and/or conditions shall be of no force or effect whatsoever unless specifically agreed to by writing to Lessor at or before the time of deposit of such payment.

25. Recording. Either Lessor or Lessee shall, upon request of the other, execute, acknowledge and deliver to the other a "short form" memorandum of this Lease for recording purposes. The Party requesting recordation shall be responsible for payment of any fees applicable thereto.

26. No Right to Holdover. Lessee has no right to retain possession of the Premises or any part thereof beyond the expiration or termination of this Lease. In the event that Lessee holds over, then the Base Rent shall be increased to
27. Cumulative Remedies. No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies at law or in equity.

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

29. Binding Effect; Choice of Law. This Lease shall be binding upon the parties, their personal representatives, successors and assigns and be governed by the laws of the State in which the Premises are located. Any litigation between the Parties hereto concerning this Lease shall be initiated in the county in which the Premises are located.

30. Subordination; Attornment; Non-Disturbance.

30.1 Subordination. This Lease and any Option granted hereby shall be subject and subordinate to any ground lease, mortgage, deed of trust, or other hypothecation or security device (collectively, "Security Device"), now or hereafter placed upon the Premises, to any and all advances made on the security thereof, and to all renewals, modifications, and extensions thereof. Lessee agrees that the holders of any such Security Devices shall have no liability or obligation to perform any of the obligations of Lessor under this lease. Any Lender may elect to have this Lease and/or any Option granted hereby superior to the lien of its Security Device by giving written notice thereof to Lessee, this Lease and such Option shall be deemed prior to such Security Device, notwithstanding the relative dates of the documentation or recordation thereof.

30.2 Attornment. Subject to the non-disturbance provisions of Paragraph 30.3, Lessee agrees to attorn to a Lender or any other party who acquired ownership of the Premises by reason of a foreclosure of a Security Device, and that in the event of such foreclosure, such new owner shall not: (i) be liable for any act or omission of any prior lessor or with respect to event occurring prior to acquisition of ownership. (ii) be bound by prepayment of more than one (1) month's rent.

30.3 Non-disturbance. With respect to Security Devices entered into by Lessor after the execution of this Lease, lessee's subordination of this Lease shall be subject to receiving a commercially reasonable non-disturbance agreement (a "Non-Disturbance Agreement") from the Lender which Non-Disturbance Agreement provides that Lessee's possession of the Premises, and this lease, including any options to extend the term hereof, will not be disturbed so long as Lessee is not in Breach hereof and attorns to the record owner of the Premises. Further, within sixty (60) days after the execution of this Lease, Lessor shall use its commercially reasonable efforts to obtain a Non-Disturbance Agreement from the holder of any pre-existing Security Device which is secured by the Premises. In the event that Lessor is unable to provide the Non-Disturbance Agreement within said sixty (60) days, then Lessee may, at Lessee's option, directly contact Lessor's lender and attempt to negotiate for the execution and delivery of a Non-Disturbance Agreement.

30.4 Self-Executing. The agreements contained in this Paragraph 30 shall be effective without the execution of any further documents; provided, however, that, upon written request from Lessor or a Lender in connection with a sale, financing or refinancing of the Premises, Lessee and Lessor shall execute such further writings as may be reasonably required to separately document any subordination, attornment and/or Non-Disturbance Agreement provided for herein.

31. Attorneys' Fees. If any Party or Broker brings an action or proceeding to enforce the terms hereof or declare rights hereunder, the Prevailing Party (as hereafter defined) in any such proceeding, action, or appeal thereon, shall be entitled to reasonable attorneys' fees. Such fees may be awarded in the same suit or recovered in a separate suit, whether or not such action or proceeding is pursuant to decision or judgment. The term, "Prevailing Party" shall include, without limitation, a Party or Broker who substantially obtains or defeats the relief sought, as the case may be, whether by compromise, settlement, judgment, or the abandonment by the other Party or Broker of its claim or defense. The attorneys' fees award shall not be computed in accordance with any court fee schedule, but shall be such as to fully reimburse all attorney's fees reasonably incurred. In addition, Lessor shall be entitled to attorney's fees, costs and expenses incurred in the preparation and service of notices of Default and consultations in connection therewith, whether or not a legal action is subsequently commenced in connection with such Default or resulting Breach.
32. Lessee's Access; Showing Premises; Repairs. Lessor and lessor's agents shall have the right to enter the Premises at any time, in the case of an emergency, and other times for the purpose of showing the same to prospective purchases, lenders, or lessees, and making such alterations, repairs, improvements or additions to the Premises as Lessor is entitled to make under the Lease. All such activities shall be without abatement of rent or liability to Lessee. Lessor may at any time place on the premises any ordinary "For Sale" signs and Lessor may during the last six (6) months of the term hereof place any ordinary "For Lease" signs. Lessee may at any time place on or about the Premises any ordinary "For Sublease" sign.

33. Auctions. Lessee shall not conduct, nor permit to be conducted, any auction upon the Premises without Lessor's prior written consent. Lessor shall not be obligated to exercise any standard of reasonableness in determining whether to permit an auction.

34. Signs. Except for ordinary "For Sublease" signs, lessee shall not place any sign upon the Premises without Lessor's prior written consent. All signs must comply with all Applicable Requirements.

35. Termination; Merger. Unless specifically stated otherwise in writing by Lessor, the voluntary or other surrender of this Lease by Lessee, the mutual termination or cancellation hereof, or a termination hereof by Lessor for Breach by Lessee, shall automatically terminate any sublease or lesser estate in the Premises; provided, however, that Lessor may elect to continue any one or all existing subtenancies. Lessor's failure within ten (10) days following any such event to elect to the contrary by written notice to the holder of any such lesser interest, shall constitute Lessor's election to have such event constitute the termination of such interest.

36. Consents. Except as otherwise provided herein, wherever in this Lease the consent of a Party is required to an act by or for the other party, such consent shall not be unreasonably withheld or delayed. Lessor's actual reasonable costs and expenses (including, but not limited to, attorneys', engineers', architects' and other consultants' fees) incurred in the consideration of, or response to, a request by Lessee for any Lessor consent, including but not limited to consents to an assignment, a subletting or the presence or use of a Hazardous Substance, shall be paid by Lessee upon receipt of an invoice and supporting documentation therefor. Lessor's consent to any act, assignment or subletting shall not constitute an acknowledgment that no Default or Breach by Lessee of this lease exists, nor shall such consent be deemed a waiver of any then existing Default or Breach, except as may be otherwise specifically stated in writing by Lessor at the time of such consent. The failure to specify herein any particular condition to Lessor's consent shall not preclude the imposition by Lessor at the time of consent of such further or other conditions as are then reasonable with reference to the particular matter for which consent is being given. In the event that either Party disagrees with any determination made by the other hereunder and reasonably requests the reasons for such determination, the determining party shall furnish its reasons in writing and in reasonable detail within ten (10) business days following such request.

37. Guarantor

37.1 Execution. The Guarantors, if any, shall each execute a guaranty in the form most recently published by the American Industrial Real Estate Association, and each such Guarantor shall have the same obligations as Lessee under this Lease.

37.2 Default. It shall constitute a Default of the Lessee if any guarantor fails or refuses, upon request to provide: (a) evidence of the execution of the guaranty, including the authority of the party signing on guarantor's behalf to obligate Guarantor, and in the case of a corporate Guarantor, a certified copy of a resolution of its board of directors authorizing the making of such guaranty, (b) current financial statements, (c) a Tenanty Statement, or (d) written confirmation that the guaranty is still in effect.

38. Quiet Possession. Subject to payment by Lessee of the Rent and performance of all of the covenants, conditions and provisions on Lessee's part to be observed and performed under this Lease, Lessee shall have quiet possession and quiet enjoyment of the Premises during the term hereof.

39. Options

39.1 Definition. "Option" shall mean: (a) the right to extend the term of or renew this Lease or to extend or renew any lease that Lessee has on other property of Lessor; (b) the right of first refusal or first offer to lease either the Premises or other property of Lessor; (c) the right to purchase or the right of first refusal to purchase the Premises or other property of Lessor.

39.2 Options Personal to Original Lessee. Each Option granted to Lessee in this Lease are personal to Lessee and cannot be assigned or exercised by anyone other than said original Lessee and while the original Lessee is in full possession of the Premises and, if requested by Lessor, with Lessee certifying that Lessee has no intention of thereafter assigning or subletting.

39.3 Multiple Options. In the event that Lessee has any multiple options to extend or renew this Lease, a later option cannot be exercised unless...
the prior Options have been validly exercised.

39.4 Effect of Default on Options.
(a) Lessee shall have no right to exercise an Option, (i) during the period commencing from the giving of notice of Default and continuing until said Default is cured (ii) during the period of time any Rent is unpaid (without regard to whether notice thereof is given Lessee), (iii) during the time Lessee is in Breach of this Lease, or (iv) in the event that Lessee has been given three (3) or more notices of Default, whether or not the defaults are cured, during the twelve (12) month period immediately preceding the exercise of the Option.

(b) The period of time within which an Option may be exercised shall not be extended or enlarged by reason of Lessee’s inability to exercise an Option because of the provisions of paragraph 39.4(a).
(c) An Option shall terminate and be of no further force or effect, notwithstanding Lessee's due and timely exercise of the Option, if, after such exercise and prior to the commencement of the extended term, (i) Lessee fails to pay to Rent for a period of thirty (30) days after such Rent becomes due (without any necessity of Lessor to give notice thereof), or (ii) Lessor gives to Lessee three (3) or more notices of separate Default during any twelve (12) month period, whether or not the Defaults are cured, or (iii) if Lessee commits a Breach of this Lease.

40. Multiple Buildings. If the Premises are a part of a group of buildings controlled by Lessor, Lessee agrees that it will observe all reasonable rules and regulations which Lessor may make from time to time for the management, safety, and care of said properties, including the care and cleanliness of the grounds and including the parking, loading and unloading of vehicles, and that Lessee will pay its fair share of common expenses incurred in connection therewith.

41. Security Measures. Lessee hereby acknowledges that the rental payable to Lessor hereunder does not include the cost of guard service or other security measures, and that Lessor shall have no obligation whatsoever to provide same. Lessee assumes all responsibility for the protection of the Premises, Lessee, its agents and invitees and their property from the acts of third parties.

42. Reservations. Lessor reserves to itself the right, from time to time, to grant, without the consent or joinder of Lessee, such easements, rights and dedications that Lessor deems necessary, and to cause the recordation of parcel maps and restrictions, so long as such easements, rights, dedications, maps and restrictions do not unreasonably interfere with the use of the Premises by Lessee. Lessee agrees to sign any documents reasonably requested by Lessor to effectuate any such easement rights, dedication, map or restrictions.

43. Performance Under Protest. If at any time a dispute shall arise as to any amount or sum of money to be paid by one Party to the other under the provisions hereof, the Party against whom the obligation to pay the money is asserted shall have the right to make payment "under protest" and such payment shall not be regarded as a voluntary payment, and there shall survive the right on the part of said Party to institute suit for recovery of each sum. If it shall be adjudged that there was no legal obligation on the part of said Party to pay such sum or any part thereof, said Party shall be entitled to recover such sum or so much thereof as it was not legally required to pay.

44. Authority. If either Party hereto is a corporation, trust, or general or limited partnership, or similar entity, each individual executing this Lease on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on its behalf. Each Party shall, within thirty (30) days after request, deliver to the other Party satisfactory evidence of such authority.

45. Conflict. Any conflict between the printed provisions of this Lease and the typewritten or handwritten provision shall be controlled by the typewritten or handwritten provisions.

46. Offer. Preparation of this Lease by either Party or their agent and submission of same to the other Party shall not be deemed an offer to lease to the other Party. This lease is not intended to be binding until executed and delivered by all parties hereto.

47. Amendments. This Lease may be modified only in writing, signed by the Parties in interest at the time of the modification. As long as they do not materially change Lessee's obligations hereunder, Lessee agrees to make such reasonable non-monetary modifications to this lease as may be reasonably required by a Lender in connection with the obtaining of normal financing or refinancing of the Premises.

48. Multiple Parties. If more than one person or entity is named herein as either Lessor or Lessee, such multiple Parties shall have joint and several responsibility to comply with the terms of this Lease.

49. Mediation and Arbitration of Disputes. An Addendum requiring the Mediation and/or the Arbitration of all disputes between the Parties and/or Brokers arising out of this Lease (box) is (box) is not attached to this Lease.
LESSOR AND LESSEE HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND PROVISION CONTAINED THEREIN, AND BY THE EXECUTION OF THIS LEASE SHOW THEIR INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE THAT, AT THE TIME THIS LEASE IS EXECUTED, THE TERMS OF THIS LEASE ARE COMMERCIALLY REASONABLE AND EFFECTUATE THE INTENT AND PURPOSE OF LESSOR AND LESSEE WITH RESPECT TO THE PREMISES.

The parties hereto have executed this Lease at the place and on the dates specified above their respective signatures.

Executed at: (blank)      Executed at: (blank)
on: (blank)                   on: (blank)
By LESSOR:
Richard B. Gomez, Richard B. Gomez
Josephine L. Gomez
TTEE U/A/D 10-31/1990 FBO Gomez Family Trust
By: /s/R.B. Gomez
Name Printed: (blank)
Title: (blank)

By LESSEE:
UroGenesys, Inc.
By: /s/Donald B. Rice
Name printed: Donald B. Rice
Title: President

BROKER:
CB Commercial
Executed at: (blank)
on: (blank)
By: /s/Robert P. Dubbins
Name Printed: Robert P. Dubbins
Title: First Vice President


50. 6.2 HAZARDOUS SUBSTANCES:

Lessee shall furnish the Lessor with a copy or copies State License that warrants that Lessee has the authorization of the use of Radio Active Materials and disposal of such for the term of this Lease from Radiologic Health Branch for the State Department of Health Services.

Lessee to follow paragraph 6.2 through 6.2(g) of this Lease.

51. LESSOR REPRESENTATION:

To the best of Lessor's knowledge, there are no hazardous Substances present or about the Premises and no action, proceeding, or claim is pending or threatened concerning the Premises or Building concerning any hazardous Substances or pursuant to any environmental law, and Lessor is in full compliance with all environmental laws, with respect to the Premises.

52. WARRANTIES:

Lessor or Lessor's agents have not made any representation or warranty as to the suitability of the Premises, and that Lessee's Tenant's Improvements and equipment, for the conduct of Lessee's business; provided, however that Lessor represents that the Premises were suitable for the uses to which they were installed by Xoma Corp., prior to the commencement of this Lease. Subject to paragraphs 56 and 2, Lessee shall accept the Premises and all Tenant's Improvement, equipment, electrical, plumbing (HVAC), walls (interior) partitions, doors, etc. in its current "As-is" condition.

53. 8.0 INSURANCE:

Line - 8.3 delete (loss payable to Lessor) insert with (Lessor as named insured)

54. 10.2 PROPERTY TAXES:

Lessee shall pay the Real property Taxes applicable to the premises during the term of this Lease, however, Lessee agrees to make each payment to Lessor for reimbursement within ten (10) days from the date Lessor presents Lessee, copies of property tax bills, reflecting the assessments and mounts due therein.
12.1 LESSOR CONSENT TO SUBLETS:

Lessor consents to Lessee's sublet of an approximately 1250 square foot portion of the larger brick building at 1553 17th Street, Santa Monica, California from March 1, 1997 through February 28, 1000 to Xoma Industries, Inc. Lessee shall furnish lessor copies of lease (sub) agreements between Lessee and sublessee. Lessee agrees to furnish Lessor with Insurance certificates to comply with paragraph 8.0 through 8.8 of this lease.

56. GOVERNMENTAL COMPLIANCE & APPROVALS:

Lessee shall not be responsible for any Federal, State or Local code compliance, environmental clean-up asbestos abatement, seismic upgrade or ADA violations or any restorations or alternations due to prior uses of the premises. In all other respects, but not to supersede Lessor's responsibility under paragraphs 2 and 52, Lessee shall accept the Premises in its current "As-is" condition.

57. PROPOSITION 13 PROTECTION:

Lessee shall not be responsible for the increase in real property taxes caused by a sale or transfer of the property.

58. SURRENDER:

Lessor acknowledges the modification of Paragraph 7.45 as follows:

Lessor accepts XOMA Corporation as retaining its continuing obligations in respect of Paragraph 7.2 in terms of its lease dated June 22, 1995, and agrees that the obligations of Lessee, with regard to the condition of the premises upon termination of the Lease and surrender of same, shall be limited to the terms of the letter dated January 20, 1997 received from XOMA Corporation, and attached hereto as Appendix A.

OPTION(S) TO EXTEND

ADDENDUM TO STANDARD LEASE

Dated January 20, 1997

By and Between (Lessor) Richard B. Gomez, Josephine L. Gomez, TTEE U/A/D 10-31/1990 FBO Gomez Family Trust
(Lessee)UroGenesys, Inc., a California corporation
Property Address: 1701 Colorado and 1553 17th Street, Santa Monica, CA 90404

Paragraph 59

A. OPTION(S) TO EXTEND:

Lessor hereby grants to lessee the option to extend the term of this Lease for 1 additional 36 month period(s) commencing when the prior term expires upon each and all of the following terms and conditions:

(i) Lessee gives to Lessor, and Lessor actually receives on a date which is prior to the date that the option period would commence (if exercised) by at least 6 and not more than 9 months, a written notice of the exercise of the option(s) to extend this Lease for said additional term(s), time being of essence. If said notification of the exercise of said option(s) is not so given and received, the option(s) shall automatically expire; said option(s) may (if more than one) only be exercised consecutively;

(ii) The provisions of paragraph 39, including the provision relating to default of Lessee set forth in paragraph 39.4 of this Lease are conditions of this Option;

(iii) All of the terms and conditions of this Lease except where specifically modified by this option shall apply;

(iv) The monthly rent for each month of the option period shall be calculated as follows, using the method(s) indicated below:

(x in box) III. Fixed Rental Adjustment(s) (FRA)

The monthly rent payable under paragraph 1.5 ("Base Rent") of the attached Lease shall be increased to the following amounts on the dates set forth below:

On {Fill in FRA Adjustment Date(s)}: The New Base Rental shall be:
March 1, 2000 - February 28, 2003 $12,075 per month

B. NOTICE: Unless specified otherwise herein, notice of any escalations other than Fixed Rental Adjustments shall be made as specified in paragraph 23 of the attached Lease.

C. BROKER'S FEE:
The Real Estate Brokers specified in paragraph 1.10 of the attached Lease shall be paid a Brokerage Fee for each adjustment specified above in accordance with paragraph 15 of the attached Lease.

Initials: /s/RBG                                           Initials: /s/DBR

OPTION(S) TO EXTEND
Page 1 of 2
EXHIBIT "A"

Map of property at corner of Seventeenth Street and Colorado Avenue showing R&D Space
1. Parties. This Lease, dated, for reference purposes only. October 12, 1992, is made by and between VIRGINIA MERRITT, as Trustee of the Bowman Merritt and Virginia Merritt Trust, (herein called "Lessor") and XOMA CORPORATION (herein called "Lessee").

2. Premises. Lessor hereby leases to Lessee and Lessee leases from Lessor for the term, at the rental, and upon all of the conditions set forth herein, that certain real property situated in the County of Los Angeles State of California, commonly known as 1545 17th Street, Santa Monica, California and described as Approximately 18,000 sq. ft., building on site, more specifically described as Lots O and P, Block 182, Town of Santa Monica, as recorded in Miscellaneous Records, Book 39, Page 45, et seq., in the Office of the County Recorder of Los Angeles County, California. Said real property including the land and all improvements therein, is herein called "the Premises".

3. Term.

3.1 Term. The term of this Lease shall be for Five (5) years commencing on October 12, 1992 and ending on October 12, 1997 unless sooner terminated pursuant to any provision hereof.

3.2 Delay in Possession. Notwithstanding said commencement date, if for any reason Lessor cannot deliver possession of the Premises to Lessee on said date, Lessor shall not be subject to any liability therefor, nor shall such failure affect the validity of this Lease or the obligations of Lessee hereunder or extend the term hereof, but in such case, Lessee shall not be obligated to pay rent until possession of the Premises is tendered to Lessee; provided, however, that if Lessor shall not have delivered possession of the Premises within sixty (60) days from said commencement date, Lessee may, at Lessee's option, by notice in writing to Lessor within ten (10) days thereafter, cancel this Lease, in which event the parties shall be discharged from all obligations hereunder; provided further, however, that if such written notice of Lessee is not received by Lessor within said ten (10) day period, Lessee's right to cancel this Lease hereunder shall terminate and be of no further force or effect.

3.3 Early Possession. If Lessee occupies the Premises prior to said commencement date, such occupancy shall be subject to all provisions hereof, such occupancy shall not advance the termination date, and Lessee shall pay rent for such period at the initial monthly rates set forth below.

4. Rent: Special Net Lease.

4.1 Rent. Lessee shall pay to Lessor as rent for the Premises, monthly payments of $18,000.00, in advance, on the first day of each month of the term hereof. Lessee shall pay Lessor upon the execution hereof $18,000.00 as rent for the month of (See Addendum). Rent for any period during the term hereof which is for less than one month shall be a pro rata portion of the monthly installment. Rent shall be payable in lawful money of the United States to Lessor at the address stated herein or to such other persons or at such other places as Lessor may designate in writing.

4.2 Special Net Lease. This Lease is what is commonly called a "Net, Net, Net Lease", it being understood that the Lessor shall receive the rent set forth in Paragraph 4.1 free and clear of any and all other impositions, taxes, liens, charges or expenses of any nature whatsoever in connection with the ownership and operation of the Premises. In addition to the rent reserved by Paragraph 4.1, Lessee shall pay to the parties respectively entitled thereto all impositions, insurance premiums, operating charges, maintenance charges, construction costs, and any other charges, costs and expenses which arise or may be contemplated under any provisions of this Lease during the term hereof. All of such charges, costs and expenses shall constitute additional rent, and upon the failure of Lessee to pay any of such costs, charges or expenses, Lessor shall have the same rights and remedies as otherwise provided in this Lease for the failure of Lessee to pay rent. It is the intention of the parties hereto that Lessee shall in no event be entitled to any abatement of or reduction in rent payable under this Lease, except as herein expressly provided. Any present or future law to the contrary shall not alter this agreement of the parties.

5. Security Deposit. Lessee shall deposit with Lessor upon execution hereof $25,144.00 (See Addendum) as security for Lessee's faithful performance of Lessor's obligations hereunder. If Lessee fails to pay rent or other charges due hereunder, or otherwise defaults with respect to any provision of this Lease, Lessor may use, apply or retain all or any portion of said deposit for the payment of any rent or other charge in default or for the payment of any other sum to which Lessor may become obligated by reason of Lessee's default, or to compensate Lessor for any loss or damage which Lessor may suffer thereby. If Lessor so uses or applies all or any portion of said deposit, Lessee shall within ten (10) days after written demand therefor deposit cash with Lessor in
an amount sufficient to restore said deposit to the full amount hereinabove
stated and Lessee's failure to do so shall be a material breach of this Lease.
Lessor shall not be required to keep said deposit separate from its general
accounts. If Lessee performs all of Lessee's obligations hereunder, said
deposit, or so much thereof as has not theretofore been applied by Lessor,
shall be returned, without payment of interest or other increment for its use, to
Lessee (or, at Lessor's option, to that last assignee, if any, of Lessee's
interest hereunder) at the expiration of the term hereof, and after Lessee has
vacated the Premises. No trust relationship is created herein between Lessor and
Lessee with respect to said Security Deposit.

6. Use.

6.1 Use. The Premises shall be used and occupied only for light
manufacturing, research laboratories, and office or any other use which is
reasonably comparable and for no other purpose.

6.2 Compliance with Law.

(a) Lessor warrants to Lessee that the Premises, in its state
existing on the date that the Lease term commences, but without regard to the
use for which Lessee will use the Premises, does not violate any covenants or
restrictions of record, or any applicable building code, regulation or ordinance
in effect on such Lease term commencement date. In the event it is determined
that this warranty has been violated, then it shall be the obligation of the
Lessor, after written notice from Lessee, to promptly, at Lessor's sole cost and
expense, rectify any such violation. In the event Lessee does not give to Lessor
written notice of the violation of this warranty within six months from the date
that the Lease term commences, the correction of same shall be the obligation
of the Lessor and Lessee's sole cost. The warranty contained in this paragraph 6.2
(a) shall be of no force or effect if, prior to the date of this Lease, Lessee
was the owner or occupant of the Premises, and, in such event, Lessee shall
correct any such violation at Lessee's sole cost.

(b) Except as provided in paragraph 6.2(a), Lessee shall, at
Lessee's expense, comply promptly with all applicable statutes, ordinances,
rules, regulations, orders, covenants and restrictions of record, and
requirements in effect during the term or any part of the term hereof,
regulating the use by Lessee of the Premises. Lessee shall not use nor permit
the use of the Premises in any manner that will tend to create waste or a
nuisance or, if there shall be more than one tenant in the building containing
the Premises, shall tend to disturb such other tenants.

6.3 Condition of Premises

(a) Lessor shall deliver the Premises to Lessee clean and free
of debris on Lease commencement date (unless Lessee is already in possession)
and Lessor further warrants to Lessee that the plumbing, lighting, air
conditioning, heating, and loading doors in the Premises shall be in good
operating condition on the Lease commencement date. In the event that it is
determined that this warranty has been violated, then it shall be the obligation of
Lessor, after receipt of written notice from Lessee setting forth with
specificity the nature of such violation, to promptly, at Lessor's sole cost,
rectify such violation. Lessee's failure to give such written notice to Lessor
within thirty (30) days after the Lease commencement date shall cause the
conclusive presumption that Lessor has complied with all of Lessor's obligations
hereunder. The warranty contained in this paragraph 6.3(a) shall be of no force
or effect if prior to the date of this Lease, Lessee was the owner or occupant of
the Premises.

(b) Except as otherwise provided in this Lease, Lessee hereby
accepts the Premises in their condition existing as of the Lease commencement
date or the date that Lessee takes possession of the Premises, whichever is
earlier, subject to all applicable zoning, municipal, county and state laws,
ordinances and regulations governing and regulating the use of the Premises, and
any covenants or restrictions of record, and accepts this Lease subject thereto
and to all matters disclosed thereby and by any exhibits attached hereto. Lessee
acknowledges that neither Lessor nor Lessor's agent has made any representation
or warranty as to the present or future suitability of the Premises for the
conduct of Lessee's business.

SPECIAL NET

(This is a special form containing unique provisions and should only be used in
special situations where the LESSEE will pay rent under all circumstances and in
the event of destruction the LESSEE will rebuild under all circumstances.)

7. Maintenance, Repairs and Alterations.

7.1 Lessee's Obligations. Lessee shall keep in good order, condition
and repair the Premises and every part thereof, structural and non structural,
(whether or not such portion of the Premises requiring repair, or the means of
repairing the same are reasonably or readily accessible to Lessee, and as a
result of Lessee's use, the elements or the age of such portion of the Premises)
including, without limiting the generality of the foregoing, all plumbing,
heating, air conditioning, Lessee shall procure and maintain, at Lessee's
expense, an air conditioning system maintenance contract) ventilating, electrical, lighting facilities and equipment within the Premises, fixtures, walls (interior and exterior), foundations, ceilings, roofs (interior and exterior), floors, windows, doors, plate glass and skylights located within the Premises, and all landscaping, driveways, parking lots, fences and signs located on the Premises and sidewalks and parkways adjacent to the Premises.

7.2 Surrender. On the last day of the term hereof, or on any sooner termination of the Premises to Lessor in the same condition as when received, ordinary wear and tear excepted, clean and free of debris. Lessor shall repair any damage to the Premises occasioned by the installation or removal of Lessee's trade fixtures, furnishings and equipment. Notwithstanding anything to the contrary otherwise stated in this Lease, Lessee shall leave the air lines, power panels, electrical distribution systems, lighting fixtures, space heaters, air conditioning, plumbing and fencing on the premises in good operating condition.

7.3 Lessor's Rights. If Lessee fails to perform Lessee's obligations under this Paragraph 7, or under any other paragraph of this Lease, Lessor may at its option (but shall not be required) to enter upon the Premises after ten (10) days' prior written notice to Lessee (except in the case of an emergency, in which case no notice shall be required), perform such obligations on Lessee's behalf and put the same in good order, condition and repair, and the cost thereof together with the interest thereon at the maximum rate then allowable by law shall become due and payable as additional rental to Lessor together with Lessee's next rental installment.

7.4 Lessor's Obligations. Except for the obligations of Lessor under Paragraph 6.2(a) and 6.3(a)(relating to Lessor's warranty), Paragraph 9 (relating to destruction of the Premises, and under Paragraph 14 (relating to condemnation of the Premises), it is intended by the parties hereto that Lessor have no obligation, in any manner whatsoever, to repair and maintain the Premises nor the building located thereon nor the equipment therein, whether structural or nonstructural. All of which obligations are intended to be that of the Lessee under Paragraph 7.1 hereof. Lessee expressly waives the benefit of any statute now or hereinafter in effect which would otherwise afford Lessee the right to make repairs at Lessor's expense or to terminate this Lease because of Lessor's failure to keep the premises in good order, condition and repair.

7.5 Alterations and Additions

(a) Lessee shall not, without Lessor's prior written consent make any alterations, improvements, additions, or Utility installations in, on or about the Premises, except for nonstructural alterations not exceeding $50,000.00 in cumulative costs during the term of this Lease. In any event, whether or not in excess of $50,000.00 in cumulative cost, Lessee shall make no change or alteration in the interior of the Premises nor the exterior of the building(s) on the Premises without Lessor's prior written consent. As used in this Paragraph 7.5 the term "Utility Installation" shall mean carpeting, window coverings, air lines, power panels, electrical distribution systems, lighting fixtures, space heaters, air conditioning, plumbing, and fencing. Lessor may require that Lessee remove any or all of said alterations, improvements, additions or Utility Installations at the expiration of the term, and restore the Premises to their prior condition. Lessor may require Lessee to provide Lessor, at Lessee's sole cost and expense, a lien and completion bond in an amount equal to one times the estimated cost of such improvements, to insure Lessor against any liability for mechanics' and materialmen's liens and to insure completion of the work. Should Lessee make any alterations, improvements, additions or Utility Installations without the prior approval of Lessor, Lessor may require that Lessee remove any or all of the same.

(b) Any alterations, improvements, additions or Utility Installations in, or about the Premises that Lessee shall desire to make and which requires the consent of the Lessor shall be presented to Lessor in written form, with proposed detailed plans. If Lessor shall give its consent, the consent shall be deemed conditioned upon Lessee acquiring a permit to do so from appropriate governmental agencies, the furnishing of a copy thereof to Lessor prior to the commencement of the work and the compliance by Lessee of all conditions of said permit in a prompt and expeditious manner.

(c) Lessee shall pay, when due, all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for use in the Premises, which claims are or may be secured by any mechanics' or materialmen's lien against the Premises or any interest therein. Lessee shall give Lessor not less than ten (10) days' notice prior to the commencement of any work in the Premises, and Lessor shall have the right to post notices of non-responsibility in or on the Premises as provided by law. If Lessee shall, in good faith, contest any such lien or claim or demand, then Lessor shall, at its sole expense defend itself and Lessor against the same and shall pay and satisfy any such adverse judgment that may be rendered thereon before the enforcement thereof against the Lessor or the Premises, upon the condition that if Lessor shall require, Lessee shall furnish to Lessor a surety bond satisfactory to Lessor in an amount equal to such contested lien claim or demand indemnifying Lessor against liability for the same and holding the Premises free from the effect of such lien or claim. In addition, Lessor may require Lessee to
pay Lessor's attorneys fees and costs in participating in any such action if Lessor shall decide it is to its best interest to do so.

(d) Unless Lessor requires their removal, as set forth in Paragraph 7.5(a), all alterations, improvements, additions and Utility Installations (whether or not such Utility Installations constitute trade fixtures of Lessee), which may be made on the Premises, shall become the property of Lessor and remain upon and be surrendered with the Premises at the expiration of the term. Notwithstanding the provisions of this Paragraph 7.5(d), Lessee's machinery and equipment, other than that which is affixed to the Premises so that it cannot be removed without material damage to the Premises (which cannot thereby be restored to their original condition, normal wear and tear excepted), shall remain the property of Lessee and may be removed by Lessee subject to the provisions of Paragraph 7.2.

8. Insurance Indemnity.

8.1 Insuring Party. As used in this Paragraph 8, the term "insuring party" shall mean the party who has the obligation to obtain the Property Insurance required hereunder. The insuring party shall be designated in Paragraph 46 hereof. In the event Lessor is the insuring party, Lessor shall also maintain the liability insurance described in paragraph 8.2 hereof, in addition to, and not in lieu of, the insurance required to be maintained by Lessee under said paragraph 8.2, but Lessor shall not be required to name Lessee as an additional insured on such policy. Whether the insuring party is the Lessor or the Lessee, Lessee shall, as additional rent for the Premises, pay the cost of all insurance required hereunder, except for that portion of the cost attributable to the liability insurance coverage in excess of $1,000,000 per occurrence. If Lessor is the insuring party Lessee shall, within ten (10) days following demand by Lessor, reimburse Lessor for the cost of the insurance so obtained.

8.2 Liability Insurance. Lessee shall, at Lessee's expense obtain and keep in force during the term of this Lease a policy of Combined Single Limit, Bodily Injury and Property Damage insurance insuring Lessor and Lessee against any liability arising out of the ownership, use, occupancy or maintenance of the Premises and all areas appurtenant thereto. Such insurance shall be a combined single limit policy in an amount not less than $500,000 per occurrence. The policy shall insure performance by Lessee of the indemnity provisions of this Paragraph 8. The limits of said insurance shall not, however, limit the liability of Lessee hereunder.

8.3 Property Insurance.

(a) The insuring party shall obtain and keep in force during the term of this Lease a policy of insurance covering loss or damage to the Premises and all附属 area thereof, as the same may exist from time to time, which replacement value is now $1.4 million, but in no event less than the total amount required by lenders having liens on the Premises, against all perils included within the classification of fire, extended coverage, vandalism, malicious mischief, flood (in the event same is required by a lender having a lien on the Premises), and special extended perils ("all risks" as such term is used in the insurance industry). Said insurance shall provide for payment of loss thereunder to Lessor or to the holders of mortgages or deeds of trust on the Premises. The insuring party shall, in addition, obtain and keep in force during the term of this Lease a policy of rental value insurance covering a period of one year, with loss payable to Lessee, which insurance shall also cover all real estate taxes and insurance costs for said period. A replacement value endorsement deleting the coinsurance provision of the policy shall be procured with said insurance as well as an automatic increase in insurance endorsement causing the increase in annual property insurance coverage. If the insuring party shall fail to procure and maintain said insurance the other party may, but shall not be required to, procure and maintain the same, but at the expense of Lessee. If such insurance coverage has a deductible clause, the deductible amount shall not exceed $5,000.00 per occurrence, and Lessee shall be liable for such deductible amount.

(b) If the Premises are part of a larger building, or if the Premises are part of a group of buildings owned by Lessor which are adjacent to the Premises, then Lessee shall pay for any increase in the property insurance of such other building or buildings if said increase is caused by Lessee's acts, omissions, use or occupancy of the Premises.

(c) If the Lessor is the insuring party the Lessor will not insure Lessee's fixtures, equipment or tenant improvements unless the tenant improvements have become a part of the Premises under paragraph 7, hereof. But if Lessee is the insuring party the Lessee shall insure its fixtures, equipment and tenant improvements.

8.4 Insurance Policies. Insurance required hereunder shall be in companies holding a "General Policyholders Rating" of at least B plus, or such other rating as may be required by a lender having a lien on the Premises, as set forth in the most current issue of "Best's Insurance Guide". The insuring party shall deliver to the other party copies of policies of such insurance or certificates evidencing the existence and amounts of such insurance with loss
payable clauses as required by this paragraph 8. No such policy shall be

cancellable or subject to reduction of coverage or other modification except

after thirty (30) days prior to the expiration of such policies, furnish Lessor with renewals or "binders" thereof, or Lessor

may order such insurance and charge the cost thereof to Lessee, which amount

shall be payable by Lessee upon demand. Lessee shall not do or permit to be done

anything which shall invalidate the insurance policies referred to in Paragraph

8.3. If Lessee does or permits to be done anything which shall increase the cost of

the insurance policies referred to in Paragraph 8.3, then Lessee shall

forthwith upon Lessor's demand reimburse Lessor for any additional premiums

attributable to any act or omission or operation of Lessee causing such increase in

the cost of insurance. If Lessor is the insuring party, and if the insurance

policies maintained hereunder cover other improvements in addition to the

Premises, Lessor shall deliver to Lessee a written statement setting forth the amount of any such insurance cost increase and showing in reasonable detail the

manner in which it has been computed.

8.5 Waiver of Subrogation. Lessee and Lessor each hereby release and

relinquish the other, and waive their entire right of recovery against the other

for loss or damage arising out of or incident to the perils insured against

under paragraph 8.3, which perils occur in, on or about the Premises, whether

due to the negligence of Lessor or Lessee or their agents, employees,

contractors and/or invitees. Lessor and Lessee shall, upon obtaining the

policies of insurance required hereunder, give notice to the insurance carrier

or carriers that the foregoing mutual waiver of subrogation is contained in this

Lease.

8.6 Indemnity. Lessee shall indemnify and hold harmless Lessor from and

against any and all claims arising from Lessee's use of the Premises, or from

the conduct of Lessee's business or from any activity, work or things done,

permited or suffered by Lessee in or about the Premises or elsewhere and shall

further indemnify and hold harmless Lessor from and against any and all claims

arising from any breach or default in the performance of any obligation on Lessee's part to be performed under the
terms of this Lease, or arising from any negligence of the Lessee, or any of

Lessee's agents, contractors, or employees, and from and against all costs,

attorney's fees, expenses and liabilities incurred in the defense of any such

claim or proceeding brought thereon; and in case any action or proceeding be brought against Lessor by reason of any such claim, Lessee upon

notice from Lessor shall defend the same at Lessee's expense by counsel

satisfactory to Lessor. Lessee, as a material part of the consideration to

Lessor, hereby assumes all risk of damage to property or injury to persons, in,

upon or about the Premises arising from any cause and Lessee hereby waives all

claims in respect thereof against Lessor.

8.7 Exemption of Lessor from Liability. Lessee hereby agrees that

Lessor shall not be liable for injury to Lessee's business or any loss of income

therefrom or for damage to the goods, wares, merchandise or other property of

Lessee, Lessee's employees, invitees, customers, or another person in or about

the Premises, nor shall Lessor be liable for injury to the person of Lessee,

Lessee's employees, agents or contractors whether such damage or injury is

caused by or results from fire, steam, electricity, gas, water or rain, or from

the breakage, leakage, obstruction or other defects of pipes, sprinklers, wires,

appliances, plumbing, air conditioning or lighting fixtures, or from any other

cause, except for Lessor's negligence or breach of an express warranty contained

in this Lease or injury results from conditions arising upon the Premises or upon other portions of the building of which the Premises

are a part, or from other sources or places and regardless of whether the cause

of such damage or injury or the means of repairing the same is inaccessible to

Lessee. Lessor shall not be liable for any damages arising from any act or

neglect of any other tenant, if any, of the building in which the Premises are

located.


9.1 Obligation to Rebuild. In the event that some or all of the

improvements constituting a part of the Premises or the Premises itself are

damaged or destroyed, partially or totally from any cause other than the acts or

omissions to act of Lessor, whether or not such damage or destruction is covered

by any insurance required to be maintained under Paragraph 8.3 hereof, then

Lessee shall repair, restore and rebuild the Premises to its condition existing

immediately prior to such damage or destruction and this Lease shall remain in

full force and effect. Such repair, restoration and rebuilding (all of which are

herein called "repair") shall be commenced within a reasonable time after such

damage or destruction has occurred and shall be diligently pursued to

completion, provided the damage or destruction was not caused by Lessor.

9.2 Insurance Proceeds. The proceeds of any insurance maintained under

Paragraph 8.3 hereof shall be made available to Lessee for payment of costs and

expense of repair, provided however, that such proceeds may be made available to

Lessee subject to reasonable condition including, but not limited to architect's

certification of cost, retention of percentage of such proceeds pending
which was hereinbefore included within the definition of "real property tax," or

(ii) the nature of include any tax, fee, levy, assessment or charge (i) in substitution of,

business of leasing the Premises. The term "real property tax" shall also

Premises or in the real property of which the Premises are a part, as against Lessor's
district thereof, as against any legal or equitable interest of Lessor in the
school, agricultural, sanitary, fire, street, drainage or other improvement
improvement bond or bonds, levy or tax (other than inheritance, personal income
special, ordinary or extraordinary, and any license fee, commercial rental tax,

property tax" shall include any form of real estate tax or assessment general,

10.2 Definition of "Real Property Tax". As used herein, the term "real

property tax" shall include any form of real estate tax or assessment general,
special, ordinary or extraordinary, and any license fee, commercial rental tax,

10.  Real Property Taxes.

10.1 Payment of Taxes. Lessee shall pay the real property tax, as
defined in paragraph 10.2, applicable to the Premises during the term of this
Lease. All such payments shall be made at least ten (10) days prior to the
delinquency date of such payment. Lessee shall promptly furnish Lessor with
satisfactory evidence that such taxes have been paid. If any such taxes paid by
Lessee shall cover any period of time prior to or after the expiration of the
term hereof, Lessee's share of such taxes shall be equitably prorated to cover
the expiration of such 120 day period, of cancelling this Lease. If Lessee shall
exercises such option, Lessee shall have no further obligation hereunder and
shall have no claim against Lessor. Lessee, in order to exercise said option,
shall exercise said option by giving written notice to Lessor within said 30 day
period, time being of the essence.

9.3 Damage Near End of Term

(a) If the Premises are damaged or destroyed, either partially
or totally, during the last six months of the term of this Lease, Lessor may at
Lessor's option cancel and terminate this Lease as of the date of occurrence of
such damage by giving written notice to Lessee of Lessor's election to do so
within 30 days after the date of occurrence of such damage.

(b) Notwithstanding paragraph 9.3(a) to the contrary, in the

event that Lessee has an option to extend or renew this Lease, and the time
within which said option may be exercised has not yet expired, Lessee shall
exercise such option, if it is to be exercised at all, no later than 20 days
after damage or destruction to the Premises, either total or partial occurring
during the last six months of the term of this Lease, which damage or

(b) Notwithstanding paragraph 9.3(a) to the contrary, in the

event that Lessee has an option to extend or renew this Lease, and the time
within which said option may be exercised has not yet expired, Lessee shall
exercise such option, if it is to be exercised at all, no later than 20 days
after damage or destruction to the Premises, either total or partial occurring
during the last six months of the term of this Lease, which damage or
destruction is covered by insurance required to be maintained under paragraph 8.

If Lessee duly exercises such option during said 20 day period Lessee shall, in
accordance with paragraph 9.2, at Lessee's expense, repair such damage as soon
as reasonably possible and this Lease shall continue in full force and effect.
If Lessee fails to exercise such option during said 20 day period, then Lessor
may at Lessor's option cancel this Lease as of the expiration of said 20 day period by giving written notice to Lessee of Lessor's election to do so
within 10 days after the expiration of said 20 day period, notwithstanding
any term or provision in the grant of option to the contrary.

9.4 Abatement of Rent. Notwithstanding the partial or total destruction
of the Premises and any part thereof, and notwithstanding whether the casualty
is insured or not, there shall be no abatement of rent or of any other
obligation of Lessee hereunder by reason of such damage or destruction unless
the Lease is terminated by virtue of any other provision of this Lease.

9.5 Termination - Advance Payments. Upon termination of this Lease
pursuant to this Paragraph 9, an equitable adjustment shall be made concerning
advance rent and any payments made by Lessee to Lessor. Lessor shall, in
addition, return to Lessee so much of Lessee's security deposit as has not
theretofore been applied by Lessor.

9.6 Waiver. Lessee waives the provisions of any statutes which relate
to termination of leases when the thing leased is destroyed and agrees that such
event shall be governed by the terms of this Lease.

10. Real Property Taxes.

10.1 Payment of Taxes. Lessee shall pay the real property tax, as
defined in paragraph 10.2, applicable to the Premises during the term of this
Lease. All such payments shall be made at least ten (10) days prior to the
delinquency date of such payment. Lessee shall promptly furnish Lessor with
satisfactory evidence that such taxes have been paid. If any such taxes paid by
Lessee shall cover any period of time prior to or after the expiration of the
term hereof, Lessee's share of such taxes shall be equitably prorated to cover
only the period of time within the tax fiscal year during which this Lease shall
be in effect, and Lessor shall reimburse Lessee to the extent required. If
Lessee shall fail to pay any such taxes, Lessor shall have the right to pay the
same, in which case Lessor shall repay such amount to Lessor with Lessee's next
installment together with interest at the maximum rate then allowable by

10.2 Definition of "Real Property Tax". As used herein, the term "real

property tax" shall include any form of real estate tax or assessment general,
special, ordinary or extraordinary, and any license fee, commercial rental tax,

improvement bond or bonds, levy or tax (other than inheritance, personal income
or estate taxes) imposed on the Premises by any authority having the direct or
indirect power to tax, including any city, state or federal government, or any
school, agricultural, sanitary, fire, street, drainage or other improvement
district thereof, as against any legal or equitable interest of Lessor in the
Premises or in the real property of which the Premises are a part, as against
Lessor's right to rent or other income therefrom, and as against Lessor's
business of leasing the Premises. The term "real property tax" shall also
include any tax, fee, levy, assessment or charge (i) in substitution of,
partially or totally, any tax, fee, levy, assessment or charge hereinabove
included with the definition of "real property tax," or (ii) the nature of
which was hereinbefore included within the definition of "real property tax," or
which is imposed for a service or right not charged prior to June 1, 1978, or, if previously charged, has been increased since June 1, 1978, or (v) which is imposed by reason of this transaction, any modifications or changes hereof or any transfers hereof.

10.3 Joint Assessment. If the Premises are not separately assessed, Lessee's liability shall be equitable proportion of the real property taxes for all of the land and improvement included within the tax parcel assessed, such proportion to be determined by Lessor from the respective valuations assigned in the assessor's work sheets or such other information as may be reasonably available. Lessor's reasonable determination thereof, in good faith, shall be conclusive.

10.4 Personal Property Taxes.

(a) Lessee shall pay prior to delinquency all taxes assessed against and levied upon trade fixtures, furnishings, equipment and all other personal property of Lessee contained in the Premises or elsewhere. When possible, Lessee shall cause said trade fixtures, furnishings, equipment and all other personal property to be assessed and billed separately from the real property of Lessor.

(b) If any of Lessee's said personal property shall be assessed with Lessor's real property, Lessee shall pay Lessor the taxes attributable to Lessee within 10 days after receipt of a written statement setting forth the taxes applicable to Lessee's property.

11. Utilities. Lessee shall pay for all water, gas, heat, light, power, telephone and other utilities and services supplied to the Premises, together with any taxes thereon. If any such services are not separately metered to Lessee, Lessee shall pay a reasonable proportion to be determined by Lessor of all charges jointly metered with other premises.

12. Assignment and Subletting.

12.1 Lessor's Consent Required. Lessee shall not voluntarily or by operation of law assign, transfer, mortgage, sublet, or otherwise transfer or encumber all or any part of Lessee's interest in this Lease or in the Premises, without Lessor's prior written consent, which Lessor shall not unreasonably withhold. Lessor shall respond to Lessee's request for consent hereunder in a timely manner and any attempted assignment, transfer, mortgage, encumbrance or subletting without such consent shall be void, and shall constitute a breach of this Lease.

12.2 Lessee Affiliate. Notwithstanding the provisions of paragraph 12.1 hereof, Lessee may assign or sublet the Premises, or any portion thereof, without Lessor's consent, to any corporation which controls, is controlled by or is under common control with Lessee, or to any corporation resulting from the merger or consolidation with Lessee, or to any person or entity which acquires all the assets of Lessee as a going concern of the business that is being conducted on the Premises, provided that said assignee assumes, in full, the obligations of Lessee under this Lease. Any such assignment shall not, in any way, affect or limit the liability of Lessee under the terms of this Lease, even if after such assignment or subletting the terms of this Lease are materially changed or altered without the consent of Lessee, the consent of whom shall not be necessary.

12.3 No Release of Lessee. Regardless of Lessor's consent, no subletting or assignment shall release Lessee of Lessee's obligation or alter the primary liability of Lessee to pay the rent and to perform all other obligations to be performed by Lessee hereunder. The acceptance of rent by Lessor from any other person shall not be deemed to be a waiver by Lessor of any provision hereof. Consent to one assignment or subletting shall not be deemed consent to any subsequent assignment or subletting. In the event of default by any assignee of Lessee or any successor of Lessee, in the performance of any of the terms hereof, Lessor may proceed directly against Lessee without the necessity of exhausting remedies against said assignee. Lessor may consent to subsequent assignments or subletting of this Lease or amendments or modifications to this Lease with assignees of Lessee, without notifying Lessee, or any successor of Lessee, and without obtaining its or their consent thereto and such action shall not relieve Lessee of liability under this Lease.

12.4 Attorney's Fees. In the event Lessee shall assign or sublet the Premises or request the consent of Lessor to any assignment or subletting or if Lessee shall request the consent of Lessor for any act Lessee proposes to do then Lessee shall pay Lessor's reasonable attorneys fees incurred in connection therewith, such attorneys fees not to exceed $350.00 for each request.

13. Defaults; Remedies.

13.1 Defaults. The occurrence of any one or more of the following events shall constitute a material default and breach of this Lease by Lessee:

(a) The vacating or abandonment of the Premises by Lessee.
(b) The failure by Lessee to make any payment of rent or any other payment required to be made by Lessee hereunder, as and when due, where such failure shall continue for a period of three days after written notice thereof from Lessor to Lessee. In the event that Lessor serves Lessee with a Notice to Pay Rent or Quit pursuant to applicable Unlawful Detainer statutes such Notice to Pay Rent or Quit shall also constitute the notice required by this subparagraph.

(c) The failure by Lessee to observe or perform any of the covenants, conditions or provisions of this Lease to be observed or performed by Lessee, other than described in paragraph (b) above, where such failure shall continue for a period of 30 days after written notice thereof from Lessor to Lessee; provided, however, that if the nature of Lessee’s default is such that more than 30 days are reasonably required for its cure, then Lessee shall not be deemed to be in default if Lessee commenced such cure within said 30-day period and thereafter diligently prosecutes such cure to completion.

(d) (i) The making by Lessee of any general arrangement or assignment for the benefit of creditors; (ii) Lessee becomes a “debtor” as defined in 11 U.S.C. §101 or any successor statute thereto (unless, in the case of a petition filed against Lessee, the same is dismissed within 60 days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where possession is not restored to Lessee within 30 days; or (iv) the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where such seizure is not discharged within 30 days. Provided, however, in the event that any provision of this paragraph 13.1(d) is contrary to any applicable law, such provision shall be of no force or effect.

(e) The discovery by Lessor that any financial statement given to Lessor by Lessee, any assignee of Lessee, any subtenant of Lessee, any successor in interest of Lessee or any guarantor of Lessee's obligation hereunder, and any of them, was materially false.

13.2 Remedies. In the event of any such material default or breach by Lessee, Lessor may at any time thereafter, with or without notice or demand and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such default or breach:

(a) Terminate Lessee's right to possession of the Premises by any lawful means, in which case this Lease shall terminate and Lessee shall immediately surrender possession of the Premises to Lessor. In such event Lessor shall be entitled to recover from Lessee all damages incurred by Lessor by reason of Lessee's default including, but not limited to, the cost of recovering possession of the Premises and reasonable attorney's fees, and any real estate commission actually paid; the worth at the time of award by the court having jurisdiction thereof of the amount by which the unpaid rent for the balance of the term after the time of such award exceeds the amount of such rental loss for the same period that Lessee proves could be reasonably avoided; that portion of the leasing commission paid by Lessor pursuant to Paragraph 15 applicable to the unexpired term of this Lease.

(b) Maintain Lessee's right to possession in which case this Lease shall continue in effect whether or not Lessee shall have abandoned the Premises. In such event Lessor shall be entitled to enforce all of Lessor's rights and remedies under this Lease, including the right to recover the rent as it becomes due hereunder.

(c) Pursue any other remedy now or hereafter available to Lessor under the laws or judicial decisions of the state wherein the Premises are located. Unpaid installments of rent and other unpaid monetary obligations of Lessee under the terms of this Lease shall bear interest from the date due at the maximum rate then allowable by law.

13.3 Default by Lessor. Lessor shall not be in default unless Lessor fails to perform obligations required of Lessor within a reasonable time, but in no event later than thirty (30) days after written notice by Lessee to Lessor and to the holder of any first mortgage or deed of trust covering the Premises whose name and address shall have theretofore been furnished to Lessee in writing, specifying wherein Lessor has failed to perform such obligation; provided, however, that if the nature of Lessor's obligation is such that more than thirty (30) days are required for performance then Lessor shall not be in default if Lessor commences performance within such 30-day period and thereafter diligently prosecutes the same to completion.

13.4 Late Charges. Lessee hereby acknowledges that late payment by Lessee to Lessor of rent and other sums due hereunder will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed on Lessor by the terms of any mortgage or trust deed covering the Premises. Accordingly, if any installment of rent or any other sum due from Lessee shall
not be received by Lessor or Lessor's designee within ten (10) days after such amount shall be due, then, without any requirement for notice to Lessee, Lessor shall pay to Lessee a late charge equal to 6% of such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of late payment by Lessee. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's default with respect to such overdue amount, nor prevent Lessor from exercising any of the other rights and remedies granted hereunder. In the event that a late charge is incurred, whether or not collected, for three (3) consecutive installments of rent, then rent shall automatically become due and payable quarterly in advance, rather than monthly, notwithstanding paragraph 4 or any other provision of this Lease to the contrary.

13.5 Impounds. In the event that a late charge is payable hereunder, whether or not incurred, for three (3) installments of rent or any other monetary obligation of Lessee under the terms of this Lease, Lessee shall pay to Lessor, if Lessor shall so request, in addition to any other payments required under this Lease, a monthly advance installment, payable at the same time as the monthly rent, as estimated by Lessor, for real property tax and insurance expenses on the Premises which are payable by Lessee under the terms of this Lease. Such fund shall be established to insure payment when due, before delinquency, of any or all real property taxes and insurance premiums. If the amounts paid to Lessor by Lessee under the provisions of this paragraph are insufficient to discharge the obligations of Lessee to pay such real property taxes and insurance premiums as the same become due, Lessee shall pay to Lessor, upon Lessor's demand such additional sums necessary to pay such obligations. All moneys paid to Lessor under this paragraph may be intermingled with other moneys of Lessor and shall not bear interest. In the event of a default in the obligations of Lessee to perform under this Lease, then any balance remaining from funds paid to Lessor under the provisions of this paragraph may, at the option of Lessor, be applied to the payment of any monetary default of Lessee in lieu of being applied to the payment of real property tax and insurance premiums.

14. Condemnation. If the Premises or any portion thereof are taken under the power of eminent domain, or sold under the threat of the exercise of said power (all of which are herein called "condemnation"), this Lease shall terminate as to the part so taken as of the date the condemning authority takes title or possession, whichever first occurs. If more than 10% of the floor area of the building on the Premises, or more than 25% of the land area of the Premises which is not occupied by any building, is taken by condemnation, Lessee may, at Lessee's option, to be exercised in writing only within ten (10) days after Lessor shall have given Lessee written notice of such taking (or in the absence of such notice, within ten (10) days after the condemning authority shall have taken possession) terminate this Lease as of the date the condemning authority takes such possession. If Lessee does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the Premises remaining, except that the rent shall be reduced in the proportion that the floor area of the building taken bears to the total floor area of the building situated on the Premises. No reduction of rent shall occur if the only area taken is that which does not have a building located thereon. Any award for the taking of all or any part of the Premises under the power of eminent domain or any payment made under threat of the exercise of such power shall be the property of Lessor, whether such award shall be made as compensation for diminution in value of the leasehold or for the taking of the fee, or as severance damages; provided, however, that Lessee shall be entitled to any award for loss of or damage to Lessee's trade fixtures and removable personal property. In the event that this Lease is not terminated by reason of such condemnation, Lessee shall receive the extent of severance damages received by Lessor in connection with such condemnation, repair any damage to the Premises caused by such condemnation except to the extent that Lessee has been reimbursed therefor by the condemning authority. Lessee shall pay any amount in excess of such severance damages required to complete such repair.

15. (Deleted)


(a) Lessee shall at any time upon not less than ten (10) days' prior written notice from Lessor execute, acknowledge and deliver to Lessor a statement in writing (i) certifying that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect) and the date to which the rent and other charges are paid in advance, if any, and (ii) acknowledging that there are not, to Lessee's knowledge, any unsecured defaults on the part of Lessor hereunder, or specifying such defaults if any are claimed. Any such statement may be conclusively relied upon by any prospective purchaser or encumbrancer of the Premises.

(b) At Lessor's option, Lessee's failure to deliver such statement within such time shall be a material breach of this Lease or shall be conclusive upon Lessee (i) that this Lease is in full force and effect, without modification except as may be represented by Lessor, (ii) that there are no unsecured defaults in Lessor's performance, and (iii) that not more than one month's rent has been paid in advance or such failure may be considered by
Lessor as a default by Lessee under this Lease.

(c) If Lessor desires to finance, refinance, or sell the Premises, or any part thereof, Lessee agrees to deliver to any lender or purchaser designated by Lessor such published financial statements of Lessee as may be reasonably required by such lender or purchaser. Such statements shall include the past three years' financial statements of Lessee. All such financial statements shall be received by Lessor and such lender or purchaser in confidence and shall be used only for the purposes herein set forth.

17. (Deleted)

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

19. Interest on Past-due Obligations. Except as expressly herein provided, any amount due to Lessor not paid when due shall bear interest at the maximum rate then allowable by law from the date due. Payment of such interest shall not excuse or cure any default by Lessee under this Lease, provided, however, that interest shall not be payable on late charges incurable by Lessee nor on any amounts upon which late charges are paid by Lessee.

20. Time of Essence. Time is of the essence.

21. Additional Rent. Any monetary obligations of Lessee to Lessor under the terms of this Lease shall be deemed to be rent.

22. Incorporation of Prior Agreements; Amendments. This Lease contains all agreements of the parties with respect to any matter mentioned herein. No prior agreement or understanding pertaining to any such matter shall be effective. This Lease may be modified in writing only, signed by the parties in interest at the time of the modification. Except as otherwise stated in this Lease, Lessee hereby acknowledges that neither the real estate broker listed in Paragraph 15 hereof nor any cooperating broker on this transaction nor the Lessor or any employees or agents of any of said persons has made any oral or written warranties or representations to Lessee relative to the condition or use by Lessee of said Premises and Lessee acknowledges that Lease assumes all responsibility regarding the Occupational Safety Health Act, the legal use and adaptability of the Premises and the compliance thereof with all applicable laws and regulations in effect during the term of this Lease except as otherwise specifically stated in this Lease.

23. Notices. Any notice required or permitted to be given hereunder shall be in writing and may be given by personal delivery or by certified mail, and if given personally or by mail, shall be deemed sufficiently given if addressed to Lessee or to Lessor at the address noted below the signature of the respective parties, as the case may be. Either party may by notice to the other specify a different address for notice purposes except that upon Lessee’s taking possession of the Premises, the Premises shall constitute Lessee’s address for notice purposes. A copy of all notices required or permitted to be given to Lessor hereunder shall be concurrently transmitted to such party or parties at such addresses as Lessee may from time to time hereafter designate by notice to Lessee.

24. Waivers. No waiver by Lessor or any provision hereof shall be deemed a waiver of any other provision hereof or of any subsequent breach by Lessee of the same or any other provision. Lessor's consent to, or approval of, any act shall not be deemed to render unnecessary the obtaining of Lessor's consent to or approval of any subsequent act by Lessee. The acceptance of rent hereunder by Lessor shall not be a waiver of any preceding breach by Lessee of any provision hereof, other than the failure of Lessee to pay the particular rent so accepted, regardless of Lessor's knowledge of such preceding breach at the time of acceptance of such rent.

25. Recording. Either Lessor or Lessee shall, upon request of the other, execute, acknowledge and deliver to the other a "short form" memorandum of this Lease for recording purposes.

26. Holding Over. If Lessee, with Lessor's consent, remains in possession of the Premises or any part thereof after the expiration of the term hereof, such occupancy shall be a tenancy from month to month upon all the provisions of this Lease pertaining to the obligations of Lessee, but all options and rights of first refusal, if any, granted under the terms of this Lease shall be deemed terminated and be of no further effect during said month to month tenancy.

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

28. Covenants and Conditions. Each provision of this Lease performable by Lessee shall be deemed both a covenant and a condition.

29. Binding Effect; Choice of Law. Subject to any provisions hereof restricting assignment or subletting by Lessee and subject to the provisions of Paragraph
17, this Lease shall bind the parties, their personal representatives, successors and assigns. This Lease shall be governed by the laws of the State wherein the Premises are located.

30. Subordination.

(a) This Lease, at Lessor's option, shall be subordinate to any ground lease, mortgage, deed of trust, or any other hypothecation or security now or hereafter placed upon the real property of which the Premises are a part and to any and all advances made on the security thereof and to all renewals, modifications, consolidations, replacements and extensions thereof. Notwithstanding such subordination; Lessee's right to quiet possession of the Premises shall not be disturbed if Lessee is not in default and so long as Lessee shall pay the rent and observe and perform all of the provisions of this Lease, unless this Lease is otherwise terminated pursuant to its terms. If any mortgage, trust deed, ground lease or any other hypothecation or security thereof is foreclosed or made default, and the holder thereof demands the surrender of this Lease, Lessor shall forthwith surrender the same to the holder. If any mortgage, trust deed, ground lease or any other hypothecation or security thereof is foreclosed or made default, and the holder thereof demands the surrender of this Lease, Lessor shall forthwith surrender the same to the holder.

(b) Lessee agrees to execute any documents required to effectuate an attornment, a subordination or to make this Lease prior to the lien of any mortgage, deed of trust or ground lease, as the case may be. Lessee's failure to execute such documents within 10 days after written demand shall constitute a material default by Lessee hereunder. Lessor shall execute such documents on behalf of Lessee as Lessor's attorney-in-fact. Lessee does hereby make, constitute and irrevocably appoint Lessor as Lessee's attorney-in-fact and in Lessee's name, place and stead, to execute such documents in accordance with this paragraph 30(b).

31. Attorney's Fees. If either party or the broker named herein brings an action to enforce the terms hereof or declare rights hereunder, the prevailing party in any such action, on trial or appeal, shall be entitled to his reasonable attorney's fees to be paid by the losing party as fixed by the court. The provisions of this paragraph shall inure to the benefit of the broker named herein who seeks to enforce a right hereunder.

32. Lessor's Access. Lessor and Lessor's agents shall have the right to enter the Premises at reasonable times for the purpose of inspecting the same, showing the same to prospective purchasers, lenders, or lessees, and making such alterations, repairs, improvements or additions to the Premises or to the building of which they are a part as Lessor may deem necessary or desirable. Lessor may at any time place on or about the Premises any ordinary "For Sale" signs and Lessor may at any time during the last 120 days of the term hereof place on or about the Premises any ordinary "For Lease" signs, all without rebate of rent or liability to Lessee.

33. Auctions. Lessee shall not conduct, nor permit to be conducted, either voluntarily or involuntarily, any auction upon the Premises without first having obtained Lessor's prior written consent. Notwithstanding anything to the contrary in this Lease, Lessor shall not be obligated to exercise any standard of reasonableness in determining whether to grant such consent.

34. Signs. Lessee shall not place any sign upon the Premises without Lessor's prior written consent except that Lessee shall have the right, without the prior permission of Lessor to place ordinary and usual for rent or sublet signs thereon.

35. Merger. The voluntary or other surrender of this Lease by Lessee, or a mutual cancellation thereof, or a termination by Lessor, shall not work a merger, and shall, at the option of Lessor, terminate all or any existing subtenancies or may, at the option of Lessor, operate at an assignment to Lessor of any or all of such subtenancies.

36. Consents. Except for paragraph 33 hereof, wherever in this Lease the consent of one party is required to an act of the other party such consent shall not be unreasonably withheld.

37. Guarantor. In the event that there is a guarantor of this Lease, said guarantor shall have the same obligations as Lessee under this Lease.

38. Quiet Possession. Upon Lessee paying the rent for the Premises and observing and performing all of the covenants, conditions and provisions on Lessee's part to be observed and performed hereunder, Lessee shall have quiet possession of the Premises for the entire term hereof subject to all of the provisions of this Lease. The individual executing this Lease on behalf of Lessor represent and warrant to Lessee that they are fully authorized and legally capable of executing this Lease on behalf of Lessor represent and warrant to Lessee that they are fully authorized and legally capable of executing this Lease on behalf of Lessor and that such execution is binding upon all parties holding an ownership interest in the Premises.

39. Options.
43. Performance Under Protest. If at any time a dispute shall arise as to any breach of this Lease by Lessee.

42. Easements. Lessor reserves to itself the right, from time to time, to grant such easements, rights, dedications, Maps and restrictions do not unreasonably interfere with the use of the Premises by Lessee. Lessee shall sign any of the easements, rights, and dedications that Lessor deems necessary or desirable, and to cause the recordation of Parcel Maps and restrictions, so long as such easements, rights, dedications, Maps and restrictions do not unreasonably interfere with the use of the Premises by Lessee. Lessee shall sign any of the aforementioned documents upon request of Lessor and failure to do so shall constitute a material breach of this Lease.

41. Security Measures. Lessee hereby acknowledges that the rental payable to Lessor hereunder does not include the cost of guard service or other security measures, and that Lessor shall have no obligation whatsoever to provide same. Lessee assumes all responsibility for the protection of Lessee, its agents and invites from acts of third parties.

40. Multiple Tenant Building. In the event that the Premises are part of a larger building or group of buildings then Lessee agrees that it will abide by, keep and observe all reasonable rules and regulations which Lessor may make from time to time for the management, safety, care, and cleanliness of the building and grounds, the parking of vehicles, and the preservation of good order therein as well as for the convenience of other occupants and tenants of the building. The violations of any such rules and regulations shall be deemed a material breach of this Lease by Lessee.

39.3 Multiple Options. In the event that Lessee has any multiple options to extend or renew this Lease a later option cannot be exercised unless the prior option to extend or renew this Lease has been so exercised.

39.4 Effect of Default on Options.

(a) Lessee shall have no right to exercise an Option, notwithstanding any provision in the grant of Option to the contrary, (i) during the time commencing from the date Lessor gives to Lessee a notice of default pursuant to paragraph 13.1(b) or 13.1(c) and continuing until the default alleged in said notice of default is cured, or (ii) during the period of time commencing on the day after a monetary obligation to Lessor is due from Lessee and unpaid (without notice thereof to Lessee) continuing until the obligation is paid, or (iii) at any time after an event of default described in paragraphs 13.1(a), 13.1(d), or 13.1(e) (without any necessity of Lessor to give notice of such default to Lessee), or (iv) in the event that Lessor has given to Lessee three or more notices of default under paragraph 13.1(b), where a late charge has become payable under paragraph 13.4 for each of such defaults, or paragraph 13.1(c), whether or not the defaults are cured, during the 12 month period prior to the time that Lessee intends to exercise the subject Option.

(b) The period of time within which an Option may be exercised shall not be extended or enlarged by reason of Lessee’s inability to exercise an Option because of the provisions of paragraph 39.4(a).

(c) All rights of Lessee under the provisions of an Option shall terminate and be of no further force or effect, notwithstanding Lessee’s due and timely exercise of the Option, if, after, such exercise and during the term of this Lease, (i) Lessee fails to pay to Lessor a monetary obligation of Lessee for a period of 30 days after such obligation becomes due (without any necessity of Lessor to give notice thereof to Lessee), or (ii) Lessee fails to commence to diligently prosecute said cure to completion, or (iii) Lessee commits a default described in paragraph 13.1(a), 13.1(d) or 13.1(e) (without any necessity of Lessor to give notice of such default to Lessee), or (iv) Lessor gives to Lessee three or more notices of default under paragraph 13.1(b), where a late charge becomes payable under paragraph 13.4 for each such default, or paragraph 13.1(c), whether or not the defaults are cured.

40. Multiple Tenant Building. In the event that the Premises are part of a larger building or group of buildings then Lessee agrees that it will abide by, keep and observe all reasonable rules and regulations which Lessor may make from time to time for the management, safety, care, and cleanliness of the building and grounds, the parking of vehicles, and the preservation of good order therein as well as for the convenience of other occupants and tenants of the building. The violations of any such rules and regulations shall be deemed a material breach of this Lease by Lessee.

41. Security Measures. Lessee hereby acknowledges that the rental payable to Lessor hereunder does not include the cost of guard service or other security measures, and that Lessor shall have no obligation whatsoever to provide same. Lessee assumes all responsibility for the protection of Lessee, its agents and invites from acts of third parties.

42. Easements. Lessor reserves to itself the right, from time to time, to grant such easements, rights, dedications, Maps and restrictions do not unreasonably interfere with the use of the Premises by Lessee. Lessee shall sign any of the aforementioned documents upon request of Lessor and failure to do so shall constitute a material breach of this Lease.

43. Performance Under Protest. If at any time a dispute shall arise as to any
amount or sum of money to be paid by one party to the other under the provisions hereof, the party against whom the obligation to pay the money is asserted shall have the right to make payment "under protest" and such payment shall not be regarded as voluntary payment, and there shall survive the right on the part of said party of institute suit for recovery of each sum. If it shall be adjudged that there was no legal obligation on part of said party to pay such sum or any part thereof, said party shall be entitled to recover such sum or so much thereof as it was not legally required to pay under the provisions of this Lease.

44. Authority. If Lessee is a corporation, trust, or general or limited partnership, each individual executing this Lease on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on behalf of said entity. If Lessee is a corporation, trust or partnership, Lessee shall, within thirty (30) days after execution of this Lease, deliver to Lessor evidence of such authority satisfactory to Lessor.

45. Conflict. Any conflict between the printed provisions of this Lease and the typewritten or handwritten provisions shall be controlled by the typewritten or handwritten provisions.

46. Insuring Party. The insuring party under this lease shall be the Lessee

47. Addendum. Attached hereto is an addendum or addenda containing paragraphs 47.1 through 47.4 which constitutes a part of this Lease.

LESSOR AND LESSEE HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND PROVISION CONTAINED HEREIN AND, BY EXECUTION OF THIS LEASE, SHOW THEIR INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE THAT, AT THE TIME THIS LEASE IS EXECUTED, THE TERMS OF THIS LEASE ARE COMMERCIAL REASONABLE AND EFFECTUATE THE INTENT AND PURPOSE OF LESSOR AND LESSEE WITH RESPECT TO THE PREMISES.

IF THIS LEASE HAS BEEN FILLED IN IT HAS BEEN PREPARED FOR SUBMISSION TO YOUR ATTORNEY FOR HIS APPROVAL. NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION OR BY THE REAL ESTATE BROKER OR ITS AGENTS OR EMPLOYEES AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT, OR TAX CONSEQUENCES OF THIS LEASE OR THE TRANSACTION RELATING THERETO; THE PARTIES SHALL RELY SOLELY UPON THE ADVICE OF THEIR OWN LEGAL COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS LEASE.

The parties hereto have executed this Lease at the place on the dates specified immediately adjacent to their respective signatures.

BOWMAN MERRITT AND VIRGINIA MERRITT TRUST

By /s/Virginia Merritt
Virginia Merritt, Trustee

By /s/Kim Merritt Campot
Kim Merritt Campot
"LESSOR"

XOMA CORPORATION

By /s/Clarence L. Dellio
Clarence L. Dellio
Senior Vice President, Operations
"LESSEE"

ADDENDUM TO LEASE

ADDENDUM to lease dated October 12, 1992 between XOMA Corporation, ("XOMA"), Lessee, and Virginia Merritt as Trustee of the Bowman and Virginia Merritt as Trustee of the Bowman and Virginia Merritt Trust ("Merritt"), Lessor, for approximately 18,000 sq. ft. at 1545 17th Street, Santa Monica, California 90404.

Paragraph 47.1. The minimum monthly rent provided for in Paragraph 4 shall be subject to adjustment at the 1994 anniversary of the commencement date of the lease and every other year thereafter ("the adjustment date") as follows:

The base for computing the adjustment is the Los Angeles-Long Beach-Anaheim All Urban Workers, published by United States Department of Labor, Bureau of Labor Statistics ("Index"), which is in effect on the date of the commencement of the term ("Beginning Index"). The index published most immediately preceding the adjustment date in question ("Extension Index") is to be used in determining the amount of the adjustment. If the Extension Index has increased over the Beginning Index, the minimum monthly rent for the following two years (until the next rent adjustment) shall be set by multiplying the minimum monthly rent set forth in paragraph 4 by a fraction, the numerator of which is the Extension Index and the denominator of which is the Beginning Index. In no case shall the minimum monthly rent set forth in paragraph 4 by a fraction, the numerator of which is the Extension Index and the denominator of which is the Beginning Index. In no case shall the minimum monthly rent be less than the monthly rent in effect immediately prior to the adjustment date then
occurring. On adjustment of the minimum monthly rent as provided in this lease, lessee shall immediately commence to pay the new monthly rent retroactive to the adjustment date and the parties shall immediately execute an amendment to this lease stating the new minimum monthly rent.

If the Index has changed so that the base year differs from that in effect when the term commences, the Index shall be converted in accordance with the conversion factor published by the United States Department of Labor, Bureau of Labor Statistics. If the Index is discontinued or revised during the term, such other government index or computation with which it is replaced shall be used in order to obtain substantially the same result as would be obtained if the Index had not been discontinued or revised.

Paragraph 47.2. Lessee shall receive a credit of $25,144.00 for deposit previously made on account of the previous lease dated August 1, 1990, therefore, Lessee need make no additional deposit.

Paragraph 47.3. Lessee to pay premiums for fire and multi-peril insurance chargeable against the building and the improvements during the term hereof, as additional rent.

Paragraph 47.4. Within twelve (12) months of the date of this lease, Lessee shall complete the construction of all Lessee improvements as appropriate, such improvements currently having an estimated cost of $1 Million. In consideration for said improvements, Lessee shall receive a credit of $36,000.00 against the first six months of rent, which $36,000.00 shall be applied $6,000.00 per month commencing with the first rental payment and continuing for the following five months.
FIRST EXTENSION OF LEASE

THIS EXTENSION OF LEASE is made on April, 1997, between VIRGINIA MERRITT and KIM MERRITT CAMPOT, as Trustees of the BOWMAN MERRITT AND VIRGINIA MERRITT 1987 TRUST ("Lessor"), whose address is 1119 23rd Street, #7, Santa Monica, California 90403, and XOMA CORPORATION ("Lessee"), whose address is 2910 Seventh Street, Berkeley, California 94710, who agree as follows:

1. Recitals. This Extension of Lease is made with reference to the following facts and objectives:

A. Lessor and Lessee entered into a written lease dated October 12, 1992 ("the Lease"), in which the Lessor leased to Lessee, and Lessee leased from Lessor, premises located in the City of Santa Monica, County of Los Angeles, California, commonly known as 1545 17th Street, Santa Monica, California ("Premises").

B. The term of the Lease expires on October 12, 1997.

C. The parties desire to extend the term for an additional period of three (3) years.

2. Extension of Term. The term of the Lease shall be extended for an additional period of three (3) years from and after October 13, 1997 so that the term of the Lease shall extend to and include October 12, 2000.

3. Minimum Monthly Rent. Commencing October 13, 1997, the Minimum Monthly Rent for the extended term shall be $19,200.00 and shall be payable pursuant to the provisions of the Lease. The next rent adjustment under Article 47.1 of the Lease shall be on November 1, 1998.

4. Effectiveness of Lease. Except as set forth in this Extension of Lease, all the provisions of the Lease shall remain unchanged and in full force and effect.

LESSOR:                             LESSEE:

BOWMAN MERRITT AND VIRGINIA
MERRITT 1987 TRUST

By /s/ Virginia Merritt

By /s/ Virginia Merritt

By /s/ Kim Merritt Campot

Kim Merritt Campot,
Trustee

By /s/ W. Courtney McGregor 4/23/97

By /s/ W. Courtney McGregor 4/23/97
LICENSE AGREEMENT
between
XOMA CORPORATION
and
THE REGENTS OF THE UNIVERSITY OF CALIFORNIA

U.C. AGREEMENT
CONTROL NUMBER
86-04-0012

TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Article No.</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>DEFINITIONS</td>
<td>3</td>
</tr>
<tr>
<td>2</td>
<td>GRANT</td>
<td>7</td>
</tr>
<tr>
<td>3</td>
<td>SUBLICENSSES</td>
<td>8</td>
</tr>
<tr>
<td>4</td>
<td>LICENSE ISSUE FEE</td>
<td>9</td>
</tr>
<tr>
<td>5</td>
<td>ROYALTIES</td>
<td>9</td>
</tr>
<tr>
<td>6</td>
<td>DUE DILIGENCE</td>
<td>16</td>
</tr>
<tr>
<td>7</td>
<td>MOST FAVORED LICENSEE</td>
<td>19</td>
</tr>
<tr>
<td>8</td>
<td>QUARTERLY REPORTS</td>
<td>19</td>
</tr>
<tr>
<td>9</td>
<td>BOOKS AND RECORDS</td>
<td>20</td>
</tr>
<tr>
<td>10</td>
<td>LATE PAYMENTS</td>
<td>22</td>
</tr>
<tr>
<td>11</td>
<td>LIFE OF THE AGREEMENT</td>
<td>22</td>
</tr>
<tr>
<td>12</td>
<td>TERMINATION BY THE REGENTS</td>
<td>23</td>
</tr>
<tr>
<td>13</td>
<td>TERMINATION BY LICENSEE</td>
<td>23</td>
</tr>
<tr>
<td>14</td>
<td>DISPOSITION OF THE HYBRIDOMA AND LICENSED PRODUCTS ON HAND</td>
<td>24</td>
</tr>
<tr>
<td></td>
<td>MAINTENANCE OF PROPERTY AND TRADE SECRET RIGHTS IN THE</td>
<td></td>
</tr>
<tr>
<td></td>
<td>HYBRIDOMAS</td>
<td>25</td>
</tr>
<tr>
<td>15</td>
<td>PATENT PROSECUTION AND MAINTENANCE</td>
<td>25</td>
</tr>
<tr>
<td>16</td>
<td>INFRINGEMENT</td>
<td>27</td>
</tr>
<tr>
<td>17</td>
<td>NOTIFICATION AND AUTHORIZATION UNDER DRUG PRICE COMPETITION</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td>AND PATENT TERM RESTORATION ACT</td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>EXTENSION OF PATENT TERM UNDER DRUG PRICE COMPETITION AND</td>
<td></td>
</tr>
<tr>
<td></td>
<td>PATENT TERM RESTORATION ACT</td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>PATENT MARKING</td>
<td>31</td>
</tr>
<tr>
<td>20</td>
<td>USE OF NAME, TRADE NAMES, AND TRADEMARKS</td>
<td>31</td>
</tr>
<tr>
<td>21</td>
<td>WARRANTY BY THE REGENTS</td>
<td>32</td>
</tr>
<tr>
<td>22</td>
<td>WAIVER</td>
<td>33</td>
</tr>
<tr>
<td>23</td>
<td>LICENSE RESTRICTIONS</td>
<td>33</td>
</tr>
<tr>
<td>24</td>
<td>ASSIGNABILITY</td>
<td>34</td>
</tr>
<tr>
<td>25</td>
<td>INDEMNITY</td>
<td>34</td>
</tr>
<tr>
<td>26</td>
<td>FOREIGN LICENSE REGISTRATION</td>
<td>34</td>
</tr>
<tr>
<td>27</td>
<td>FORCE MAJEURE</td>
<td>34</td>
</tr>
<tr>
<td>28</td>
<td>NOTICES</td>
<td>35</td>
</tr>
<tr>
<td>29</td>
<td>GOVERNING LAWS</td>
<td>35</td>
</tr>
<tr>
<td>30</td>
<td>MISCELLANEOUS</td>
<td>36</td>
</tr>
<tr>
<td></td>
<td>UC Cases:  85-158-1,2; 86-069-1 and 86-073-1 (Young)</td>
<td></td>
</tr>
</tbody>
</table>

LICENSE AGREEMENT FOR MONOCLONAL ANTIBODIES TO GRAM NEGATIVE SEPSIS-RELATED BACTERIA AND HUMAN DIAGNOSTICS AND THERAPEUTICS DERIVED THEREFROM

THIS LICENSE AGREEMENT is made and is effective this 3rd day of September 1986 by and between THE REGENTS OF THE UNIVERSITY OF CALIFORNIA, a California corporation having statewide administrative offices at 2199 Addison Street, Berkeley, California 94720, hereinafter referred to as "The Regents", and XOMA CORPORATION, a Delaware corporation having a principal place of business at 2910 Seventh Street, Berkeley, California 94710, hereinafter referred to as "Licensee".

WITNESSETH:

WHEREAS, certain inventions, generally characterized as MONOCLONAL ANTIBODIES TO GRAM NEGATIVE SEPSIS-RELATED BACTERIA AND DIAGNOSTICS AND THERAPEUTICS DERIVED THEREFROM, hereinafter collectively referred to as "the Invention", were made by Lowell Young at the University of California, Los
Angeles and are covered by The Regents' Patent Rights as defined below;

WHEREAS, Licensee has funded the total direct and indirect costs of research on the Invention at the University of California, Los Angeles under the Service to Industry Agreement between Licensee and The Regents entitled "Monoclonal Antibodies Against Virulent Factors of Gram Negative Bacilli" and dated October 30, 1981 as amended;

WHEREAS, Licensee agrees that part of the consideration for this Agreement is the expectancy of receiving access to The Hybridomas as defined in paragraph 1.2 for use by Licensee in developing commercial products prior to the issuance of a patent and, in the event a patent does not issue, prior to access to The Hybridomas by other commercial entities, if any.

WHEREAS, the parties have agreed that the royalties established in this Agreement are appropriate for sales of Diagnostic Kits and Therapeutic Agents, as defined in paragraphs 1.8 and 1.9, but may not be appropriate for sales of component parts per se of Diagnostic Kits or Therapeutic Agents; and the parties have therefore agreed, for their mutual convenience, to calculate all royalties on the sale of Diagnostic Kits or Therapeutic Agents, whether sold by Licensee or a third party which purchases component parts from Licensee and then converts such component parts to Diagnostic Kits or Therapeutic Agents;

WHEREAS, The Regents desire that the Invention be developed and utilized to the fullest extent so that the benefits can be enjoyed by the general public; and

WHEREAS, Licensee is desirous of obtaining certain rights from The Regents for the commercial development, use, and sale of the Invention, and The Regents are willing to grant such rights.

NOW, THEREFORE, for and in consideration of the covenants, conditions and undertaking hereinafter set forth, it is agreed by and between the parties, as follows:

1. DEFINITIONS

1.1 "Regents' Patent Rights", as used herein, means patent rights to any subject matter claimed in or covered by any of the following:

1.1(a) Pending U.S. patent application, serial number 781,242, entitled "Monoclonal Antibody Reactive with Pseudomonas Aeruginosa", filed on September 27, 1985 by Lowell Young and assigned to The Regents; any continuing applications thereof including divisions; any continuation-in-part applications thereof which include only such additional information as can be shown by written records to have been known to The Regents prior to the effective date of this Agreement; any patents issuing on said application or continuing applications including reissues; and any corresponding foreign patents or patent applications.

1.1(b) Pending U.S. patent application, serial number 855,878, entitled "Monoclonal Antibodies Binding Determinants of Gram Negative Bacteria", filed on April 24, 1986 by Lowell Young and assigned to The Regents; any continuing applications thereof including divisions; any continuation-in-part applications thereof which include only such additional information as can be shown by written records to have been known to The Regents prior to the effective date of this Agreement; any patents issuing on said application or continuing applications including reissues; and any corresponding foreign patents or patent applications.

1.2 "The Hybridomas", as used herein, means the hybridomas designated as XMMEN-OE5, XMMEN-LY1, XMMEN-LY2, XMMPS-OP1, XMMPS-OP2, XMMPS-OP3, XMMPS-OP4, XMMPS-OP7, XMMEN-JD5, XMMEN-LY7, and XMMPS-605 described in Regents' Patent Rights and the hybridomas A4.1 and G7.1 (nomenclature of Dr. Lowell Young's laboratory) and any progeny or cell line derivatives thereof.

1.3 "Patent Products", as used herein, means any product, apparatus, kit or component part thereof, or other subject matter whose manufacture, use, or sale is covered by any claim or claims included within Regents' Patent Rights, except that The Hybridomas and all cell line derivatives made from The Hybridomas by Licensee are expressly excluded under this definition of Patent Products.

1.4 "Non-Patent Products", as used herein, means any product, apparatus, kit, or any component part thereof which is not covered by Regents' Patent Rights and which contains antibodies or fragments of antibodies which are made by The Hybridomas or cell line derivatives of The Hybridomas made by Licensee.

1.5 "Licensed Products", as used herein, means both Patent Products and
Non-Patent Products.

1.6 "Patent Method", as used herein, means any method, procedure, process or other subject matter whose use or practice is covered by any claim or claims included within Regents' Patent Rights.

1.7 "...covered by...", as used herein, means Patent Products that when made, used, or sold by the Patent Method which when practiced by Licensee or its sublicensees would constitute, but for the license granted to Licensee pursuant to this Agreement, an infringement of any claim or claims of Regents' Patent Rights.

1.8 "Diagnostic Kits", as used herein, means Licensed Products which are in a physical form, irrespective of concentration or packaging, which is ready for use in a clinical laboratory for diagnostic purposes.

1.9 "Therapeutic Agents", as used herein, means Licensed Products which are in a final formulation, irrespective of concentration or packaging, which could be administered to a patient for therapy.

1.10 "Affiliate", as used herein, means any corporation which controls, is controlled by, or is under common control with Licensee. A corporation shall be regarded as in control of another corporation if it owns or directly or indirectly controls at least 50% of the voting stock of the other corporation.

1.11 "Net Sales", as used herein, means the gross invoice price of Licensed Products sold, less the sum of the following deductions where applicable: cash, trade or quantity discounts, if any; sales, use, tariff, import/export duties or other excise taxes imposed upon particular sales; transportation charges; free samples given for marketing purposes; and allowances or credits to customers because of rejections or returns. Sales between divisions or departments of Licensee shall not be considered sales for purposes of this paragraph.

1.12 "Cost of the Hybridoma", as used herein, means the fully allocated manufacturing or acquisition cost of the supernatant containing antibodies made from the Hybridoma.

1.13 "Cost of the Final Product", as used herein, means the fully allocated manufacturing or acquisition cost of a Diagnostic Kit or Therapeutic Agent.

1.14 "Antibody Conjugates", as used herein, means antibodies or antibody fragments which are associated with biologically active molecules such as, but not limited to, toxins or radiolabels.

1.15 "the Fraction", as used herein, means (a) for any Therapeutic Agent containing multiple antibodies or Antibody Conjugates which are sold separately, the sum of the separate selling prices of all antibodies or Antibody Conjugates contained in the Therapeutic Agent which are Licensed Products divided by the sum of the separate selling prices of all antibodies or Antibody Conjugates contained in the Therapeutic Agent, (b) for any Diagnostic Kit containing multiple antibodies each sold in a separate diagnostic kit containing only one antibody (Stand Alone Kit), the sum of the separate selling prices of all Stand Alone Kits which are Licensed Products contained within the Diagnostic Kit divided by the sum of the separate selling prices of all Stand Alone Kits contained in the Diagnostic Kit, or (c) for Therapeutic Agents or Diagnostic Kits which contain parts that are not sold separately, a fraction which shall be negotiated in good faith by the parties for each such product and which shall reflect the value of the parts which are Licensed Products relative to the total value of the product.

2. GRANT

2.1 Except as otherwise provided herein, The Regents hereby grant to Licensee an exclusive license under Regents' Patent Rights to make (propagate), have made, make derivatives and use The Hybridoma and all derivatives made therefrom by Licensee; to make, have made, use and sell Licensed Products, including, but not limited to, Licensed Products for both diagnostic and therapeutic purposes; and to practice the Patent Method throughout the world where The Regents may lawfully grant such a license.

2.2 Except as otherwise provided herein, The Regents also hereby grant to Licensee an exclusive license under The Regents' property rights in The Hybridomas to make (propagate), have made, make derivatives and use The Hybridomas and all derivatives made therefrom by Licensee and to make, have made, use and sell Licensed Products, including, but not limited to, Licensed Products for both diagnostic and therapeutic purposes, throughout the world where The Regents may lawfully grant such a license.

2.3 Under The Regents' property and Patent Rights, the right to sell, donate or otherwise irrevocably transfer The Hybridomas to third parties, except as provided in paragraph 3.1, is expressly excluded from this license.
2.4 The Regents expressly reserve the right to use the Invention and associated technology for educational and research purposes and to transfer The Hybridoma to third parties for noncommercial uses according to the conditions described in paragraph 15.1.

3. SUBLICENSES

3.1 The Regents also grant to Licensee the right to issue sublicenses with respect to the licenses granted in paragraphs 2.1 and 2.2 and the right to transfer The Hybridoma to potential sublicensees under obligations of confidentiality at least as restrictive as those used by Licensee to transfer its own biological materials of similar proprietary nature and value. All sublicenses shall include all of the rights and obligations due The Regents that are contained in this Agreement with the exceptions that sublicensees shall not be obligated to pay the Licensee Issue Fee (paragraph 4.1) or minimum annual royalties (paragraph 5.7) and Licensee shall be solely responsible, either directly or through its sublicensees, for the attainment of due diligence obligations under Article 6.

3.2 Licensee shall provide The Regents with a copy of each sublicense issued hereunder which conveys the right to sell Licensed Products (identification of sublicensee, financial terms and portions not relevant to The Regents' license to Licensee may be obliterated); collect and guarantee payment of all royalties due The Regents from sublicensees; and summarize and deliver all reports due The Regents from sublicensees.

3.3 Upon termination of this Agreement pursuant to Article 12, Licensee shall provide The Regents with a complete copy of all sublicenses, and The Regents agree to negotiate in good faith for a license agreement under Regents' Patent Rights with any and all of Licensee's sublicensees who have the right to sell Licensed Products. The resulting license agreements shall contain financial terms no less favorable to the sublicensees than those previously obtained by them from Licensee.

4. LICENSE ISSUE FEE

4.1 Licensee shall pay to The Regents a License Issue Fee of Seven Thousand Five Hundred Dollars ($7,500.00) upon execution of this Agreement.

4.2 This fee is non-refundable and not an advance against earned royalties.

5. ROYALTIES

5.1 As consideration for this license, Licensee shall pay to The Regents an earned royalty which shall be calculated by multiplying the royalty rate as set forth below by the Net Sales of Licensed Products sold by Licensee or its sublicensees. Such royalties shall accrue and be payable to The Regents, pursuant to paragraph 5.6, when Licensed Products are sold.

For Licensed Products containing, among other things, a single antibody, the royalty rate shall be calculated according to subparagraphs (5.1a) through (5.1d):

(5.1a) For Therapeutic Agents which are Patent Products and do not contain an Antibody Conjugate, the calculated royalty rate shall equal five percent (5%) times the Cost of the Hybridoma divided by the Cost of the Final Product; provided, however, that the immediately above calculated royalty rate shall in no event be less than three percent (3%). For Therapeutic Agents which are Patent Products and contain an Antibody Conjugate, the calculated royalty rate shall equal two and one-half percent (2.5%) times the Cost of the Hybridoma divided by the Cost of the Final Product; provided, however, that the immediately above calculated royalty rate shall in no event be less than two and one-quarter percent (2.25%).

(5.1b) For Therapeutic Agents which are Non-Patent Products and do not contain an Antibody Conjugate, the calculated royalty rate shall equal three and one-half percent (3.5%) times the Cost of the Hybridoma divided by the Cost of the Final Product; provided, however, that the immediately above calculated royalty rate shall in no event be less than one and one-half percent (1.5%). For Therapeutic Agents which are Non-Patent Products and contain an Antibody Conjugate, the calculated royalty rate shall equal one and three-quarters percent (1.75%) times the Cost of the Hybridoma divided by the Cost of the Final Product; provided, however, the immediately-above calculated royalty rate shall in no event be less than one and one-quarter percent (1.25%).

(5.1c) For Diagnostic Kits which are Patent Products, the calculated royalty rate shall equal four percent (4%) times the Cost of the Hybridoma divided by the Cost of the Final Product; provided, however,
that the immediately above calculated royalty rate shall in no event be less than two and one-half percent (2.5%).

(5.1d) For Diagnostic Kits which are Non-Patent Products, the calculated royalty rate shall equal three percent (3%) times the Cost of the Hybridoma divided by the Cost of the Final Product; provided, however, that the immediately above calculated royalty rate shall in no event be less than one and one-half percent (1.5%).

For Licensed Products containing, among other things, multiple antibodies, the royalty rate shall be calculated according to subparagraphs (5.1e) through (5.1i):

(5.1e) For Therapeutic Agents which are Patent Products, the calculated royalty rate shall equal three and one-half percent (3.5%) times the Fraction; provided, however, that the immediately above calculated royalty rate shall in no event be less than one percent (1%).

(5.1f) For Therapeutic Agents which are Non-Patent Products, the calculated royalty rate shall equal two percent (2.0%) times the Fraction; provided, however, that the immediately above calculated royalty rate shall in no event be less than one-half percent (0.5%).

(5.1g) For Therapeutic Agents which contain antibodies conjugated to other biologically active components, the adjusted royalty rate shall equal one-half (1/2) of the royalty rate calculated according to either paragraph 5.1e or 5.1f, as appropriate; provided, however, that the adjusted royalty rate shall in no event be less than one percent (1.0%) for Patent Products and one-half percent (0.5%) for Non-patent Products.

(5.1h) For Diagnostic Kits which are Patent Products, the calculated royalty rate shall equal two and one-half percent (2.5%) times the Fraction; provided, however, that the immediately above calculated royalty rate shall in no event be less than one percent (1.0%).

(5.1i) For Diagnostic Kits which are Non-Patent Products, the calculated royalty rate shall equal one and one-half percent (1.5%) times the Fraction; provided, however, that the immediately above calculated royalty rate shall in no event be less than one-half percent (0.5%).

Earned royalties under this paragraph shall be payable in full without deduction for taxes or levies against such royalty payments by any foreign government other than taxes levied on the sale of Licensed Products as specified in paragraph 1.11.

5.2 If Licensee or Licensee's sublicensees sell Licensed Products which are not Diagnostic Kits or Therapeutic Agents to a third party, the royalties due The Regents for such sale shall be calculated from the Net Sales by the third party of Diagnostic Kits or Therapeutic Agents made from the Licensed Products sold by Licensee or Licensee's sublicensees. Net Sales of Licensed Products sold or transferred to Affiliates shall be the gross invoice price of sales by the Affiliate to third parties which are not Affiliates less the sum of the deductions listed in paragraph 1.11, where applicable.

5.3 If the Net Sales by Licensee and Licensee's sublicensees for any Licensed Product decrease by more than ten percent (10%) over a period of at least six months and if a competitor offers for sale in the same geographical market area a product which diagnoses the same disease or treats the same indication as the Licensed Product throughout the period during which the decrease in sales occurred, then The Regents and Licensee shall enter into good faith negotiations to lower the royalty rate on the Licensed Product. The negotiated royalty rate will be one which places the Licensee in a position to competitively market the Licensed Product.

5.4 Earned royalties for Patent Products under paragraphs 5.1, 5.2 and 5.3 shall accrue in each country for the duration of Regents' Patent Rights in that country. After termination of all patents within Regents' Patent Rights which cover a Licensed Product in a country, Licensee shall have an irrevocable paid-up license in the country under the rights granted in paragraph 2.2 pertaining to the Licensed Product.

5.5 Earned royalties for Non-Patent Products under paragraphs 5.1, 5.2 and 5.3 shall accrue in any country for a period of ten (10) years from the date of first commercial sale in the U.S. of the Non-Patent Product or, if no sale
occurs in the U.S., for a period of ten (10) years from the date of first
commercial sale of the Non-Patent Product in the country. After said ten-year
period, Licensee shall have an irrevocable paid-up license in the country to the
rights granted in paragraph 2.2 pertaining to the Non-patent Product.

5.6 Royalties owing on Licensed Products covered by pending patent
applications but not covered by any issued patents within Regents' Patent Rights
shall be assessed at the rate for Nonpatent Products. In the event Regents'
patent applications listed in paragraph 1.1 are denied, royalties owing on
Licensed Products shall be assessed at the rate for Non-patent Products.

5.7 Licensed Products shall be considered sold when invoiced or, if not
invoiced, when delivered to a third party by Licensee or its sublicensees.

5.8 Royalties accruing to The Regents shall be paid to The Regents within
sixty (60) days following the calendar quarter during which they have accrued.

5.9 Licensee shall pay to The Regents a minimum annual royalty of Fifteen
Thousand Dollars ($15,000.00), beginning with either the first full calendar
year after the approval by the FDA of the first Licensed Product or 1993,
whichever is earlier, and continuing in the amount of Twenty-five Thousand
Dollars ($25,000.00) for all subsequent years throughout the life of Regents'
Patent Rights for as long as Licensee has exclusive rights hereunder in the
United States. This minimum annual royalty shall accrue on and be paid to The
Regents by February 28 of each year and shall be credited against earned
royalties for so long as is necessary to amortize the minimum annual royalties
paid.

5.10 Except as otherwise provided in this paragraph 5.10, all monies due
The Regents shall be payable in United States funds collectible at par in San
Francisco, California. If at any time legal restrictions prevent the prompt
remittance of part or all royalties by Licensee or any sublicensee with respect
to any country where a Licensed Product is sold, Licensee or such sublicensee
shall have the right and option to make such payments by depositing the amount
thereof in local currency to The Regents' account in a bank or other depository
in such country.

5.11 In the event that any patent or any claim thereof included within the
Regents' Patent Rights shall be held invalid in a decision by a court of
competent jurisdiction and last resort from which no appeal has or can be taken,
all obligations to pay royalties based on such patent or claim or any claim
patently indistinct therefrom shall cease as of the date of such decision.
Licensee shall not, however, be relieved from paying any royalties that accrued
before such decision or that are based on another patent or claim not involved
in such decision or that are based on The Regents' property rights. Royalties
for a Licensed Product which becomes a Non-Patent Product due to patent
invalidation shall accrue for a period of ten (10) years from the date of first
commercial sale of the given Licensed Product, regardless of whether the
Licensed Product was a Patent Product or a Non-patent Product at the time of
first commercial sale.

5.12 A single royalty shall be paid on sales of Licensed Products, no
matter how many items in Regents' Patent Rights or The Regents' property rights
cover such Licensed Products, and

the royalty shall be assessed at the highest applicable rate for the Licensed
Product.

5.13 No royalty shall be paid on a Patent Product or a Patent Method after
Regents' Patent Rights covering said Licensed Product or Method have expired.

6. DUE DILIGENCE

6.1 Licensee, upon execution of this Agreement, shall diligently proceed
with the development, manufacture and sale of Licensed Products and shall
earnestly and diligently endeavor to market the same within a reasonable time
after execution of this Agreement in quantities sufficient to meet the market
demands therefor.

6.2 Licensee shall be entitled to exercise prudent and justifiable business
judgment in meeting its due diligence obligations hereunder.

6.3 Licensee shall endeavor to obtain all necessary approvals for the
manufacture, use and sale of Licensed Products.

6.4 Subject to the provisions of paragraph 6.2, Licensee agrees to use its
best efforts:

(6.4a) to file a Product License Application (PLA) for a therapeutic
Licensed Product with the U. S. Food and Drug Administration
(FDA) by January 1, 1990;
to market such therapeutic Licensed Product in the United States within six (6) months after receiving approval from FDA of such Licensed Product's PLA;

-16-

(6.4c) to file a Premarket Approval Application (PMA) for a diagnostic Licensed Product with the FDA by January 1, 1991;

(6.4d) to market such diagnostic Licensed Product in the United States within six (6) months after receiving approval from FDA of such Licensed Product's PMA;

(6.4e) following commencement of marketing, to reasonably fill the market demands for Licensed Products in the United States during the exclusive period of this Agreement.

If Licensee shall fail to fulfill its obligations relative to therapeutic Licensed Products under subparagraphs (a), (b) and (e) above, then The Regents shall have the right and option to reduce Licensee's exclusive license for therapeutic Licensed Products to a nonexclusive license. If Licensee shall fail to fulfill its obligations relative to diagnostic Licensed Products under subparagraphs (c), (d) and (e) above, then The Regents shall have the right and option to reduce Licensee's exclusive license for diagnostic Licensed Products to a nonexclusive license. These rights, if exercised by The Regents, supersede the rights granted in Article 2 (GRANT).

6.5 The Regents shall have the right to terminate Licensee's exclusive license in any country or countries in which Licensee or Licensee's sublicensees demonstrate a grievous failure to market Licensed Products.

6.6 Licensee shall keep The Regents informed as to the progress in the development and testing of all Licensed Products and the preparing, filing, and obtaining of the approvals necessary for marketing. Beginning January 1, 1987 and annually thereafter, Licensee shall submit to The Regents a progress report covering Licensee's activities related to the development of Licensed Products and the securing of the requisite approvals. These reports shall be made until the first commercial sale of a Licensed Product in the U.S.

6.7 At the request of either party, any controversy or claim arising out of or relating to the diligence provisions of this Agreement shall be settled by arbitration conducted in San Francisco, California in accordance with the then current Licensing Agreement Arbitration Rules of the American Arbitration Association. Judgment upon the award rendered by the Arbitrator(s) shall be binding on the parties and may be entered by either party in the court or forum, state or federal, having jurisdiction.

6.8 To exercise the right to either terminate this license or convert this license to a nonexclusive license for lack of diligence, providing that arbitration has not been requested, The Regents must give licensee written notice of the deficiency. Licensee thereafter has one hundred eighty (180) days to cure the deficiency or to request arbitration. If The Regents have not received a written request for arbitration or satisfactory tangible evidence that the deficiency has been cured by the end of the one hundred eighty-day period, then The Regents may, at their option, convert Licensee's exclusive license to a nonexclusive license by giving written notice to Licensee.

7. MOST FAVORED LICENSEE

7.1 Any provision of this Agreement to the contrary notwithstanding, if when otherwise permitted by the terms of this Agreement, The Regents grant to a third party a license under Regents' Patent Rights which contains royalty terms more favorable than the terms of this Agreement, then The Regents shall notify Licensee in writing of all royalty terms in such third party license. Licensee shall have the right and option to substitute all such royalty terms for all the respective terms of this Agreement. Such option shall be effective for a period of sixty (60) days from the date of notice by The Regents of the terms of the third party license and may be exercised by written notice to The Regents.

8. QUARTERLY REPORTS

8.1 Commencing with the calendar quarter in which the first commercial sale of Licensed Products takes place, Licensee will make quarterly reports to The Regents on or before February 28, May 31, August 31 and November 30 of each year. Each such report will cover Licensee's most recently completed calendar quarter and will show (a) the gross sales and the Net Sales of Licensed Products sold by Licensee and its sublicensees during the most recently completed calendar quarter; (b) the applicable royalty rate and the method by which it was calculated pursuant to paragraphs 5.1, 5.2 and 5.3, including the calculation of the Fraction; (c) the royalties, payable in U.S. dollars, which shall have accrued hereunder with respect to such sales; (d) the exchange rates used in
determining the amount of

U.S. dollars. If no sales of Licensed Products have been made during any reporting period, a statement to this effect shall be required.

8.2 With respect to sales of Licensed Products invoiced in U.S. dollars, the gross sales, Net Sales, and royalty payable shall be expressed in U.S. dollars. With respect to sales of Licensed Products invoiced in currency other than U.S. dollars, the gross sales, Net Sales, and royalty payable shall be expressed in the domestic currency of the party making the sale together with the U.S. dollar equivalent of the royalty payable, calculated using the appropriate selling rate for such currency quoted in the Continental terms method of quoting exchange rates (local currency per U.S. $1) in New York, New York, on the last day of the reporting period.

8.3 Pursuant to paragraphs 6.4 and 8.1 herein, Licensee also agrees to report to The Regents the date of first commercial sale in each country of a Licensed Product within thirty (30) days of its occurrence in each country.

9. BOOKS AND RECORDS

9.1 Licensee shall maintain books and records accurately showing all Licensed Products manufactured or sold by it under the terms of this Agreement for at least three (3) years from the end of the calendar year to which the books and records pertain. Upon written request and after reasonable notice, not more often than once in each year, Licensee shall permit a representative selected by The Regents, except one to whom Licensee has some reasonable objection, to have access during normal business hours to such records of Licensee as may be reasonably necessary to determine, with respect to any calendar year ending not more than thirty-six (36) months prior to the date of such request, the correctness of any report and/or payment made under this Agreement. Licensee shall include in each sublicense granted pursuant to this Agreement a provision requiring the sublicensee to maintain records of sales made pursuant to such sublicense and to grant access to such records to The Regents' representative. Upon the expiration of thirty-six (36) months following the end of any calendar year and absent a showing of fraud, the calculation of royalties payable with respect to such year shall be binding and conclusive upon The Regents, and Licensee and its sublicensees shall be released from any liability or accountability with respect to royalties for such year.

9.2 Subject to applicable Federal and State laws, the Regents agree that all information subject to review under paragraph 9.1 is confidential and that the Regents shall and shall cause their representative to retain all such information in confidence. In any event, the Regents agree to notify Licensee prior to the release of any such information pursuant to Federal or State laws, so as to permit Licensee to take such action as it deems appropriate.

9.3 The fees and expenses of the representatives performing such an examination shall be borne by The Regents. However, if an error in royalties in favor of The Regents by more than ten percent (10%) of the total royalties or one thousand dollars ($1,000.00), whichever is greater, due hereunder for the calendar year being reviewed is discovered by the representatives of The Regents, then all reasonable fees and expenses of these representatives shall be borne by Licensee.

10. LATE PAYMENTS

10.1 In the event royalty payments or fees are not received by The Regents when due, Licensee shall pay to The Regents interest charges at the rate of ten percent (10%) per annum on the total royalties or fees due for the reporting period.

10.2 In the event of a failure of performance due under the terms of this Agreement and if it becomes necessary for either party to undertake legal action against the other on account thereof, then the prevailing party shall be entitled to reasonable attorney's fees in addition to costs and necessary disbursements.

11. LIFE OF THE AGREEMENT

11.1 Subject to the provisions of paragraph 11.2, this Agreement shall be in full force first herein written and shall remain in effect for the life of the last to expire patent licensed under this Agreement or for the period of Licensee's royalty obligation as set forth in paragraph 5.4, whichever is longer, or unless otherwise terminated by operation of law or by acts of the parties in accordance with the terms of this Agreement.

11.2 Upon termination of this Agreement pursuant to Article 11, Article 12 or Article 13, the rights and obligations of the parties shall cease, except
that (a) rights (including Licensee's right to the paid-up irrevocable licenses granted in paragraphs 5.4 and 5.5), obligations and liabilities of the parties accrued prior to such termination shall survive such termination; and (b)

-22-

the obligation of The Regents, under paragraph 9.2, to keep certain information confidential, shall survive termination for period of five (5) years.

12. TERMINATION BY THE REGENTS

12.1 It is expressly agreed that, notwithstanding the provisions of Article 10 concerning late payments, if Licensee should fail to deliver to The Regents any statement or report when due, or fail to pay any royalty at the time that the same should be due or if Licensee should violate or fail to perform any covenant, condition, or undertaking of this Agreement on its part to be performed hereunder, then and in such event The Regents may give written notice of such default to Licensee. If Licensee should fail to repair such default within ninety (90) days from such notice, The Regents shall have the right to terminate this Agreement and the licenses herein by written notice to Licensee. Upon delivery of such notice of termination to Licensee, this Agreement shall automatically terminate. Such termination shall not relieve Licensee of its obligation to pay any royalty or license fees due or owing at the time of such termination and shall not impair any accrued right of The Regents.

13. TERMINATION BY LICENSEE

13.1 Licensee shall have the right to terminate this Agreement or any license granted herein, in whole or as to any specified patent or any claim of such patent, at any time, and from time to time, by giving notice in writing to The Regents. Such termination shall be effective ninety (90) days from the date of such notice and all Licensee's rights associated therewith shall cease as of that date.

13.2 Any termination pursuant to the above paragraph shall not relieve Licensee of any obligation or liability accrued hereunder prior to such termination, or rescind or give rise to any right to rescind anything done by Licensee or any payments made (including the payment of the license issue fee) or other consideration given to The Regents hereunder prior to the time such termination becomes effective, and such termination shall not affect in any manner any rights of The Regents arising under this Agreement prior to such termination.

14. DISPOSITION OF THE HYBRIDOMA AND LICENSED PRODUCTS ON HAND UPON TERMINATION

14.1 Upon termination of this Agreement by either party Licensee agrees to dispose of The Hybridomas and Licensed Products in its possession in the following manner:

(14.1a) The Hybridomas will be destroyed within fifteen (15) days following the effective date of termination. Licensee agrees to provide The Regents within thirty (30) days following said termination date with written notice that The Hybridoma has been destroyed.

(14.1b) In the case of Licensed Products, Licensee shall provide The Regents within sixty (60) days following the effective date of termination with a written inventory of all Licensed Products in process of manufacture, in use or in stock, and shall dispose of such Licensed Products within one hundred eighty (180) days of the effective date of termination, provided, however, that all such Licensed Products shall be subject to the terms of this Agreement.

15. MAINTENANCE OF PROPERTY AND TRADE SECRET RIGHTS IN THE HYBRIDOMAS

15.1 The Regents agree to instruct Lowell Young to circulate The Hybridomas to third parties only for noncommercial research purposes and only under the terms of the biological material transmission letter attached hereto as Appendix A.

15.2 Licensee shall not be prevented from transferring any of The Hybridomas to third parties if:

(15.2a) such Hybridoma is now, or becomes in the future, publicly available, other than through acts or omissions of Licensee; or

(15.2b) such Hybridoma is lawfully obtained by Licensee from sources independent of The Regents.
15.3 Licensee agrees to use its best efforts to preserve The Regents' tangible property and trade secret rights in The Hybridomas.

16. PATENT PROSECUTION AND MAINTENANCE

16.1 The Regents shall diligently prosecute and maintain the above identified United States patent application using counsel of their choice and after due consultation with Licensee. The Regents shall provide Licensee with copies of all relevant documentation so that Licensee may be informed and apprised of the continuing prosecution, and Licensee agrees to keep this documentation confidential.

16.2 The Regents shall use their best efforts to amend any patent application to include claims reasonably requested by Licensee and required to protect the Licensed Products contemplated to be sold under this Agreement.

16.3 The cost of preparing, filing and prosecuting all United States patent applications contemplated by this Agreement shall be borne by Licensee.

16.4 Licensee shall have the right to obtain patent protection on the Invention in foreign countries if available and if it so desires. Licensee must notify The Regents within ten (10) months of the filing of the corresponding United States application of those countries in which it desires to obtain foreign patents. The absence of a decision in writing from Licensee to The Regents shall be considered an election by Licensee not to secure foreign patent rights.

16.5 The preparation, filing and prosecuting of all foreign patent applications filed in accordance with paragraph 16.4 and the maintenance of all resulting patents shall be at the sole expense of Licensee. Such patents shall be held in the name of The Regents and shall be obtained using counsel of The Regents' choice, provided that Licensee shall have no reasonable objection to such counsel.

16.6 Licensee's obligation to underwrite and to pay foreign patent prosecution costs filed at its request shall continue for so long as this Agreement remains in effect, provided, however, that Licensee may terminate its obligations with respect to any foreign patent application or patent upon three (3) months' written notice to The Regents. The Regents may continue prosecution and/or maintenance of such application(s) or patent(s) at their sole discretion and expense; provided, however, that Licensee shall have no further right or licenses thereunder.

16.7 The Regents shall have the right to file patent applications at their own expense in any country in which Licensee has not elected to secure such rights, and such applications and resultant patents shall not be subject to this Agreement.

17. INFRINGEMENT

17.1 In the event that Licensee shall learn of the infringement of any patent licensed under this Agreement, Licensee shall call The Regents' attention thereto in writing. Both Parties to this Agreement agree that during the period and in a jurisdiction where Licensee has exclusive rights under this Agreement, neither will notify a third party of the infringement of any of Regents' Patent Rights without first obtaining the consent of the other Party, which consent shall not be unreasonably denied. Both Parties shall use reasonable efforts in cooperation with each other to terminate such infringement without litigation.

17.2 Licensee may request that The Regents take legal action against the infringement of Regents' Patent Rights. Such request shall be made in writing and shall include reasonable evidence of such infringement and damages to Licensee. If the infringing activity has not been abated within ninety (90) days following the effective date of such request, The Regents shall have the right to:

- (17.2a) commence suit on their own account; or
- (17.2b) refuse to participate in such suit,

and The Regents shall give notice of their election in writing to Licensee by the end of the one-hundredth (100th) day after receiving notice of such request from Licensee. Licensee may thereafter bring suit for patent infringement if and only if The Regents elect not to commence suit (other than as nominal party plaintiff) and if the infringement occurred during the period and in a jurisdiction where Licensee had exclusive rights under this Agreement. However, in the event Licensee elects to bring suit in accordance with this paragraph,
The Regents may thereafter join such suit at their own expense.

17.3 In the case of an infringement of Regents' Patent Rights as defined in Section 271(e) of Title 35 of the United States Code, Licensee shall provide The Regents with written notice of such occurrence and shall provide The Regents with copies of any notice which Licensee receives as required by the Drug Price Competition and Patent Term Restoration Act (Public Law 98-417, hereinafter "the Act") to be given by an applicant for an abbreviated PLA or a "paper PLA" pursuant to section 101 or 103 of the Act to a holder of an approved PLA. If Licensee wishes action to be taken against such infringement, as provided in the Act, Licensee shall request such action in written notice to The Regents. Within thirty (30) days of receiving said request, The Regents will give written notice to Licensee of its election to:

-28-

(17.3a) commence suit on their own account; or

(17.3b) refuse to participate in such suit.

Licensee may thereafter bring suit for patent infringement as provided by the Act if and only if The Regents elect not to commence suit (other than as nominal party plaintiff) and if the infringement occurred during the period that Licensee had exclusive rights in the United States under this Agreement. However, in the event Licensee elects to bring suit in accordance with this paragraph, The Regents may thereafter join such suit at their own expense.

17.4 Any legal action as is brought shall be at the expense of the party by whom suit is filed. Any damages or costs recovered in connection with a lawsuit shall belong to the party by whom suit is filed. Nothing herein obligates The Regents or Licensee to enter into any litigation of any nature whatsoever with regard to Regents' Patent Rights.

17.5 Each party agrees to cooperate with the other in litigation proceedings instituted hereunder but at the expense of the party on account of whom suit is brought. Such litigation shall be controlled by the party bringing the suit, except when such suit is brought jointly in which case The Regents shall control. The Regents, at their own expense, may be represented by counsel of their choice pursuant to The Regents' determination in any suit brought by Licensee.

17.6 In the event that The Regents refuse to participate in a suit and Licensee brings same as allowed herein, Licensee may pay royalties at the applicable rate for Non-patent Products and may withhold the difference between the rate paid and the rate due for Patent Products during the pendency of the suit and until said suit has been finally concluded. To the extent that Licensee does not recover attorneys' fees and other out-of-pocket costs as a result of such litigation, such withheld royalties may be applied to Licensee's expenses (out-of-pocket and in-house) incurred in connection with such suit and the balance of such withheld royalties if any, shall be paid to The Regents upon disposition of the suit; provided however, that if as a result of such suit, all claims of patents included within Regents' Patent Rights under which Licensee is selling a Licensed Product shall be held invalid, Licensee may retain the balance of such withheld royalties which pertain to such Licensed Product until such decision shall be finally reversed by an unappealed or unappealable decree of a court of competent jurisdiction and higher dignity.

18. NOTIFICATION AND AUTHORIZATION UNDER DRUG PRICE COMPETITION AND PATENT TERM RESTORATION ACT

18.1 The Regents shall notify Licensee of (a) the issuance of each U.S. patent included within Regents' Patent Rights, giving the date of issue and patent number for each such patent, and (b) each notice pertaining to any patent included within Regents' Patent Rights which it receives as patent owner pursuant to the Drug Price Competition and Patent Term Restoration Act, (the Act), including but not necessarily limited to notices pursuant to Sections 101 and 103 of the Act from persons who have filed an Abbreviated New Drug Application ("ANDA") or a "paper" New Drug Application (NDA). Such notices shall be given promptly, but in any event within ten (10) calendar days of each such patent's date of issue or receipt of each such notice pursuant to the Act, whichever is applicable.

18.2 The Regents hereby authorize Licensee (a) to include in any NDA for a Licensed Product, as Licensee may deem appropriate under the Act, a list of patents included within Regents' Patent Rights identifying The Regents as patent owner that relate to such Licensed Product and such other information as Licensee in its reasonable discretion believes is appropriate to be filed pursuant to the Act; and (b) in consultation with The Regents, to exercise any rights that may be exercisable by an exclusive licensee and NDA holder under The Regents' Patent Rights.
19. EXTENSION OF PATENT TERM UNDER DRUG PRICE
COMPETITION AND PATENT TERM RESTORATION ACT

19.1 The Regents agree as patent owners under the Act to apply for an
extension of the term of any patent included within Regents' Patent Rights, as
permitted by the Act, upon request by Licensee. The Regents agree to cooperate
with Licensee in the exercise of the authorizations granted in Articles 18 and
19 and will execute such documents and take such additional action as Licensee
may reasonably request in connection therewith.

20. PATENT MARKING

20.1 Licensee agrees to mark all Patent Products made, used or sold under
the terms of this Agreement, or their containers, in accordance with the
applicable patent marking laws.

21. USE OF NAMES, TRADE NAMES, AND TRADEMARKS

21.1 Nothing contained in this Agreement shall be construed as conferring
any right to use in advertising, publicity, or

other promotional activities any name, trade name, trademark, or other
designation of either party hereto (including any contraction, abbreviation or
simulation of any of the foregoing). The use of the name "The Regents of the
University of California" or the name of any campus of the University of
California is expressly prohibited.

21.2 Each party hereto further agrees not to use or refer to this Agreement
or any license granted hereunder in any promotional activity associated with any
Licensed Product licensed hereunder without the express written approval of the
other party.

22. WARRANTY BY THE REGENTS

22.1 The Regents warrant that they have the lawful right to grant this
license.

22.2 The Regents make no express or implied warranties of merchantability
or fitness of the Invention for a particular purpose.

22.3 Nothing in this Agreement shall be construed as:

(22.3a) a warranty or representation by The Regents as to the validity
or scope of any Regents' Patent Rights; or

(22.3b) a warranty or representation that anything made, used, sold or
otherwise disposed of under any license granted in this
Agreement is or will be free from infringement of patents of
third parties; or

(22.3c) an obligation to bring or prosecute actions or suits against
third parties for patent

infringement except as provided in Article 17; or

(22.3d) conferring by implication, estoppel or otherwise any license or
rights under any patents of The Regents other than Regents'
Patent Rights as defined herein, regardless of whether such
patents are dominant or subordinate to Regents' Patent Rights; or

(22.3e) a warranty or representation by The Regents that The Hybridomas
will not be publicly disclosed and that any trade secret covered
by this Agreement will be maintained as such by The Regents,
notwithstanding the provisions of paragraph 15.1 herein.

22.4 No liability, financial or otherwise, shall be incurred by The Regents
as a consequence of any disclosure of The Hybridomas to third parties.

23. WAIVER

23.1 It is agreed that no waiver by either party hereto of any breach or
default of any of the covenants or agreements herein set forth shall be deemed a
waiver as to any subsequent and/or similar breach or default.

24. LICENSE RESTRICTIONS

24.1 It is agreed that the rights and privileges granted to Licensee are
each and all expressly conditioned upon the faithful performance on the part of
Licensee of every requirement herein contained. Each of such conditions and
requirements is a specific license restriction.
25. ASSIGNABILITY

25.1 This Agreement is binding upon and shall inure to the benefit of The Regents, their successors and assigns, but shall be personal to Licensee and assignable by Licensee only with the written consent of The Regents, which consent shall not be unreasonably withheld.

26. INDEMNITY

26.1 Licensee agrees to indemnify, hold harmless and defend The Regents, their officers, employees, and agents, against any and all claims, suits, losses, damages, costs, fees, and expenses resulting from or arising out of exercise of the licenses granted in this Agreement.

27. FOREIGN LICENSE REGISTRATION

27.1 Licensee agrees to register or give required notice concerning this Agreement, through itself or through an Affiliate, in each country where there exists an obligation under law to so register or give notice, to pay all costs and legal fees connected therewith, and shall otherwise comply with all national laws applicable to this Agreement.

28. FORCE MAJEURE

28.1 In the event of acts of God, action of the elements, war, invasion, civil commotion, insurrection, labor disturbance, fire, flood, or government restriction, which render performance under this Agreement impossible, failure on that account during each period shall be excused; and any minimum royalty called for shall not be required during such period or periods of inability to perform.

29. NOTICES

29.1 Any payment, notice or other communication required or permitted to be given to either party hereto shall be deemed to have been properly given and to be effective (a) upon delivery if delivered in person, or (b) four (4) days after mailing if mailed by first-class certified mail, postage paid, to the respective address given below, or to such other address as shall be designated by written notice given to the other party as follows:

In the case of Licensee: XOMA CORPORATION
2910 Seventh Street
Berkeley, California 94710
Attention: Chief Executive Officer

In the case of The Regents: THE REGENTS OF THE UNIVERSITY
OF CALIFORNIA
2199 Addison Street
Berkeley, California 94720
Attention: Director, Patent, Trademark & Copyright Office

All payments, notices or other communications required or permitted to be given to The Regents will contain the following information:

UC Case Nos.: 85-158-1,2; 86-069-1 and 86-073-1
Inventor: Lowell Young

30. GOVERNING LAWS

30.1 This Agreement shall be interpreted and construed in accordance with the laws of the State of California.

31. MISCELLANEOUS

31.1 The headings of the several sections are inserted for convenience of reference only and are not intended to be a part of or to affect the meaning or interpretation of this Agreement.

31.2 This Agreement will not be binding upon the parties until it has been signed hereinafter by or on behalf of each party, in which event, it shall be effective as of the date first above written.

31.3 No amendment or modification hereof shall be valid or binding upon the parties unless made in writing and signed as aforesaid.

31.4 This Agreement embodies the entire understanding of the parties and shall supersede all previous communications, representations or understandings, either oral or written, between the parties relating to the subject matter hereof.

31.5 In case any one or more of the provisions contained in this Agreement shall for any reason be held to be invalid, illegal or unenforceable in any
respect, such invalidity, illegality or unenforceability shall not affect any other provisions hereof, but this Agreement shall be construed as if such invalid or illegal or unenforceable provisions had never been contained herein.

31.6 Nothing contained herein shall prohibit The Regents or their officers, agents, employees, or students from publishing results of any research based on or using The Hybridomas or any other commentary related to The Hybridomas.

IN WITNESS WHEREOF, both The Regents and Licensee have executed this Agreement, in duplicate originals, by their respective officers hereunto duly authorized, on the day and year hereinafter written.

XOMA CORPORATION                            THE REGENTS OF THE UNIVERSITY
By /s/Steven C. Mendell                    OF CALIFORNIA
By /s/Roger G. Ditzel
By Steven C. Mendell                       By ROGER G. DITZEL
(Please Print)                                (Please Print)
Title Chairman and                         Title Director, Patent,
Chief Executive Officer              Trademark & Copyright Ofc
Date September 3, 1986                     Date 17 SEPT 86
"License Agreement between Xoma Corporation and The Regents of the University of California. UC Case Nos.: 85-158-1,2; 86-069-1 and 86-073-1"

UNIVERSITY OF CALIFORNIA
Instructions for Standard Letter
Transmitting Biological Materials
to Universities and Nonprofit Institutions

The attached letter is authorized for use by University of California Principal Investigators and Administrators only with scientists at other universities and nonprofit research institutions when transmitting cell lines, plasmids and the like for non-commercial research purposes.

1. Choose the appropriate form of university or nonprofit research institution in paragraph 2.
2. Choose whether or not to include the phrase "our cooperative" in paragraph 2.
3. Insert in paragraph 4 the amount of processing charge. If the material is to be shipped at no charge, insert the words "no charge."
4. Send the letter in duplicate to the other scientist.
5. Do not send biological materials until you receive the duplicate copy executed by both the scientist and the other institution.
6. Send a copy of the fully executed letter agreement to:

   Roger G. Ditzel, Director
   Patent, Trademark and Copyright Office
   University of California
   2490 Channing Way, Third Floor
   Berkeley, California 94720

7. Any changes in the wording of this standard letter must be reviewed by the director of the Patent, trademark and copyright Office before acceptance.

NOTE: Do not use this letter for the exchange of living plants. A separate "Testing Agreement for Plant Varieties" is available for that purpose.

December 29, 1981

SAMPLE LETTER FOR USE PRIOR TO
TRANSMISSION OF BIOLOGICAL MATERIALS
TO INVESTIGATORS AT OTHER
UNIVERSITIES OR NON PROFIT RESEARCH INSTITUTIONS

(Use UC Letterhead)

(Date)

IN DUPLICATE

To:
This is to [acknowledge receipt of your letter] [confirm our telephone conversations] in which you requested certain research materials developed in this laboratory be sent to you for scientific research purposes. The materials concerned, which belong to The Regents of the University of California, are: (blank)

I will be pleased to permit your use of these materials within your [university][non profit research institution] laboratory for [our cooperative] scientific research. However, before forwarding them to you, I would like your agreement that the materials will be received by you only for use in [our cooperative work][scientific research], that you will bear all risk to you or any others resulting from your use, and that you will not pass these materials, their progeny or derivatives, on to any other party or use them for commercial purposes without the express written consent of The Regents of the University of California. You understand that no other right or license to these materials, their progeny or derivatives, is granted or implied as a result of our transmission of these materials to you.

These materials are to be used with caution and prudence in any experimental work, since all of their characteristics are not known.

As you recognize, there is a processing cost to us involved in providing these materials to you. We will bill you for our processing costs, which will amount to $(blank).

Date
Page Two

If you agree to accept these materials under the above conditions, please sign the enclosed duplicate copy of this letter, then have it signed by an authorized representative of your institution, and return it to me. Upon receipt of that confirmation I will forward the material(s) to you.

[Note: Other paragraphs discussing the relevant literature, the nature of the work, hazards relating to materials to be sent, etc., may be appropriate. These will vary depending on the individual circumstance and the relationship between the two parties previously established. Be sure to retain signed copy when received and send a photocopy of the completed agreement to the University of California Patent Administrator, Patent Office, Systemwide Administration, 2490 Channing Way, Third floor, Berkeley, California 94720.]

Sincerely yours,

------------------------

Accepted:
Research Investigator
--------------------
Printed Name
--------------------
Signature
--------------------
Date

Research University or Non Profit Institution
--------------------
Printed Name
--------------------
By
--------------------
Date

UNIVERSITY OF CALIFORNIA

Instructions for Standard Letter Transmitting Biological Materials To Industrial (for profit) Companies

The attached letter agreement is authorized for use by the University of California Principal Investigators when transmitting cell lines, plasmids and like biological materials for non-commercial research purposes to scientists employed by industrial (for profit) companies, and when no patent application relating to those materials will be or has been filed.

When to use this letter:
1. For the transmission of biological materials.

2. Materials must be used for research purposes only.

3. For profit taking corporations and companies.

4. When no patent application relating to the materials will be or has been filed.

When not to use this letter:

1. If a patent application has been filed on the materials, first contact the University Patent Office at (415) 642-5000 for instructions.

2. For living plants or portions thereof. A separate "Testing Agreement for Plant Varieties" is available for use with these materials.

3. For transmission of biological materials to scientists at other universities and non-profit institutions. A separate letter is used which is available from the University Patent Office.

4. If a change in the wording of this standard letter is requested. Any changes in the wording of this standard letter must be reviewed and approved by the Director of the Patent, Trademark and Copyright Office before acceptance.

5. If commercial use of the materials is intended, then contact the University Patent office because a commercial license may be required and releases from sponsors may be necessary.

How to use this agreement:

1. Choose whether or not to include the phrase "our cooperative" in paragraph 2.

2. Insert in paragraph 4 the amount of processing charge. If the material is to be shipped at no charge, insert the words "no charge."

3. Send the letter in duplicate to other scientists.

4. Do not send biological materials until you receive the duplicate copy executed by both the scientist and the company representative.

5. Send a photocopy of the fully executed letter agreement to:

   Roger G. Ditzel, Director
   Patent, Trademark and copyright Office
   University of California
   2490 Channing Way, Third Floor
   Berkeley, California 94720

JAN 83

STANDARD LETTER FOR USE PRIOR TO TRANSMISSION OF BIOLOGICAL MATERIALS TO SCIENTIFIC INVESTIGATORS AT INDUSTRIAL (for profit) COMPANIES

(Use UC Letterhead)

(Date)

IN DUPLICATE

To:

This is to [acknowledge receipt of your letter] [confirm our telephone conversation] in which you requested certain research materials developed in this laboratory be sent to you for scientific research purposes. The materials concerned, which belong to The Regents of the University of California, are:

(blank)

We will be pleased to permit your use of these materials by you and within your company laboratory for [our cooperative] scientific research. However, before forwarding them to you, we need your agreement and that of your company that the materials will be received by you only for use in [our cooperative work] [scientific research], they will not be used on any human subjects, that you and your company will bear all risk to you or any others resulting from your use, and that you or your company will not pass these materials, their progeny or derivatives, on to any other party or use them for commercial purposes without the express written consent of The Regents of the University of California. You understand that no other right or license to these materials, their progeny or derivatives, is granted or implied as a result of our transmission of these materials to you.
These materials are to be used with caution and prudence in any experimental work since all of their characteristics are not known. You understand these materials are experimental in nature and, when delivered to you, are without warranty of merchantability or fitness for any particular purpose, or any other warranty of any kind.

As you recognize, there is a processing cost to us involved in providing these materials to you. We will bill you for our processing costs, which will amount to $(blank).

Date
Page Two

If you agree to accept these materials under the above conditions, please sign the enclosed duplicate copy of this letter, then have it signed by an authorized representative of your company, and return it to me. Upon receipt of that confirmation I will forward the materials(s) to you.

[Note: Other paragraphs discussing the relevant literature, the nature of the work, hazards relating to materials to be sent, etc., may be appropriate. These will vary depending on the individual circumstance and the relationship between the two parties previously established. Be sure to retain signed copy when received and send a photocopy of the completed agreement to the University of California Patent Administrator, Patent office, Systemwide Administration 2200 University Avenue, Berkeley, California 94720.]

Sincerely yours,

------------------------

Accepted:___________________________
(Printed Name of Company)

Research Investigator Authorized Company Representative

- ---------------------------  ---------------------------
Printed Name Printed Name

- ---------------------------  ---------------------------
Signature Signature

- ---------------------------  ---------------------------
Date Title

-----------
Date

JAN 83
RESEARCH, DEVELOPMENT AND OPTION AGREEMENT

Research, Development and Option Agreement, dated as of June 9, 1987, by and between Xoma Corporation ("Xoma"), a Delaware corporation, with its principal place of business located at 2910 Seventh Street, Berkeley, California 94710, and Pfizer Inc. ("Pfizer"), a Delaware corporation, with its principal place of business located at 235 East 42nd Street, New York, New York 10017.

WHEREAS, Xoma has under development certain monoclonal antibody products useful in the treatment of septic shock; and

WHEREAS, Pfizer desires to fund certain Xoma research and development regarding such products and desires an exclusive option to acquire certain rights relating thereto pursuant to the terms and conditions provided therein.

NOW, THEREFORE, the parties hereto agree as follows:

1. CERTAIN DEFINITIONS

For purposes of this Agreement the following definitions shall be applicable:

1.1 "Accepted Septic Shock Product" means any Other Septic Shock Product for which Pfizer has acquired rights thereto under Section 4.2 hereof.

1.2 "Affiliate" means (a) any company owned or controlled to the extent of at least fifty percent (50%) of its issued and voting capital by a party to this Agreement and any other company so owned or controlled (directly or indirectly) by any such company or the owner of any such company, or (b) any partnership, joint venture or other entity directly or indirectly controlled by, controlling, or under common control of, to the extent of fifty percent (50%) or more of voting power (or otherwise having power to control its general activities), a party to this Agreement, but in each case only for so long as such ownership or control shall continue.

1.3 "Development Costs" means Xoma's costs and expenses related to the development, research (including process research) and testing of any Subject Product or any Accepted Septic Shock Product, in each case determined pursuant to Exhibit A attached hereto and made a part thereof, together with Xoma's expenses incurred in connection with the Review Panel as specified in Exhibit A.

1.4 "Development Plan" means (a) the preclinical, clinical and process development program and budget of estimated Development Costs through PLA Submission for the E5 Product as set forth in Exhibit B, attached hereto and made a part thereof, together with such further modifications as shall be mutually agreed upon between Pfizer and Xoma, and (b) any subsequent Development Plans (comparable in scope and content to the plan for the E5 Product) for any Other Antibody Product as agreed upon between Pfizer and Xoma pursuant to Section 4.1 hereof.

1.5 "E5 Product" means any product for human and/or animal therapeutic or prophylactic use, now or hereafter developed by Xoma, which is produced (or susceptible of being produced) from or incorporates any antibody (including Fragments thereof as hereinafter defined) secreted from the E5 Cell Line (as hereinafter defined) or any other cell line capable of producing said antibody, or which product is chemically, organically, biologically or synthetically derived from or based upon any such antibody, in each case either alone or in combination with any other therapeutic agent. For purposes of this Section 1.5, the term "Fragments" shall mean any part or parts of any said antibody chemically, biologically or organically obtained from said antibody, or synthetically produced, and which mimics the biological behavior of said antibody. For purposes of this Section 1.5, the term "E5 Cell Line" shall mean the cell line described as a murine hybridoma as identified by American Type Culture Collection No. HB 9081 and mutants and genetically manipulated variants thereof.

1.6 "FDA" means the United States Food and Drug Administration or any successor governmental agency performing similar functions.

1.7 "License Agreement" means the agreement so named of even date herewith.
1.8 "Other Antibody Product" means any product for human and/or animal therapeutic or prophylactic use, now or hereafter developed by Xoma, which is produced (or susceptible of being produced) from or incorporates any antibodies (including Fragments thereof as hereinafter defined) secreted from the J5D4 Cell Line and/or the PCB5 Cell Line (as hereinafter defined) or any other cell lines capable of producing any such antibodies, or which product is chemically, organically, biologically or synthetically derived from or based upon any such antibodies, in each case either alone or in combination with any other therapeutic agent. For purposes of this Section 1.8, the term "Fragments" shall mean any part or parts of any said antibodies chemically, biologically or organically obtained from said antibodies, or synthetically produced, and which mimics the biological behavior of said antibodies. For purposes of this Section 1.8, the term "J5D4 Cell Line" shall mean the cell line described as a murine hybridoma as identified by American Type Culture Collection No. HB 9083 and mutants and genetically manipulated variants thereof; and the term "PCB5 Cell Line" shall mean the cell line described as a murine hybridoma as identified by American Type Culture Collection No. HB 8909 and mutants and genetically manipulated variants thereof.

1.9 "Other Septic Shock Product" means any product, now or hereafter developed by Xoma, for the treatment, cure or prevention of Septic Shock, other than any E5 Product or any Other Antibody Product.

1.10 "Patents" means all Xoma patents listed in Exhibit C, annexed hereto and made a part hereof, and any patents which may issue from the applications listed in Exhibit C, in each case together with any divisionals, continuations, continuations-in-part, reissues, patents of addition or extensions thereof.

1.11 "PLA" means a Product License Application or such other application as shall be required to obtain Product Approval for any Subject Product.

1.12 "PLA Submission" means the submission to FDA by Xoma of a PLA which has been prepared in good faith by Xoma in a reasonable manner to comply with FDA requirements necessary to obtain Product Approval.

1.13 "Product Approval" means final FDA approval to market commercially in the U.S.A. the specified product for use in humans.

1.14 "Review Panel" means a panel of three persons to advise Xoma as provided herein. Such panel, to be appointed by Xoma with Pfizer's approval, shall consist of an immunotoxicologist, a physician experienced in clinical research, and an expert in FDA regulatory requirements for biologicals. Xoma may, upon notice to Pfizer, remove members from the panel at any time for reasonable cause provided that it fills any vacancy with persons reasonably acceptable to Pfizer as promptly as reasonably practicable.

1.15 "Security Agreement" means the agreement so named referred to in Section 11 hereof.

1.16 "Septic Shock" means endotoxin mediated complications of gram negative bacterial sepsis.

1.17 "Subject Product" means any E5 Product and any Other Antibody Product for which Pfizer has exercised its option under Section 4.1. The E5 Product shall be the initial Subject Product.

1.18 "Supply Agreement" means the agreement so named of even date herewith between Pfizer and Xoma.

1.19 "Technical Information" means all of Xoma's trade secrets, information, and know-how, now owned, licensed or controlled or hereafter acquired, developed, owned, licensed or controlled by Xoma or any of its Affiliates during the term of this Agreement, with respect to: (i) the medical, clinical, toxicological or other scientific data or information relating to any specified product (including, without limitation, pre-clinical and clinical data, notes, reports, models, and samples) and (ii) the manufacture, production, and purification procedures and processes, as well as analytical methodology, used in the testing, assaying, analysis, production, and packaging of any specified product. Technical Information shall also include: (i) Xoma's actual cell lines and other biological materials and substances for any specified product and (ii) Xoma's other information and non-patent proprietary rights (to
the extent not already included in this definition of Technical Information) with respect to any specified product.

1.20 "Territory" means all countries of the world.

1.21 "University of California License" means the License Agreement For Monoclonal Antibodies to Gram Negative Sepsis-Related Bacteria and Human Diagnostics and Therapeutics Derived Therefrom, effective September 3, 1986, between Xoma and The Regents of the University of California.

2. XOMA REPRESENTATIONS, WARRANTIES AND COVENANTS

Xoma hereby represents, warrants and covenants to Pfizer as follows:

2.1 Xoma has the corporate power and authority to execute and deliver this Agreement, the License Agreement and the Supply Agreement and perform its obligations hereunder and thereunder, and the execution, delivery and performance of this Agreement, the Supply Agreement and the License Agreement have been duly and validly authorized by Xoma, and upon execution and delivery by Pfizer, this Agreement, the Supply Agreement and the License Agreement will constitute legal, valid and binding agreements of Xoma, enforceable in accordance with their respective terms.

2.2 Except to the extent Xoma has licensed patents or applications under the University of California License, Xoma is the legal and equitable owner of the Patents and applications listed on Exhibit C hereto, and, except for such Patents, there are no other patents issued in any country in the Territory and no other patent applications filed in any country therein, in each case owned or filed by Xoma or any of its Affiliates relating to the E5 Product or any Other Antibody Product or methods of use or manufacturing processes thereof. Xoma has no knowledge of any fact which would cast doubt on the validity of any of the Patents which have been issued as of this date.

2.3 Xoma has not granted to any third party any rights or interests to the Patents, the E5 Product, any Other Antibody Product, any Other Septic Shock Product, or to Technical Information (as it relates to any of the foregoing) in each case for human or animal therapeutic or prophylactic use, and neither the execution and delivery of this Agreement, the Supply Agreement or the License Agreement, nor consummation of the transactions contemplated hereunder or thereunder, requires Xoma or any of its Affiliates to obtain any permits, authorizations or consents under current law from any governmental body (except for health approvals or governmental regulations necessary to sell such products) or from any other person, firm or corporation under any existing agreement to which Xoma or any of its Affiliates may be a party, and such execution, delivery and consummation will not result in the breach of or give rise to any termination of any agreement or contract to which Xoma or its Affiliates may be a party or which otherwise relates to the Patents, the E5 Product, any Other Antibody Product, any Other Septic Shock Product, or any Technical Information relating to any of the foregoing. Neither Xoma nor any of its Affiliates after the date hereof shall enter into any agreement or take or fail to take any action which shall restrict its legal right to grant to Pfizer the rights and licenses contemplated under this Agreement or the License Agreement.

2.4 As of the date hereof, the University of California License is in full force and effect and Xoma is in compliance in all material respects with all of its obligations thereunder; Xoma has heretofore delivered to Pfizer a true and complete copy thereof and there have been no amendments or modifications thereof. So as not to adversely affect Pfizer rights hereunder or under the License Agreement, Xoma agrees during the term of this Agreement not to take any actions to terminate or restrict its rights under the University of California License as it relates to the E5 Product, Other Antibody Products, Other Septic Shock Products, or Technical Information relating thereto and to discharge all of Xoma's material obligations and responsibilities thereunder, including, without limitation, making all required payments thereunder. In the event Xoma shall receive any notice of default under the University of California License, Xoma shall promptly notify Pfizer.

2.5 Xoma has no knowledge as of the date of this Agreement of any material information, not heretofore disclosed to Pfizer, relating to the potential safety or efficacy of the E5 Product.

2.6 Xoma shall take all reasonable steps and pay all necessary expenses to
prosecute the patent applications listed in Exhibit C unless Xoma, in consultation with Pfizer, shall in good faith determine that it is not in the best interests of both parties for Xoma to continue the prosecution of any pending application. Xoma also shall take all reasonable steps and pay all expenses necessary to maintain for the full life thereof all Patents unless Xoma, in consultation with Pfizer, shall in good faith determine that it is not in the best interests of both parties for Xoma to take such action or make such payments. Xoma shall keep Pfizer fully informed as to the status of all pending applications and the issuance of any such patents.

3. PFIZER REPRESENTATIONS AND WARRANTIES

Pfizer hereby represents and warrants to Xoma as follows:

3.1 Pfizer has the corporate power and authority to execute and deliver this Agreement, the Supply Agreement and the License Agreement and perform its obligations hereunder and thereunder, and their execution, delivery and performance have been duly and validly authorized by Pfizer, and upon execution and delivery by Xoma, this Agreement, the Supply Agreement and the License Agreement will constitute legal, valid and binding agreements of Pfizer, enforceable in accordance with their respective terms.

3.2 Neither the execution and delivery of this Agreement, the Supply Agreement or the License Agreement, nor consummation of the transactions contemplated hereunder or thereunder, requires Pfizer to obtain any permits, authorizations or consents from any governmental body (except for health approvals or governmental registrations necessary to sell the products contemplated therein) or from any other person, firm or corporation, and such execution, delivery and consummation will not result in the breach of or give rise to any termination of any agreement or contract to which Pfizer may be a party.

4. PFIZER OPTIONS

4.1 Other Antibody Products. Xoma hereby grants to Pfizer the exclusive option during the term of this Agreement to acquire exclusive worldwide rights to each of the Other Antibody Products pursuant to the terms of the License Agreement. At such time Xoma files any IND application with FDA for any Other Antibody Product, Xoma shall give Pfizer a copy of such IND application together with a summary of all material Technical Information (reasonably necessary for Pfizer or any like person to make a reasonable scientific and technical evaluation for the purpose of exercising the option hereunder) regarding such Other Antibody Product. For a [*] period thereafter Xoma shall not (unless Pfizer earlier declines) negotiate with any third party regarding such Other Antibody Product, and as soon as possible, and in no event later than the end of said [*] period, Pfizer shall notify Xoma whether Pfizer wishes to exercise its option hereunder with respect to such Other Antibody Product. In the event Pfizer exercises its option, such Other Antibody Product shall be automatically included within the definition of "Product" under the License Agreement and shall become a Subject Product for purposes of this Agreement. In addition, Xoma shall promptly prepare and submit to Pfizer a reasonable Development Plan including reasonable budget of estimated Development Costs through PLA Submission for such Other Antibody Product. Such Development Plan shall be consistent in scope and content with the ES Development Plan and, together with such modifications as shall be mutually agreeable, shall be reasonably agreed upon by the parties within [*] of Pfizer's notice to Xoma of Pfizer's exercise of its option hereunder regarding such Other Antibody Product. If Pfizer within said [*] period shall decline to exercise its option or shall fail to respond to Xoma, Xoma may develop and market such Other Antibody Product itself (directly or through its dealers or distributors) or may offer such product to third parties for [*] following such [*] period, provided that any terms agreed upon with third parties, considered as a whole, are not (unless offered to Pfizer for at least [*]) materially less favorable to Xoma than the terms contained in the License Agreement. If Xoma has not in good faith elected to market such Other Antibody Product or concluded an agreement with a third party within [*] of the filing of the IND application, Pfizer's option hereunder for such product shall be revived.

4.2 Other Septic Shock Products. For 15 years from the date hereof, prior to granting any rights to third parties during the term of this Agreement with respect to any Other Septic Shock Products or deciding itself to develop and market any Other Septic Shock Products, Xoma shall first offer such rights to Pfizer. Any such offer by Xoma to Pfizer shall include an identification of such Other
Septic Shock Product and initial pre-clinical test results (including some demonstration of activity, and preliminary toxicology) for review by Pfizer. If Pfizer and Xoma cannot negotiate an agreement within [*] of such offer, Xoma may develop and market such Other Septic Shock Product itself (directly or through its dealers or distributors) or may offer such product to third parties for [*] following such [*] period, provided that the terms offered third parties, considered as a whole, are not (unless offered to Pfizer for at least [*]) materially less favorable to Xoma than the terms offered by Pfizer. At the end of such [*], if no such agreement has been concluded and Xoma has not decided to proceed on its own, Pfizer's rights under this Section 4.2 regarding such Other Septic Shock Product shall be revived.

4.3 Comparable Other Antibody Products or Other Septic Shock Products. Notwithstanding the contrary any provisions of Section 4.1 or 4.2 hereof, Xoma shall not market itself or enter into any arrangement or contract with any third party granting rights to the marketing of any Other Antibody Product or Other Septic Shock Product for which under Section 4.1 Pfizer has declined to exercise its option thereunder or for which under Section 4.2 Pfizer and Xoma have not entered into any agreement contemplated therein, unless such Other Antibody Product or Other Septic Shock Product shall be substantially different from and materially clinically superior to (for a clinically relevant indication) any then existing Subject Product.

5. RESEARCH AND DEVELOPMENT

5.1 Xoma Development Efforts. Xoma shall use reasonable diligence to carry out the Development Plan for each Subject Product in accordance with each such Development Plan and within all agreed upon timetables therein. Any material change in any Development Plan shall be agreed to between Xoma and Pfizer. Xoma and Pfizer recognize that changes or modifications in each Development Plan (including estimated budgets) will, in all likelihood, be required, and each agrees to negotiate in good faith and in a reasonable manner to reach agreement for any such changes or modifications. Xoma shall be solely responsible for the conduct of all phases of each Development Plan, including but not limited to clinical trials specified therein; provided, however, Xoma agrees to consult in good faith with Pfizer and the Review Panel as provided in this Section 5 regarding each Development Plan.

5.2 Review Panel. The Review Panel (constituted as specified in Section 1.14) will meet with Xoma, and with Pfizer if requested by Pfizer, on a quarterly basis, or as may otherwise be agreed upon, to discuss and review each Development Plan, the progress and activities carried out thereunder, and any other scientific, medical, regulatory, or other matter which either Pfizer or Xoma deems advisable.

5.3 Funding of Development Costs. Pfizer agrees to reimburse Xoma for its Development Costs (determined in accordance with Exhibit A) for each Subject Product, provided Development Costs shall in no event be greater than the estimated Development Costs contained in the appropriate Development Plan as agreed upon between Xoma and Pfizer. Based on the estimated annual budgets in the Development Plan for each Subject Product, Pfizer shall make monthly payments, payable on the first day of each month, for estimated Development Costs to be incurred by Xoma for the ensuing month. Within 30 days after the end of each calendar quarter Xoma shall prepare and send to Pfizer (i) an invoice of actual Development Costs incurred by Xoma during the preceding calendar quarter and (ii) a reconciliation with the estimated monthly payments made by Pfizer during such quarter. In the event Pfizer's estimated payments for such quarter shall be greater than the actual invoiced amount, such overpayment shall be applied by Pfizer against subsequent monthly payments of estimated Development Costs due to Xoma or, at Pfizer's option, Xoma shall remit such overpayment to Pfizer. Development Costs for any quarter shall not be greater than Pfizer's estimated monthly payments for such quarter, subject to the first sentence of this Section 5.3, Pfizer shall make appropriate payment to Xoma within thirty (30) days of receipt of Xoma's invoice.

Pfizer shall pay all Development Costs (in accordance with the terms of this Agreement) incurred by Xoma (a) from January 1, 1987 through Product Approval with respect to the E5 Product, (b) from the date of IND filing through Product Approval with respect to other Subject Products, and (c) subsequent to Xoma's internal identification of the product through Product Approval with respect to any Accepted Septic Shock Product. With respect to Development Costs for the E5 Product incurred by Xoma prior to the date of this Agreement for which Pfizer is responsible as provided above, Pfizer will pay such Development Costs (as specified in Exhibit B) within 30 days of invoice by Xoma.

5.4 Disclosure of Technical Information. Xoma shall disclose to Pfizer within 30 days of the date of execution of this Agreement and thereafter on at least a quarterly basis all Technical Information on each Subject Product not previously
disclosed to Pfizer; provided, however, until such time as Pfizer's rights of termination under Section 6.1 hereof shall have lapsed, Xoma shall not be required to disclose to Pfizer any Technical Information regarding manufacturing of Subject Products. Nothing herein shall be deemed to require Xoma to disclose to Pfizer any Technical Information which Xoma is, in good faith, contractually prohibited from disclosing to third parties. All Technical Information disclosed to Pfizer shall be subject to the provisions of Section 8 hereof.

5.5 Audit of Development Costs. Xoma shall keep full and accurate books and records of its Development Costs and determination thereof. Xoma shall permit Pfizer, at Pfizer's expense, by independent certified public accountants employed by Pfizer solely for this purpose and reasonably acceptable to Xoma, to examine such books and records (as they relate to Development Costs) at any reasonable time, but not later than five (5) years following the invoice to Pfizer of such Development Costs. As a condition to such examination, the independent public accountant selected by Pfizer shall execute a written agreement, reasonably satisfactory in form and substance to Xoma, to maintain in confidence all information obtained during the course of any examination except for disclosure to Pfizer as necessary for the above purpose. The opinion of said independent accountants regarding any development costs shall be binding on the parties hereto.

5.6 Orphan Drug Designations. At Pfizer's expense, promptly after execution of this Agreement Xoma shall transfer to Pfizer all of Xoma's interests and rights to the FDA designation to the E5 Product as an "orphan drug" as evidenced by FDA's letter to Xoma dated November 4, 1985 (provided Pfizer prepares the requisite documents). Xoma shall execute such further notices or documents, as Pfizer may reasonably request and at Pfizer's expense, to effectuate the change in such designation (provided Pfizer prepares the requisite documents). In addition, should Xoma obtain in the future any other similar designation for any other Subject Products, Xoma will, likewise, transfer its rights thereto to Pfizer; provided, however, Xoma shall not be required to make any such transfer if Xoma itself shall then be in a position to directly and materially benefit from the tax credits available thereunder. In the event Pfizer's rights or licenses shall terminate hereunder or under the License Agreement (except in the event of termination by Pfizer for Xoma's breach of Section 2.01 of the License Agreement or as provided otherwise in the Security Agreement) regarding any Subject Product (or former Subject Product) for which Pfizer holds any such orphan drug or similar designation, Pfizer will, at its expense, promptly transfer to Xoma the rights to such designation transferred to Pfizer.

6. PFIZER PAYMENTS

6.1 Initial Payment. In addition to any other payments provided for herein, within ten (10) days hereof, Pfizer shall pay Xoma [*] of which [*] shall be in consideration of the patent rights for the E5 Product granted to Pfizer under the License Agreement and [*] shall be in consideration of the granting to Pfizer of the option under Section 4.1 hereof to acquire a license to patent rights regarding the Other Antibody Products. If the two-week IV toxicity study of the E5 Product in monkeys (study no. 81611-T11) (a) is not completed within nine months after the date hereof pursuant to the protocol herefore agreed upon with Pfizer, or (b) is completed pursuant to such protocol with results not satisfactory to Pfizer (as it may reasonably determine in good faith), or (c) for any reason shall not have commenced by September 30, 1987, then in any such event Pfizer shall have the right, by notice given within 30 days thereof, to demand return by Xoma of said [*] and this Agreement, the License Agreement, the Supply Agreement and all other agreements contemplated herein or therein shall terminate. If Xoma agrees that the results of such study are not satisfactory (as it may reasonably determine in good faith), Pfizer may, as it may elect, alternatively demand the return of [*], and Xoma shall promptly return to Pfizer said [*] and this Agreement, the License Agreement, the Supply Agreement and all other agreements contemplated herein or therein shall continue in effect with the E5 Product eliminated as a Subject Product hereunder and as a "Product" under the License Agreement. In that event, the first Other Antibody Product for which Pfizer exercises its option under Section 4.1 shall be treated as the initial Subject Product for purposes of Section 6.2 (with changes in Section 6.2 to reflect proper protocol numbers).

6.2 Milestone Payments. In further consideration for Xoma's timely research and development efforts hereunder, Pfizer shall pay Xoma the following amounts within 30 days of completion of the applicable events with respect to the initial Subject Product:

(a) [*] - Upon completion (according to protocol no. 81612-P2B) prior to
of first 100 evaluable patients (which fulfill statistical criteria for protocol evaluation) with confirmed Gram Negative Sepsis; provided, (i) the report thereof shall include efficacy and safety analysis by blinded group (to be unblinded at Pfizer's option) with analyses of adverse drug experiences, biochemical and hematological parameters, and analysis and listing of all deaths (together with copies of all reports to FDA -- FD 1639 or substitute form), and (ii) such report is received by Pfizer on or before [*];

(b) [*] - Upon completion of Phase II trial according to protocol no. 81612-P2B and receipt by Pfizer of the complete final report thereon on or before [*];

(c) [*] - Upon PLA Submission to FDA on or before [*]; or [*] - upon PLA Submission after [*] and on or before [*];

(d) [*] - Upon Product Approval on or before [*]; or [*] - upon Product Approval after [*] but on or before [*]; or [*] - upon Product Approval after [*] but on or before [*]; or [*] - upon Product Approval after [*] and on or before [*].

It is understood that the provisions of Section 12.1 hereof shall not apply to this Section 6.2.

7. REGULATORY MATTERS

7.1 Compliance. Xoma agrees that its conduct in performing its obligations under this Agreement shall conform in all material respects to all applicable laws and regulations of the U.S. and foreign governments (and political subdivisions thereof).

8. PROPRIETARY RIGHTS AND CONFIDENTIAL INFORMATION

8.1 Proprietary Rights. Except as expressly provided to the contrary herein, in the License Agreement or the Security Agreement, all proprietary rights, title, and interest with respect to E5 Products, Other Antibody Products, Other Septic Shock Products, Subject Products, Accepted Septic Products, Patents and Technical Information shall be and remain solely in Xoma.

8.2 Confidential Information. Pfizer and its Affiliates shall keep confidential and not use, except as provided herein, in the License Agreement, Supply Agreement or as contemplated in the Security Agreement, all Technical Information supplied in writing (or if orally, as confirmed in writing) by Xoma during the term of this Agreement and for ten (10) years after termination or expiration hereof; provided, however, that the foregoing obligations of confidentiality and non-use shall not apply to the extent that any Technical Information is demonstrated by written records to be (a) already known to Pfizer or its Affiliates at the time of disclosure hereunder or is hereafter developed by Pfizer or its Affiliates in the course of work entirely independent of any disclosure hereunder; or (b) publicly known prior to or after disclosure hereunder other than through acts or omissions of Pfizer or its Affiliates; or (c) disclosed in good faith to Pfizer or its Affiliates under a reasonable claim of right of which Pfizer is not aware of any dispute; or (d) disclosed to third parties by Pfizer under a secrecy agreement with essentially the same confidentiality provisions provided herein in connection with the exercise of its rights under the License Agreement (to the extent permitted therein) or the Supply Agreement. In addition, disclosure may be made (i) to governmental agencies to the extent required or desirable to secure governmental approval for marketing of any Subject Product and (ii) to pre-clinical and clinical investigators where necessary or desirable for their information to the extent normal and usual in the custom of the trade and under a secrecy agreement with essentially the same confidentiality provisions contained herein. All Technical Information heretofore disclosed in writing by Xoma shall be deemed to have been disclosed under this Agreement and shall be subject to the provisions of this Section 8.2.

9. INDEMNIFICATION

9.1 Each party (the "Indemnifying Party") will indemnify the other (the "Indemnified Party") from damages, settlements, costs, legal fees and other expenses incurred in connection with a claim against the Indemnified Party based on any action or omission (including, without limitation, resulting from clinical trials) of the Indemnifying Party or its agents or employees related to the obligations of the Indemnifying Party under this Agreement, provided,
however, that the foregoing shall not apply (i) if the claim is found to be based upon the negligence, recklessness or willful action or inaction of the Indemnified Party, or (ii) if the Indemnified Party fails to give the Indemnifying Party prompt notice of any claim it receives and such failure materially prejudices the Indemnifying Party, or (iii) solely to the extent of indemnification for legal fees and disbursements of counsel of the Indemnified Party, unless the Indemnifying Party is given the opportunity to control defense of such action, or (iv) unless the Indemnifying Party is given the opportunity to approve any settlement, which approval shall not be unreasonably withheld; and provided further that, except in the event of a material conflict of interest, the Indemnifying Party shall not be liable for attorney's fees of the Indemnified Party after assuming control of the defense or settlement.

10. TERM AND TERMINATION

10.1 Term. This Agreement shall be effective as of the date first set forth above and shall remain in effect until termination or expiration of the License Agreement or other earlier termination pursuant to Sections 6.1, 10.2 or 10.3 hereof.

10.2 Termination in Part.

(a) Pfizer shall have the right, upon ninety (90) days' prior notice to Xoma, at any time and from time to time, without cause and at Pfizer's sole discretion, to terminate this Agreement with respect to any Subject Product in which case such Subject Product shall be automatically deleted as a "Product" under the License Agreement and shall no longer be a Subject Product hereunder.

(b) Upon any partial termination under Section 10.2(a), Pfizer shall only be responsible for Development Costs incurred by Xoma with respect to such Subject Product during the ninety (90) day period following the date of notice of termination as well as reasonable termination costs incurred by Xoma thereafter (including reasonable severance payments and reasonable buy-outs of preexisting contracts reasonably entered into); provided, however, Xoma shall use best efforts to mitigate and control such termination costs.

(c) In the event of partial termination of this Agreement under Section 10.2 with respect to any Subject Product, Pfizer will have no rights and Xoma will have no obligations with respect thereto under this Agreement, the License Agreement, or the Supply Agreement (except for obligations under Sections 8.2 and 9.1 hereof), and Pfizer will immediately return to Xoma all Technical Information relating thereto.

10.3 Termination in Full.

(a) This Agreement shall terminate in full as provided in Section 6.1 hereof.

(b) At any time, upon ninety (90) days' prior notice to Xoma, Pfizer shall have the right, without cause at Pfizer's sole discretion, to terminate in full this Agreement, whereupon this Agreement together with the License Agreement and Supply Agreement shall terminate ninety (90) days after the date of such notice.

(c) If either Pfizer or Xoma materially breaches or defaults in the performance or observance of any of the provisions of this Agreement and such breach or default is not cured within ninety (90) days or, in the case of failure to pay any amounts due hereunder, sixty (60) days after the giving of notice by the other party specifying such breach or default, the other party shall have the right to terminate this Agreement in full upon a further thirty (30) days' notice.

(d) Upon any termination under Section 10.3(b) hereof or Section 9.02 of the License Agreement, Pfizer shall be responsible for all Development Costs incurred by Xoma with respect to Subject Products during the ninety (90) day period following the date of notice of termination as well as reasonable termination costs incurred by Xoma thereafter (including reasonable severance payments and reasonable buy-outs of preexisting contracts reasonably entered into); provided, however, Xoma shall use best efforts to mitigate and control such termination costs.

(e) In the event of termination in full of this Agreement under Sections 6.1 or 10.3 hereof, subject to Section 9.05 of the License Agreement Pfizer will have no rights and Xoma will have no further obligations under this Agreement, the License Agreement, or the Supply Agreement (except for obligations under Section 8.2 and 9.1 hereof or under the Security Agreement), and Pfizer will
immediately return to Xoma all Technical Information.

10.4 Effects of Termination. Termination of this Agreement for any reason shall be without prejudice to:

(a) The rights and obligations of the parties provided in Sections 8.2 and 9.1 hereof;

(b) Xoma's right to receive all payments accrued under Sections 5.3 and 6.2 hereof prior to the effective date of such termination; and

(c) Any other remedies which either party may otherwise have.

11. SECURITY AGREEMENT

Certain of Xoma's obligations under this Agreement are secured pursuant to the terms of a Security Agreement, dated the date hereof, between Xoma and Pfizer, and reference is made to said Security Agreement for a description of the terms thereof. Notwithstanding to the contrary any provision of this Agreement, nothing herein shall be deemed to restrict, limit, modify or alter any of Pfizer's rights under the Security Agreement or derived upon or resulting from the exercise of any rights or interests thereunder.

12. MISCELLANEOUS

12.1 Force Majeure. No party shall be liable for failure of or delay in performing obligations set forth in this Agreement, and no party shall be deemed in breach of its obligations, if such failure or delay is due to natural disasters or any causes reasonably beyond the control of such party.

12.2 Assignment. This Agreement may not be assigned by either party without the prior consent of the other party; provided, however, (a) either party may assign this Agreement to any entity which acquires substantially all of its assets and business, and (b) Pfizer may assign this Agreement, in whole or in part, to any Affiliate of Pfizer.

12.3 Xoma Status. For the purpose of carrying out this Agreement Xoma shall act as an independent contractor and not as partner, joint venturer, or agent and shall not bind nor attempt to bind Pfizer to any contract.

12.4 Notices. Any notice, consent or approval required under this Agreement shall be in writing sent by registered certified airmail, postage prepaid, or by telex or cable (confirmed by such registered or certified mail) and addressed as follows:

If to Pfizer: If to Xoma:
Pfizer Inc. Xoma Corporation
235 East 42nd Street 2910 Seventh Street
New York, New York 10017 Berkeley, California 94710
Telex: 420440 Telex: 856-697
Attention: General Counsel Attention: Chairman

All notices shall be deemed to be effective on the date of mailing. In case any party changes its address at which notice is to be received, written notice of such change shall be given without delay to the other party.

12.5 Entire Agreement. This Agreement together with the License Agreement, Supply Agreement and Security Agreement (as well as any other documents referred to herein or therein) set forth the entire agreement and understanding among the parties hereto as to the subject matter hereof and has priority over all documents, verbal consents or understandings made between Pfizer and Xoma before the conclusion of this Agreement with respect to the subject matter hereof; none of the terms of this Agreement shall be amended or modified except in writing signed by the parties hereto.

12.6 Waivers. A waiver by any party of any term or condition of this Agreement in any one instance shall not be deemed or construed to be a waiver of such term or condition for any similar instance in the future or of any subsequent breach hereof.

12.7 Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to the
conflicts of laws provisions thereof. The exclusive jurisdiction and venue of any action with respect to this Agreement shall be the Superior Court of California for the County of Alameda or the United States District Court for the Northern District of California and each of the parties hereto submits itself to the exclusive jurisdiction and venue of such courts for the purpose of any such action. Service of process in any such action may be effected in the manner provided in Section 12.4 for delivery of notices. The prevailing party in any legal action to enforce or interpret this Agreement shall be entitled to reasonable costs and attorney's fees.

12.8 Remedies. The rights and remedies of a party set forth herein with respect to failure of the other to comply with the terms of this Agreement (including, without limitation, rights of full or partial termination of this Agreement) are not exclusive, the exercise thereof shall not constitute an election of remedies and the aggrieved party shall in all events be entitled to seek whatever additional remedies may be available in law or in equity.

12.9 Headings. Headings in this Agreement are included herein for ease of reference only and shall have no legal effect.

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

XOMA CORPORATION
By /s/ Steven C. Mendell
Chairman/ CEO

PFIZER INC.
By /s/ William C. Steere
Vice President

EXHIBIT A
DEVELOPMENT COSTS

EXHIBIT A
DEVELOPMENT COSTS

A. Direct Research Expense

Expenses for Subject Products specifically identifiable to a development task. These expenses include:

1. Direct Labor Salaries and Benefits - Compensation cost per hour for actual hours worked on approved Pfizer projects (supported by time cards.) Examples include:
   - Clinical Research Associates
   - Technical Writers
   - Data Entry
   - Research Scientists (e.g. Toxicologist, Pathologist)
   - Regulatory Affairs (e.g. Protocol Writing, Validation, Clinical Auditing, PDA Meetings)

2. Clinical Grants - Hospital expenses for approved studies paid to investigators. (Supported by approved agreements and expense reimbursements.)

3. Outside Laboratory Testing for approved Pfizer projects (supported by contracts and invoices). Examples include:
   - 14 day Primate study
   - Primate retreatment study

4. Drug Expenses - Actual cost (as defined in Exhibit I of Supply Agreement) of drug distributed to investigators for use in studies.

5. Scientific Consultants - payments for time and expenses for work done on approved Pfizer projects (supported by invoices). Examples include:
   - Research Grants
   - Outside Analytical Support

6. Scientific Panels - payments for time and expenses for work on approved Pfizer projects (supported by invoices). Examples include:
   - Infectious Disease Panel
Advisory Panel

7. Other Direct Expenses - directly identifiable to an approved task (supported by invoices or receipts). Examples include:

- Travel and Entertainment
- Supplies, printing and duplicating
- Testing
- Postage, freight
- Routine patent maintenance fees and routine ordinary expenses for outside professional services for preparation of filing of patent applications (uncontested) reasonably allocated to Subject Products.

EXHIBIT A
DEVELOPMENT COSTS
PAGE -2-

B. Indirect Research Expenses

Costs incurred in the support of direct research activities for Subject Products but which are not directly identifiable to development tasks. These costs include:

1. Indirect Labor Salaries and Benefits - Compensation cost for supervisors, managers, clerks and secretaries in support of direct labor. Charges should be supported by time cards or allocated in the same ratio as direct labor for such department or group. Examples include:
   - Clinical Research Department Manager
   - Clinical Research Asst Manager
   - Business Manager
   - Project Manager
   - Secretarial and Clerical support

2. Scientific Consultants - payments for time and expenses based on a mutually agreeable per cent of charges (supported by invoices and expense reimbursements).

3. Facilities - Equipment Rental, Depreciation, Utilities, Security and Maintenance costs. Charges to Pfizer projects will be allocated in the same ratio as Direct Labor Hours by department. Machinery or Equipment purchases over $250,000 are subject to Pfizer approval.

4. Other Indirect Costs - Other expenses in support of Direct Research activities to be allocated in the same ratio as Direct Labor. Examples include:
   - Research materials
   - Supplies
   - Services
   - Assay Validation

5. Product Liability Insurance - Allocated as a per cent of the total number of patients being treated with drug (supported by invoices and patient count).

EXHIBIT B
E5 DEVELOPMENT PLAN

"CLINICAL DEVELOPMENT PLAN
XOMA E5 ANTIENDOTOXIN MURINE MONOCLONAL ANTIBODY"

INTRODUCTION

Gram-negative sepsis has become a major cause of morbidity and mortality in the United States during the last 30 years. Current incidence in the U.S. is estimated at approximately 200,000 cases per year with a mortality of 20-50%. Clinical studies over the last decade have shown that new developments in
antimicrobial therapy have done little to change mortality. The ability to specifically neutralize endotoxin with XOMA's E5 antiendotoxin antibody represents the first major therapeutic advance since the introduction of antibiotics in the 1940's and holds new promise for significant reduction in mortality and morbidity in gram-negative infection.

I. Overall Development Objectives:
- Generate adequate data for a PLA for FDA approval.
- [*]
- [*]
- [*]
- [*]
- [*]

II. Tabular Summary of Clinical Studies

<table>
<thead>
<tr>
<th>Study No.</th>
<th>Phase</th>
<th>Site</th>
<th>Objective</th>
<th>1987</th>
<th>1988</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>S</td>
<td>&lt;C&gt;</td>
<td>&lt;C&gt;</td>
<td>&lt;C&gt;</td>
<td>&lt;C&gt;</td>
<td>&lt;C&gt;</td>
</tr>
<tr>
<td>81612-P1A</td>
<td>I</td>
<td>St. Louis Univ.</td>
<td>Safety &amp; Pharmaco-kinetics</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>81612-P2A</td>
<td>II</td>
<td>St. Louis Univ.</td>
<td>Safety &amp; Efficacy</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>81612-P2B</td>
<td>II/III</td>
<td>Multicenter</td>
<td>Safety &amp; Efficacy</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>A</td>
<td>II/III</td>
<td>Multicenter</td>
<td>Safety &amp; Efficacy</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>B</td>
<td>II/III</td>
<td>Multicenter</td>
<td>Safety &amp; Efficacy</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>C</td>
<td>I/II</td>
<td>Multicenter</td>
<td>Safety &amp; Pharmaco-dynamics</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>D</td>
<td>I/II</td>
<td>Multicenter</td>
<td>Safety &amp; Pharmaco-dynamics</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>E</td>
<td>II/III</td>
<td>Multicenter</td>
<td>Safety &amp; Efficacy</td>
<td>[*]</td>
<td>[*]</td>
</tr>
</tbody>
</table>

*Completed study funded by XOMA

III. Individual 1987 Study Descriptions

<table>
<thead>
<tr>
<th>Study Number and Name:</th>
<th>81612-P1A: [*]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Design:</td>
<td>[*]</td>
</tr>
<tr>
<td>Objective:</td>
<td>[*]</td>
</tr>
<tr>
<td>Rationale:</td>
<td>[*]</td>
</tr>
<tr>
<td>Number of Patients:</td>
<td>[*]</td>
</tr>
<tr>
<td>Dosages:</td>
<td>[*]</td>
</tr>
<tr>
<td>Conclusions:</td>
<td>[*]</td>
</tr>
<tr>
<td>Estimated Completion:</td>
<td>[*]</td>
</tr>
</tbody>
</table>
Study Number and Name:  81612-P2A: [*]
Design:                 [*]
Objective:              [*]
Rationale:              [*]
Number of Patients:     [*]
Number of Centers:      [*]
Dosage:                 [*]
Patient Accrual Rate:   [*]
Estimated Start:        [*]
Estimated Completion:   [*]

4

Study Number and Name:  81612-P2B: [*]
Design:                 [*]
Objective:              [*]
Rationale:              [*]
Number of Patients:     [*]
Number of Centers:      [*]
Number of Centers to be Added: [*]
Patient Accrual Rate:   [*]
Statistical Plan:       [*]
Dosages:                [*]
Estimated Start:        [*]
Estimated Completion:   [*]

5

Study Number and Name:  Study A: [*]
Design:                 [*]
Objective:              [*]
Rationale:              [*]
Number of Centers Planned: [*]
Patient Accrual Rate:   [*]
Number of Patients:     [*]
Dosage:                 [*]
Estimated start:        [*]
Estimated Completion:   [*]

6

Study Number and Name:  Study B: [*]
Design:                 [*]
Number of Centers: [*]
Patient Accrual Rate: [*]
Estimated Start: [*]
Estimated Completion: [*]

<table>
<thead>
<tr>
<th></th>
<th>1987</th>
<th>1988</th>
<th>1989</th>
</tr>
</thead>
<tbody>
<tr>
<td>PRECLINICAL</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Toxicology</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>Phase I</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>Phase II</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>Multicenter</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>CLINICAL</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>B</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>C</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>D</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>E</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>1987</th>
<th>1988</th>
<th>1989</th>
</tr>
</thead>
<tbody>
<tr>
<td>PROCESS DEVELOPMENT</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Labor</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>Services</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>Supplies</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>Travel</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>TOTAL</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>1987</th>
<th>1988</th>
<th>1989</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL DIRECT EXPS</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
</tbody>
</table>

Direct expenses will be billed to Pfizer as the lesser of actual Costs or the following maximums. Status against these maximums will be provided in the quarterly reconciliations.

<table>
<thead>
<tr>
<th></th>
<th>1987</th>
<th>1988</th>
<th>1989</th>
</tr>
</thead>
<tbody>
<tr>
<td>INDIRECT/G&amp;A OVERHEAD</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Labor</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>Services</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>Supplies</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>Travel</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>TOTAL</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
</tbody>
</table>

Indirect/G&A overhead expenses will be billed to Pfizer as the lesser of actual cost or the following annual maximum. Status at these maximums will be provided.
in the quarterly reconciliation

```
<table>
<thead>
<tr>
<th></th>
<th>1987</th>
<th>1988</th>
<th>1989</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clinical Research</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>Consulting</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>Indirect Labor/Dept Exps</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>Regulatory Affairs</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>Product Liability</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>Total</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>Preclinical Research</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>Second Generation</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>Supplies/Travel</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>Facilities</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>Total</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>Total Indirect/G&amp;A</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
</tbody>
</table>
```

```
<table>
<thead>
<tr>
<th></th>
<th>1987</th>
<th>1988</th>
<th>1989</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clinical</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>Preclinical</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>Process Dev</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
</tbody>
</table>
```

```
<table>
<thead>
<tr>
<th></th>
<th>1987</th>
<th>1988</th>
<th>1989</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>1987</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preclinical</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Labor</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Services</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supplies</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Travel</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Direct Expense</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indirect R&amp;D Expense</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>G &amp; A Overhead</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Preclinical</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Process Development</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Labor</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Services</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supplies</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Travel</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Direct Expense</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indirect R&amp;D Expense</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>G &amp; A Overhead</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Process Development</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clinical Research</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Labor</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Services</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supplies</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Travel/Legal</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Patent/Regulatory</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Direct Expense</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indirect R&amp;D Expense</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
```
### TOTAL PROCESS DEVELOPMENT

<table>
<thead>
<tr>
<th></th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>G &amp; A Overhead</strong></td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td><strong>TOTAL CLINICAL RESEARCH</strong></td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td><strong>TOTAL PROJECT</strong></td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
</tbody>
</table>

</TABLE>

### TOTAL PRECLINICAL

<table>
<thead>
<tr>
<th></th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>G &amp; A Overhead</strong></td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td><strong>Indirect R&amp;D Expense</strong></td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td><strong>Total Direct Expense</strong></td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td><strong>Indirect R&amp;D Expense</strong></td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td><strong>G &amp; A Overhead</strong></td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td><strong>TOTAL PRECLINICAL</strong></td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
</tbody>
</table>

### Process Development

<table>
<thead>
<tr>
<th></th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Labor</strong></td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td><strong>Services</strong></td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td><strong>Supplies</strong></td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td><strong>Travel</strong></td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td><strong>Total Direct Expense</strong></td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td><strong>Indirect R&amp;D Expense</strong></td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td><strong>G &amp; A Overhead</strong></td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td><strong>TOTAL PROCESS DEVELOPMENT</strong></td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
</tbody>
</table>

### Clinical Research

<table>
<thead>
<tr>
<th></th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Labor</strong></td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td><strong>Services</strong></td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td><strong>Supplies</strong></td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td><strong>Travel</strong></td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td><strong>Patent/Legal</strong></td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td><strong>Total Direct Expense</strong></td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td><strong>Indirect R&amp;D Expense</strong></td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td><strong>G &amp; A Overhead</strong></td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td><strong>TOTAL CLINICAL RESEARCH</strong></td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td><strong>TOTAL PROJECT</strong></td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
</tbody>
</table>

### TOTAL PROJECT

<table>
<thead>
<tr>
<th></th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>G &amp; A Overhead</strong></td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td><strong>Indirect R&amp;D Expense</strong></td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td><strong>Total Direct Expense</strong></td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td><strong>Indirect R&amp;D Expense</strong></td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td><strong>G &amp; A Overhead</strong></td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td><strong>TOTAL PROCESS DEVELOPMENT</strong></td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
</tbody>
</table>
### <TABLE>

**CONFIDENTIAL**
**XOMA CORPORATION**
**E5 BUDGET 1987**
**TOTAL COSTS BY BENCHMARK (000'S) 4/20/87**

#### Preclinical
<table>
<thead>
<tr>
<th>Labor</th>
<th>[*]</th>
<th>[*]</th>
<th>[*]</th>
<th>[*]</th>
<th>[*]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Services</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>Supplies</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>Travel</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>Patent/Legal</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td><strong>Total Direct Expense</strong></td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td><strong>Indirect R&amp;D Expense</strong></td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td><strong>G &amp; A Overhead</strong></td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td><strong>TOTAL CLINICAL RESEARCH</strong></td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
</tbody>
</table>

#### Process Development
<table>
<thead>
<tr>
<th>Labor</th>
<th>[*]</th>
<th>[*]</th>
<th>[*]</th>
<th>[*]</th>
<th>[*]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Services</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>Supplies</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>Travel</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td><strong>Total Direct Expense</strong></td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td><strong>Indirect R&amp;D Expense</strong></td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td><strong>G &amp; A Overhead</strong></td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td><strong>TOTAL PROCESS DEVELOPMENT</strong></td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
</tbody>
</table>

#### Clinical Research
<table>
<thead>
<tr>
<th>Labor</th>
<th>[*]</th>
<th>[*]</th>
<th>[*]</th>
<th>[*]</th>
<th>[*]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Services</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>Supplies</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>Travel</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>Patent/Legal</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td><strong>Total Direct Expense</strong></td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td><strong>Indirect R&amp;D Expense</strong></td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td><strong>G &amp; A Overhead</strong></td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td><strong>TOTAL CLINICAL RESEARCH</strong></td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
</tbody>
</table>

**TOTAL PROJECT** | [*] | [*] | [*] | [*] | [*] |
### Clinical Research

<table>
<thead>
<tr>
<th>Description</th>
<th>Labor</th>
<th>Services</th>
<th>Supplies</th>
<th>Travel</th>
<th>Total Direct Expense</th>
<th>Indirect R&amp;D Expense</th>
<th>G &amp; A Overhead</th>
<th>TOTAL PROCESS DEVELOPMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
</tbody>
</table>

### Total Direct Expense

| Description         | [*]   | [*]      | [*]      | [*]    | [*]                  | [*]                  | [*]            | [*]                        |

### Indirect R&D Expense

| Description         | [*]   | [*]      | [*]      | [*]    | [*]                  | [*]                  | [*]            | [*]                        |

### G & A Overhead

| Description         | [*]   | [*]      | [*]      | [*]    | [*]                  | [*]                  | [*]            | [*]                        |

### Total Clinical Research

| Description         | [*]   | [*]      | [*]      | [*]    | [*]                  | [*]                  | [*]            | [*]                        |

### TOTAL PROJECT

| Description         | [*]   | [*]      | [*]      | [*]    | [*]                  | [*]                  | [*]            | [*]                        |

---

### CONFIDENTIAL

**XOMA CORPORATION**

**E5 BUDGET 1989**

**TOTAL COSTS BY BENCHMARK**

(000's)

**4/20/87**

---

### Clinical Research: Detail

<table>
<thead>
<tr>
<th>Description</th>
<th>Labor -</th>
<th>Services -</th>
<th>Supplies -</th>
<th>Travel -</th>
<th>Total Direct Expense</th>
<th>Indirect R&amp;D Expense</th>
<th>G &amp; A Overhead</th>
<th>TOTAL PRECLINICAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Protocol Writer</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>Data Input</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
</tbody>
</table>

### TOTAL PROJECT

| Description         | [*]   | [*]      | [*]      | [*]    | [*]                  | [*]                  | [*]            | [*]                        |

---

### CONFIDENTIAL

**XOMA CORPORATION**

**1987 BACK-UP BUDGET DETAIL**

(000's)

**4/20/87**

---

### Clinical Research Detail: St. Louis Study

- Multi Center Study [*]
- Multicenter Study [*]
- Sites/CRA [*]
- CRA's Needed [*]
- Salary [*]
- Fringes [*]
- Protocol Writer [*]
- Data Input [*]

### Total Labor

| Description         | [*]   | [*]      | [*]      | [*]    | [*]                  | [*]                  | [*]            | [*]                        |

### Assay Validation, Documentation

- Salary [*]
- Fringes [*]
## Services - St. Louis Study

<table>
<thead>
<tr>
<th>Services</th>
<th>Pharmacy</th>
<th>Labs</th>
<th>E</th>
<th>[ ]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multicenter Study</td>
<td>Business Agreements</td>
<td>Endotoxin Levels</td>
<td>Anti-Murine Levels</td>
<td>Compliment Levels</td>
</tr>
<tr>
<td>Evaluable</td>
<td>Non-Evaluable</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Multicenter Equivalency Study | Patients | [ ] | [ ] |

</TABLE>

---

**CONFIDENTIAL**

**XOMA CORPORATION**

**1987 BACK-UP BUDGET DETAIL**

**(000's)**

**4/20/87**

---

### Advisory Panel - [ ] Individuals x [ ] Meetings = [ ]

<table>
<thead>
<tr>
<th>Meeting Equiv.</th>
<th>[ ]</th>
</tr>
</thead>
<tbody>
<tr>
<td>[ ] Travel, Etc/Meeting</td>
<td>[ ] Compensation Meeting</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>E5 Time Spent</th>
<th>[ ]</th>
</tr>
</thead>
</table>

- R. Greenberg Consulting
- L. Young Endotoxin Binding
- Infectious Disease Panel

<table>
<thead>
<tr>
<th>[ ] Total Services</th>
</tr>
</thead>
</table>

### Supplies

| Drug Expenses - St. Louis | [ ] |

- Multicenter Efficacy
  - QTR 1 | [ ]
  - QTR 2 | [ ]
  - QTR 3 | [ ]
  - QTR 4 | [ ]

<table>
<thead>
<tr>
<th>Multicenter Equiv.</th>
</tr>
</thead>
</table>

### Total Supplies

| [ ] |

### Travel - Clinical Research Budget

<table>
<thead>
<tr>
<th>Budget</th>
<th>E5%</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Septic Shock Travel by CRA's</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
<tr>
<td>Dept. Mgr. Travel</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
<tr>
<td>L. Rosendorf Travel</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total Travel</th>
</tr>
</thead>
</table>

### Patent/Legal Fees

| [ ] |

</TABLE>
### Indirect R&D Expense

<table>
<thead>
<tr>
<th></th>
<th>L. Young Consulting</th>
<th>L. Young Contract Grant</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Clinical Research Budget:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>[*]</td>
<td></td>
</tr>
<tr>
<td><strong>Total R&amp;D Expense</strong></td>
<td>[*]</td>
<td></td>
</tr>
</tbody>
</table>

**G & A Overhead**

**Product Liability Insurance:**

- U.S. Premiums: [*]

#### Patients/Quarter

<table>
<thead>
<tr>
<th>Patients/Quarter</th>
<th>1st</th>
<th>2nd</th>
<th>3rd</th>
<th>4th</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>E5</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>Other Septic Shock</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>Total</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>%E5</td>
<td>[*]</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Premium Costs**

- [*]  | [*] |     |     |     |       | [*]  |

**Total G & A Overhead**

- [*]  | [*] |     |     |     |       | [*]  |

**Total Clinical Research**

- [*]  | [*] |     |     |     |       | [*]  |

---

**CONFIDENTIAL**

**XOMA CORPORATION**

**1987 BACK-UP BUDGET DETAIL**

**(000'S)**

**4/20/87**

[*]:

| Labor: Estimate of time required to accomplish toxicology studies and assay development. |
| % Time on E5 Milestones |

[*]:

<table>
<thead>
<tr>
<th>Labor:</th>
<th>Tech Development</th>
<th>[*]</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Process Development</td>
<td>[*]</td>
</tr>
<tr>
<td></td>
<td>Analytical Biochemistry</td>
<td>[*]</td>
</tr>
<tr>
<td></td>
<td>In-Vitro</td>
<td>[*]</td>
</tr>
<tr>
<td></td>
<td>Pilot Plant</td>
<td>[*]</td>
</tr>
</tbody>
</table>

**Indirect:**

- Supplies, Travel: [*]
- Facilities: [*]

**Total Process Development**: [*]
### Clinical Research Detail:

<table>
<thead>
<tr>
<th>Services</th>
<th>Evaluable</th>
<th>Non-Evaluable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor - Multicenter Equivalency</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
<tr>
<td>Documented Sepsis [ ]</td>
<td>[ ]</td>
<td></td>
</tr>
<tr>
<td>Neutropenic [ ]</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
<tr>
<td>Extended Administration [ ]</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
<tr>
<td>Sites/CRA [ ]</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
<tr>
<td>CRA's Needed [ ]</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
<tr>
<td>Protocol Writer/Data Input [ ]</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
<tr>
<td>Assay Validation [ ]</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
<tr>
<td>Total Labor [ ]</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
</tbody>
</table>

### Supplies:

<table>
<thead>
<tr>
<th>Drug Expenses</th>
<th>QTR 1 [ ]</th>
<th>QTR 2 [ ]</th>
<th>QTR 3 [ ]</th>
<th>QTR 4 [ ]</th>
<th>[ ]</th>
</tr>
</thead>
</table>

### Travel:

| [ ] |

### Legal/Patent:

| [ ] |

### Indirect R&D Expenses:

<table>
<thead>
<tr>
<th>L. Young Consulting &amp; Contract [ ]</th>
<th>Clinical Research Budget [ ]</th>
<th>Business Mgr. x [*] E5 Portion [ ]</th>
<th>Project Mgr. &amp; Support x [*] E5 Portion [ ]</th>
<th>Patent Control, Etc. [ ]</th>
<th>Assay Validation Overhead [ ]</th>
<th>Regulatory Affairs x [*] [ ]</th>
</tr>
</thead>
</table>

### G & A Overhead:

<table>
<thead>
<tr>
<th>Liability Insurance:</th>
<th>[ ]</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Premiums [ ]</td>
<td>[ ]</td>
</tr>
</tbody>
</table>

### Patients/Quarter:

<table>
<thead>
<tr>
<th>Patients/Quarter</th>
<th>1st</th>
<th>2nd</th>
<th>3rd</th>
<th>4th</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>E5</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
<tr>
<td>Other Septic Shock</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
<tr>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
</tbody>
</table>

| Total E5%        | [ ] | [ ] |

### Premium Costs:

| E5%                | [ ] |

### Total:

<table>
<thead>
<tr>
<th>Total G &amp; A Overhead</th>
<th>[ ]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Clinical Research</td>
<td>[ ]</td>
</tr>
</tbody>
</table>
### Process Development Detail:

<table>
<thead>
<tr>
<th>Labor:</th>
<th>[*]</th>
<th>[*]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supplies:</td>
<td>[*]</td>
<td></td>
</tr>
<tr>
<td>Travel:</td>
<td>[*]</td>
<td></td>
</tr>
<tr>
<td>Indirect R &amp; D Expense:</td>
<td>Facilities: [*]</td>
<td>[*]</td>
</tr>
<tr>
<td></td>
<td>Dept. Overhead: [*]</td>
<td>[*]</td>
</tr>
<tr>
<td>Total Process Development</td>
<td>[*]</td>
<td></td>
</tr>
</tbody>
</table>

### Preclinical Detail:

<table>
<thead>
<tr>
<th>Labor: Finalize assays and primate retreatment work.</th>
<th>Toxicology/Assay: [*]</th>
<th>[*]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Services: Consultants</td>
<td>[*]</td>
<td></td>
</tr>
<tr>
<td>Indirect R &amp; D Expense:</td>
<td>Second Generation: [*]</td>
<td>[*]</td>
</tr>
<tr>
<td></td>
<td>Toxicology/Assay Supplies, etc.: [*]</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Toxicology/Assay Facilities: [*]</td>
<td></td>
</tr>
<tr>
<td>Total Preclinical:</td>
<td>[*]</td>
<td></td>
</tr>
</tbody>
</table>

### Clinical Research Detail:

<table>
<thead>
<tr>
<th>Labor</th>
<th>[*]</th>
<th>[*]</th>
</tr>
</thead>
<tbody>
<tr>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>Sites/CRA</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>CRA's Needed: [*]</td>
<td>[*]</td>
<td></td>
</tr>
<tr>
<td>Data Input: [*]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Labor: [*]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Services: Evaluable</td>
<td>Non-Evaluable</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
<td></td>
</tr>
<tr>
<td>Supplies: Drug Expenses: [*]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Travel: CRA: [*]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indirect Research Expenses:</td>
<td>Clinical Research Budget: [*]</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Regulatory Affairs/Proj. Mgr./Etc.: [*]</td>
<td></td>
</tr>
</tbody>
</table>
G & A Overhead:

<table>
<thead>
<tr>
<th>Liability Insurance</th>
<th>[*]w/Drug</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Clinical Research</td>
<td>[*]</td>
</tr>
</tbody>
</table>

</TABLE>

XOMA CORPORATION

1987 Preclinical Development Plan - E5
April 20, 1987

[*]

<table>
<thead>
<tr>
<th>Labor</th>
</tr>
</thead>
<tbody>
<tr>
<td>[*]</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Services &amp; Overhead</th>
</tr>
</thead>
<tbody>
<tr>
<td>[*]</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Toxicology Studies</th>
</tr>
</thead>
<tbody>
<tr>
<td>[*]</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Drug &amp; Supplies</th>
</tr>
</thead>
<tbody>
<tr>
<td>[*]</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>[*]</td>
</tr>
</tbody>
</table>

XOMA CORPORATION

1988 Pre-clinical Development Plan E5
April 20, 1987

[*] [*]

<table>
<thead>
<tr>
<th>Labor</th>
</tr>
</thead>
<tbody>
<tr>
<td>[*]</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>[*]</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Indirect R&amp;D</th>
</tr>
</thead>
<tbody>
<tr>
<td>[*]</td>
</tr>
</tbody>
</table>

E5 PROCESS DEVELOPMENT PLAN
February 23, 1987

PHASE I BENCHMARKS [*]:

[*]

PHASE II BENCHMARKS [*]:

[*]

PHASE III [*]:

[*]

XOMA CORPORATION

E5 Process Development Plan
April 20, 1987

PHASE I BENCHMARKS [*]:

[*]

PHASE II BENCHMARKS [*]:

[*]

COSTS [*]:

<table>
<thead>
<tr>
<th>Labor &amp; Fringes</th>
</tr>
</thead>
<tbody>
<tr>
<td>[*]</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Supplies</th>
</tr>
</thead>
<tbody>
<tr>
<td>[*]</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Indirect R&amp;D Expense</th>
</tr>
</thead>
<tbody>
<tr>
<td>[*]</td>
</tr>
</tbody>
</table>

PHASE III [*]:

[*]

COSTS

<table>
<thead>
<tr>
<th>Labor &amp; Fringes</th>
</tr>
</thead>
<tbody>
<tr>
<td>[*]</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Supplies</th>
</tr>
</thead>
<tbody>
<tr>
<td>[*]</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Travel</th>
</tr>
</thead>
<tbody>
<tr>
<td>[*]</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Indirect R&amp;D</th>
</tr>
</thead>
<tbody>
<tr>
<td>[*]</td>
</tr>
</tbody>
</table>
Development Costs for E5 Product
January 1, 1987 through March 31, 1987:
[*]

EXHIBIT C
PATENTS

<table>
<thead>
<tr>
<th>I</th>
<th>II</th>
<th>III</th>
</tr>
</thead>
<tbody>
<tr>
<td>US 06/855,878 (2)</td>
<td>US 06/781,242 (1)</td>
<td>US 06/855,878 (2)</td>
</tr>
</tbody>
</table>

(Plus
foreign
filings
listed
under
Col
I)

AUSTRALIA 63236/86  US 06/855,878 (2)  US 07/036,766 (3)
EUROPE 86306420.0 (10 EPO Countries)  U.S. 07/036,766 (3)
IRELAND 2546/86  US 06/855,878 (2)  US 07/036,766 (3)
ISRAEL 79719
JAPAN 229481/86
KOREA 8128/86
NEW ZEALAND 217283
PHILLIPINES 34297
SOUTH AFRICA 86/7342
SPAIN 8602198
U.S. 07/036,766 (3)

(1) Filing Date 9/27/84
(2) Filing Date 4/24/86
(3) Filing Date 4/10/87

LICENSE AGREEMENT

AGREEMENT, dated as of June 9, 1987, between Xoma Corporation ("Xoma"), a Delaware corporation having offices at 2910 Seventh Street, Berkeley, California 94710, and Pfizer Inc. ("Pfizer"), a Delaware corporation having offices at 235 East 42nd Street, New York, New York 10017.

WHEREAS, Xoma and Pfizer have entered into a Research, Development and Option Agreement ("R&D Agreement") of even date herewith relating to the development of certain monoclonal antibody products; and

WHEREAS, the R&D Agreement contemplates the granting by Xoma to Pfizer of certain licenses under Xoma patents and technical information.

NOW, THEREFORE, in consideration of the mutual covenants and agreements provided herein Pfizer and Xoma hereby agree as follows:

SECTION 1.00 - DEFINITIONS

For the purpose of this Agreement the following definitions shall be applicable:

1.01 "Affiliate" shall mean (a) any company owned or controlled to the extent of at least fifty percent (50%) of its issued and voting capital by a party to this Agreement and any other company so owned or controlled (directly or indirectly) by any such company or the owner of any such company, or (b) any partnership, joint venture or other entity directly or indirectly controlled by, controlling, or under common control of, to the extent of fifty percent (50%) or more of voting power (or otherwise having power to control its general activities), a party to this Agreement, but in each case only for so long as such ownership or control shall continue.

1.02 "Combination Products" shall mean products which include any Licensed Product and one or more other active ingredients.

1.03 "Fiscal Year" shall mean (a) with respect to Pfizer's business operations in the United States, each 12-month period beginning January 1 and
(b) with respect to Pfizer's business operations outside the United States, each 12-month period beginning December 1 and ending on the following November 30.

1.04 "Licensed Patents" shall mean (i) all patents listed in Appendix I, annexed hereto and made a part hereof, and any patents which may issue from the applications listed on Appendix I, in each case together with any divisionals, continuations, continuations-in-part, reissues, patents of addition and extensions thereof, and (ii) to the extent of Xoma's interest therein, all other patents and applications in the Territory (as hereinafter defined) now owned or controlled by, or licensed to, or hereafter during the term of this Agreement owned or controlled by, Xoma or any of its Affiliates, in each case relating to the Products or methods of use or manufacturing processes for the Products, together with any divisionals, continuations, continuations-in-part, reissues, patents of additions and extensions thereof.

1.05 "Licensed Product" shall mean any Product, the manufacture, use or sale of which would, in the absence of a license, infringe any of the Licensed Patents or which utilizes Technical Information.

1.06 "Net Sales" shall mean, with respect to each Licensed Product, gross sales of Licensed Product sold by Pfizer, its Affiliates and sublicensees to third parties, less the total of (a) to the extent included in gross sales, ordinary and customary trade discounts actually allowed, (b) to the extent included in gross sales, excise taxes, other consumption taxes, customs duty and compulsory payments to governmental authorities actually paid or deducted to the extent relating to sales of Licensed Products, and (c) amounts equivalent to 5% of said gross sales as an allowance for all other discounts and expenses.

1.07 "Payment Computation Period" shall mean (a) with respect to Pfizer's business operations in the United States, each three (3) month period, or any portion thereof, ending on the last day of March, June, September and December of a given year, or (b) with respect to Pfizer's business operations outside the United States, each three (3) month period, or any portion thereof, ending on the last day of February, May, August or November of a given year.

1.08 "Production Margin" shall mean with respect to each Licensed Product the difference between Net Sales and Product Cost for such Licensed Product.

1.09 "Product Cost" shall mean Pfizer's standard cost for purified active bulk of Licensed Product, such standard cost determined according to Pfizer's accounting standards which shall be in conformity with generally accepted accounting principles consistently applied (and as described, in part, in a letter from Pfizer to Xoma dated May 5, 1987). It is understood that during any Payment Computation Period in which Pfizer is purchasing from Xoma 100% of Pfizer's requirements pursuant to the Supply Agreement, such standard cost shall be the price paid by Pfizer to Xoma for purified active bulk supplied by Xoma thereunder. In addition such standard cost shall be the standard cost of Pfizer or its Affiliate, as the case may be, which first produces or purchases said purified active bulk.

1.10 "Products" shall mean (i) any product, now or hereafter developed by Xoma, which is produced (or susceptible of being produced) from or incorporates any antibody (including fragments thereof as hereinafter defined) secreted from the E5 Cell Line (as hereinafter defined) or any other cell line capable of producing said antibody, or which product is chemically, organically, biologically or synthetically derived from or based upon any such antibody, in each case either alone or in combination with any other therapeutic agent. For purposes of this Section 1.10, the term "Fragments" shall mean any part or parts of any said antibody chemically, biologically or organically obtained from said antibody, or synthetically produced, and which mimics the biological behavior of said antibody. For purposes of this Section 1.10, the term "E5 Cell Line" shall mean the cell line described as a murine hybridoma as identified by American Type Culture Collection No. HB 9081 and mutants and genetically manipulated variants thereof; and (ii) any Other Antibody Product, as defined in the R&D Agreement, for which Pfizer exercises its option under Section 4.1 thereof -- with respect to the foregoing clauses (i) and (ii), in each case together with all pharmaceutical compositions and dosage units thereof.

1.11 "Security Agreement" shall mean the agreement so named referred to in Section 11.09 hereof.

1.12 "Selected Countries" shall mean Japan, United Kingdom, France, Federal Republic of Germany and Italy.

1.13 "Septic Shock" shall mean endotoxin mediated complications of gram negative bacterial sepsis.

1.14 "Supply Agreement" shall mean the agreement so named of even date.
herewith between Pfizer and Xoma.

1.15 "Technical Information" shall mean all of Xoma's trade secrets, information, and know-how, now owned, licensed or controlled by Xoma or its Affiliates or hereafter acquired, developed, owned, licensed or controlled by Xoma or any of its Affiliates (to the extent of Xoma or its Affiliates rights) during the term of this Agreement, in each case with respect to (i) the medical, clinical, toxicological or other scientific data or information relating to the Products (including, without limitation, pre-clinical and trial data, notes, reports, models, and samples) and (ii) the manufacture, production, and purification procedures and processes, as well as analytical methodology, used in the testing, assaying, analysis, production, and packaging of the Products. Technical Information shall also include: (i) Xoma's actual cell lines and other biological materials and substances for any of the Products and (ii) Xoma's other information and non-patent proprietary rights (to the extent not already included in this definition of Technical Information) with respect to the Products. Any of the foregoing which Xoma in good faith is contractually prohibited from disclosing to third parties shall not be included within the definition of Technical Information.

1.16 "Territory" shall mean Territory A and Territory B. "Territory A" shall mean the United States of America, its territories and possessions, and "Territory B" shall mean all countries of the world except for Territory A.

1.17 "University of California License" shall mean the License Agreement for Monoclonal Antibodies to Gram Negative Sepsis-Related Bacteria and Human Diagnostics and Therapeutics Derived Therefrom, effective September 3, 1986, between Xoma and The Regents of the University of California.

SECTION 2.00 - GRANT AND RELEASE OF LICENSES

2.01 Subject to the terms hereunder, Xoma hereby grants to Pfizer, and Pfizer hereby accepts: (a) except with respect to Xoma's rights under the University of California License, an exclusive license under the Licensed Patents to make, have made, use and sell Licensed Products for human and animal therapeutic and/or prophylactic use; (b) except with respect to Xoma's rights under the University of California License, an exclusive license to use in the Territory all Technical Information in connection with the manufacture, use and sale of Licensed Products for human and animal therapeutic and/or prophylactic use; and (c) with respect to the University of California License, an exclusive sublicense of all rights and licenses granted to Xoma under the University of California License with respect to the Licensed Products for human and animal therapeutic and/or prophylactic use in the Territory. Each of the foregoing licenses or sublicenses includes the right by Pfizer to grant sublicenses.

2.02 Notwithstanding the provisions of Section 2.01 hereof, Xoma retains for itself with respect to Licensed Products those rights to Licensed Patents and Technical Information which it had immediately prior to the execution of this Agreement to the extent necessary to perform, and solely for the purpose of performing, its obligations to supply Licensed Products under the Supply Agreement so long as such agreement remains in effect.

2.03 At any time Pfizer shall have the right, at Pfizer's sole discretion upon 60 days' prior notice to Xoma, to release all licenses granted herein with respect to Territory A or all countries in Territory B, as Pfizer may elect.

2.04 Within three (3) months after the completion by Xoma of the clinical studies pursuant to protocol no. 81612-P2B and the submission to Pfizer of the final report thereon, Pfizer shall notify Xoma whether Pfizer intends to pursue health registration in at least three Selected Countries other than Japan for such Licensed Product under said protocol. If Pfizer does not intend to pursue such registration, Pfizer shall promptly terminate its rights hereunder with respect to such Licensed Product for all countries in Territory B, except for Japan. If Pfizer shall not terminate its rights as aforesaid, Pfizer shall diligently pursue in good faith the registration of said Licensed Product in at least three Selected Countries (other than Japan).

2.05 Within six (6) months after the completion by Xoma of the clinical studies pursuant to protocol no. 81612-P2B and the submission to Pfizer of the final report thereon, Pfizer shall notify Xoma whether Pfizer intends to pursue health registration in Japan for such Licensed Product under said protocol. If Pfizer does not intend to pursue such registration, Pfizer shall promptly terminate its rights hereunder with respect to such Licensed Product for Japan. If Pfizer shall not terminate its rights as aforesaid, Pfizer shall diligently pursue in good faith the registration of such licensed Product in Japan.

2.06 In the event a Product described in Section 1.10, clause (i) shall no longer be a Subject Product under the terms of the R&D Agreement as a result of the provisions of the penultimate sentence of Section 6.1 of the R&D Agreement, and an Other Antibody Product (as defined in the R&D Agreement) shall become the initial Subject Product for purposes of Section 6.2 thereof, the provisions of
Sections 2.04 and 2.05 hereof shall become applicable to the first such Other Antibody Product, provided the protocol referred to in Sections 2.04 and 2.05 hereof shall be the appropriate protocol for such Other Antibody Product, which protocol shall be for a multi-center study similar in scope and size to protocol no. S1612-P2B and designed to obtain sufficient safety and efficacy data for the submission of a Product License Application to FDA.

SECTION 3.00 - ROYALTIES AND PAYMENTS

3.01 In consideration of the licenses granted to Pfizer under Section 2.01 hereof, Pfizer shall pay to Xoma royalties based on the aggregate Production Margin during each Fiscal Year for each Licensed Product. For purposes of determining royalties, the E5 Product, J5D4, and PCB5 (as defined or described in the Research and Development Agreement) as well as Combination Products of each shall each be considered as separate Licensed Products. Royalties shall be computed (a) separately for each Fiscal Year for each Licensed Product based on the aggregate Production Margin thereof, (b) separately with respect to Net Sales in Territory A and Territory B, and (c) with a different royalty rate applicable to different increments of Production Margin for each such Licensed Product.

Aggregate Production Margin for Net Sales in Territory A for Each Fiscal Year

<table>
<thead>
<tr>
<th>Rate</th>
<th>[*]</th>
</tr>
</thead>
<tbody>
<tr>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
</tr>
</tbody>
</table>

Aggregate Production Margin For Net Sales in Territory B For Each Fiscal Year

<table>
<thead>
<tr>
<th>Rate</th>
<th>[*]</th>
</tr>
</thead>
<tbody>
<tr>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
</tr>
</tbody>
</table>

Example: Aggregate Product Margin for Net Sales in U.S.A. (Territory A) for Fiscal Year [*] for E5 and [*] for J5D4 antibody. Royalties for U.S.A. sales of E5 as follows:

<table>
<thead>
<tr>
<th>E5 Product Margin ($ millions)</th>
<th>Rate</th>
<th>Amount of Royalty ($ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
</tbody>
</table>

In the event Pfizer shall be selling a Combination Product containing one or more other active ingredients which are not Licensed Products, then aggregate Production Margin for such Combination Product shall be determined as follows: (a) Net Sales for the Combination Product shall be determined as set forth in Section 1.06 hereof; (b) Product Cost shall not be determined as provided in Section 1.09 hereof, but rather shall be Pfizer's standard cost for the Combination Product in finished packaged dosage form (determined according to Pfizer's accounting standards which shall be in conformity with generally accepted accounting principles), and (c) such Product Cost shall be subtracted from such Net Sales of such Combination Product and the resulting difference shall then be divided by one-half (1/2) which amount shall be the Production Margin for such Combination Product for royalty purposes hereunder.

Notwithstanding to the contrary the provisions of the immediately preceding paragraph, if any Combination Product being sold by Pfizer contains, in addition to a Licensed Product, another active ingredient which, as a single entity agent, is being sold as a non-prescription (over-the-counter) drug in the United States, then the immediately preceding paragraph shall not be applicable, and Production Margin for such Combination Product shall be determined for each country as hereinafter provided. In the event Pfizer or its Affiliates is currently selling in such country the Licensed Product (contained in such Combination Product) as a single entity, "Net Sales" of such Combination Product for such country for any Payment Computation Period shall be computed as follows: aggregate net sales during such period of the Licensed Product as a single entity (determined in accordance with Section 1.06 hereof) shall be divided by the aggregate number of grams of Licensed Product contained therein,
and the result thereof shall be multiplied by the aggregate number of grams of Licensed Product contained in the Combination Product sold in such country during such Payment Computation Period. In the event Pfizer or its Affiliates is not currently selling in a country the Licensed Product as a single entity, “Net Sales” of such Combination Product for such country shall be computed as follows: aggregate net sales of the Combination Product (determined in accordance with Section 1.06 hereof) shall be multiplied by a fraction, the numerator being Pfizer's cost of the Licensed Product in such Combination

-8-
denominator being Pfizer's total cost of all active ingredients in such Combination Product. Cost shall be based on Pfizer's accounting procedures which are in accordance with generally accepted accounting practices. To determine aggregate Production Margin for such Combination Product, Product Cost for the Licensed Product contained in such Combination Product shall be determined as provided in Section 1.09 hereof and Net Sales for such Combination Product shall be determined as provided above. Royalties on aggregate Production Margin for such Combination Product shall then be computed for Net Sales in Territory A and Territory B at the respective rates provided above.

3.02 The period of time royalties under Section 3.01 shall be payable shall be determined on a country-by-country basis and on a Licensed Product-by-Licensed Product basis and shall be for the longer of (a) fifteen (15) years after first commercial sale after regulatory approval in such country of the respective Licensed Product by Pfizer, its Affiliates or sublicensees, or (b) until the last to expire of the Licensed Patents in such country which includes claims directed toward a composition of matter, method of use, or pharmaceutical dosage form for the particular Licensed Product sold, and, thereafter, in the case of clause (a) or clause (b) Pfizer's license hereunder with respect to Technical Information for such Licensed Product shall be a fully paid-up license. Notwithstanding the contrary any provision of Section 3.01, in the event the Licensed Product sold by Pfizer in any particular country shall not infringe any claim of any Licensed Patent in force in such country with claims directed toward a composition of matter, method of use, or pharmaceutical dosage form, then the royalty rates specified in Section 3.01 with respect to Product Margin for Net Sales of such Licensed Product in such country shall each be reduced by [*] to reflect the value to Pfizer of the Technical Information for such Licensed Product.

3.03 During each Fiscal Year, commencing with the first complete Fiscal Year after the first commercial sale of the first Licensed Product sold in Territory A, and so long as Licensed Patents covering at least one of the Licensed Products sold therein shall be in effect in Territory A with claims directed toward a composition of matter, method of use, or pharmaceutical dosage form, Pfizer shall pay to Xoma minimum annual royalties under Section 3.01 with respect to aggregate Net Sales of all Licensed Products in Territory A as follows:

First Fiscal Year                       [*]
Second Fiscal Year                     [*]
Third through fifth Fiscal Year        [*]
Sixth and subsequent Fiscal Years      [*]

In addition, during each Fiscal Year, commencing with the first complete Fiscal Year after the first commercial sale of the first Licensed Product sold in three of the Selected Countries, and so long as Licensed Patents covering at least one of the Licensed Products sold therein shall be in effect in such three Selected Countries with claims directed toward a composition of matter, method of use, or pharmaceutical dosage form, Pfizer shall pay Xoma minimum annual royalties under Section 3.01 with respect to aggregate Net Sales of all Licensed Products in Territory B as follows:

First Fiscal Year                       [*]
Second Fiscal Year                     [*]
Third through fifth Fiscal Year        [*]
Sixth and Subsequent Fiscal Years      [*]

In the event royalties actually paid under Section 3.01 hereof for any Fiscal Year shall be less than the required minimum royalty for Territory A or Territory B, within sixty (60) days after the end of each Fiscal Year, shall pay such amounts to Xoma as necessary to insure that the total of said royalties actually paid by Pfizer shall be not less than the applicable minimum royalty.

Notwithstanding the contrary the foregoing, Pfizer shall not be required to make minimum royalty payments and shall have no obligations under this Section 3.03 (a) during such period of time Xoma shall fail for any reason, including force majeure, to supply Pfizer with Products pursuant to the terms of the Supply Agreement (provided in such case minimum royalty obligations shall be reduced pro rata), or (b) for one complete Fiscal Year after the effective date of any termination by Xoma of the Supply Agreement or (c) for one complete Fiscal Year after the effective date of any termination of the Supply Agreement by Pfizer as a result of the breach or default thereof by Xoma.
3.04 Pfizer will in good faith commercialize Licensed Products in the Territory in a manner to maximize commercial benefit of each Licensed Product and consistent with the best interests of both Xoma and Pfizer.

SECTION 4.00 - PAYMENT PROCEDURES, REPORTS, RECORDS, TAXES, AUDITING

4.01 Sales among Pfizer, its Affiliates and sublicensees shall not be subject to royalties under Section 3.00 hereof but in such cases royalties shall be calculated upon Production Margin using Pfizer's or its Affiliates' or sublicensees' Net Sales to an independent third party. Notwithstanding the contrary any other provisions of this Agreement, Pfizer shall be responsible for payment of any royalties accrued on sales of Licensed Products to such independent third party through Pfizer's Affiliates or sublicensees.

4.02 Pfizer shall pay to Xoma royalties on Production Margin for Net Sales during each Payment Computation Period within sixty (60) days after the end of each such Payment Computation Period, and each payment shall be accompanied by a report identifying the Licensed Product, the Net Sales, Production Cost, Production Margin and the royalties payable to Xoma, as well as computation thereof.

4.03 Payments shall be made in United States Dollars and shall be remitted to Xoma at its address first specified above. Royalties shall be paid by the company actually making the sale giving rise to the payment obligation. Such payments shall be subject to applicable law and regulations existing at the place of remittance (namely, the location of the company actually making the sale giving rise to the payment obligation). Net Sales shall first be determined in the currency in which such Licensed Products were sold and shall then be converted into the equivalent amount of United States Dollars at (a) the official closing rate two business days prior to the date of payment hereunder, as established by the central bank or exchange control authorities in each such country; or (b) if no such official rate is available or if conversion pursuant to such official rate cannot be effectuated by the company making the sale giving rise to the payment obligation, then at the closing rate two business days prior to the date of payment hereunder, established by a leading commercial bank (selected by Pfizer); or (c) if such official or commercial bank rates are not available, or if conversion pursuant to the provisions of clauses (a) or (b) hereof cannot be effectuated, then at the closing rate two business days prior to the date of payment hereunder as established by Chase Manhattan Bank, N.A., New York, New York.

4.04 Any taxes required to be paid or withheld by Pfizer or its Affiliates on account of amounts payable to Xoma under this Agreement shall be deducted from the amounts due hereunder at the rates specified by applicable law. In addition, Pfizer shall provide promptly to Xoma receipts from the government or taxing authority evidencing payment of such taxes.

4.05 Pfizer shall keep full and accurate books and records setting forth gross sales, Net Sales, Product Cost, Production Margin and amounts payable to Xoma hereunder. Xoma shall have the right, at its own expense, during the term of this Agreement (but not later than five (5) years following the rendering of any such reports, accountings and payments) and for one (1) year thereafter, to have an independent public accountant, reasonably acceptable to Pfizer, examine the relevant financial books and records of account of Pfizer at normal business hours, upon reasonable demand, to determine or verify such reports, accounting and payments. If errors of five percent (5%) or more in Xoma's favor are discovered as a result of such examination, Pfizer shall reimburse Xoma for the expense of such examination. As a condition to such examination, the independent public accountant selected by Xoma shall execute a written agreement, reasonably satisfactory in form and substance to Pfizer, to maintain in confidence all information obtained during the course of any such examination except for disclosure to Xoma as necessary for the above purpose. The opinion of such independent public accountant regarding such reports, accounting and payments shall be binding on the parties hereto.

4.06 If at any time conditions or legal restrictions exist which conditions or restrictions prevent the prompt remittance of the royalties due hereunder, or if conversion into United States Dollars pursuant to the provisions of Section 4.03 hereof cannot be effectuated, the parties shall cooperate fully with each other and make reasonable efforts to permit such remittance; if such efforts shall be unsuccessful, Pfizer shall make such payments to Xoma within a reasonable period of time.

SECTION 5.00 - DISCLOSURE OF INFORMATION AND CONFIDENTIALITY

5.01 Subject to the provisions of Section 5.4 of the R&D Agreement,
periodically during the term of this Agreement and at any time upon the reasonable written request of Pfizer, Xoma shall disclose to Pfizer in confidence, pursuant to Section 5.02 hereof, all Technical Information not heretofore disclosed to Pfizer. Nothing however shall be deemed to require Xoma to disclose to Pfizer any Technical Information which Xoma is, in good faith, contractually prohibited from disclosing to third parties. All Technical Information heretofore disclosed by Xoma to Pfizer shall be deemed to have been disclosed pursuant to this Agreement and shall be subject to the provisions of this Agreement, including but not limited to Section 5.02 hereof.

5.02 Pfizer and its Affiliates shall keep confidential and not use, except as provided herein, in the R&D Agreement, Supply Agreement (if in effect), or as contemplated in the Security Agreement, all Technical Information supplied in writing by Xoma during the term of this Agreement and for ten (10) years after termination or expiration hereof; provided, however, that the foregoing obligations of confidentiality and non-use shall not apply to the extent that any Technical Information is demonstrated by written records to be (a) already known to Pfizer or its Affiliates at the time of disclosure hereunder or is hereafter developed by Pfizer or its Affiliates in the course of work entirely independent of any disclosure hereunder; or (b) publicly known prior to or after disclosure hereunder other than through acts or omissions of Pfizer or its Affiliates; or (c) disclosed in good faith to Pfizer or its Affiliates under a reasonable claim of right of which Pfizer is not aware of any dispute; or (d) disclosed to third parties by Pfizer under a secrecy agreement with essentially the same confidentiality provisions provided herein in connection with the exercise of its rights under this Agreement, the R&D Agreement, or the Supply Agreement (if in effect); or (e) disclosed by Pfizer in connection with the exercise of its rights under the Security Agreement.

Notwithstanding to the contrary the foregoing, so long as Xoma shall be supplying Pfizer with Products pursuant to the terms of the Supply Agreement, prior to disclosure by Xoma of Technical Information regarding manufacturing or production under circumstances described in the foregoing clause (d), Pfizer shall notify Xoma of its proposed disclosure and shall not make any such disclosure to any company to which Xoma reasonably advises Pfizer, within 60 days of such notification, that there exists, in the reasonable business judgment of Xoma, a substantial question as to whether such company can be expected to comply with the provisions of such aforementioned secrecy agreement relating to the confidential treatment of and restrictions as to the use of the Technical Information. In addition, disclosure may be made (i) to governmental agencies to the extent required or desirable to secure governmental approval for marketing of any Licensed Product and (ii) to pre-clinical and clinical investigators where necessary or desirable for their information to the extent normal and usual in the custom of the trade and under a secrecy agreement with essentially the same confidentiality provisions contained herein. Nothing herein shall be construed to limit the right of clinical investigators from publishing the results of their studies.

5.03 During the term of this Agreement Xoma shall keep confidential and not disclose to others or use for any purpose, other than as authorized herein, any Technical Information or any know-how, data and information directed to the Products disclosed by Pfizer hereunder; provided, however, the foregoing obligations of confidentiality and non-use shall not apply to the extent that such Technical Information, know-how, data and information is: (a) solely with respect to know-how, data or information disclosed to Xoma by Pfizer already known to Xoma at the time of disclosure hereunder; or (b) publicly known prior to or after disclosure hereunder other than through acts or omissions of Xoma or its employees; or (c) disclosed in good faith to Xoma by a third party under a reasonable claim of right; or (d) disclosed by Xoma to third parties under a secrecy agreement with essentially the same confidentiality provisions provided herein with respect to any Product in any Territory or country after such time as Pfizer has surrendered the licenses granted hereunder pursuant to Section 2.00 hereof with respect to such Territory or countries. In addition, disclosure may be made by Xoma to third parties in order to fulfill Xoma's obligations under this Agreement, the Supply Agreement or the R&D Agreement, provided that any such disclosure shall be under a secrecy agreement with essentially the same confidentiality provisions contained herein. In addition, disclosure may be made by Xoma to governmental agencies to the extent required or desirable in exercise of Xoma's rights hereunder, and to preclinical and clinical investigators where necessary or desirable for their information to the extent normal and usual in the custom of the trade and under a secrecy agreement with essentially the same confidentiality provisions contained herein. Nothing herein shall be deemed to limit the rights of clinical investigators from publishing the results of their work. Nothing herein shall be deemed to limit Xoma's rights to use or license any Technical Information or information, data or know-how generated by Xoma in any manner not inconsistent with the licenses granted to Pfizer under this Agreement.
5.04 In connection with the furnishing to Pfizer of Technical Information hereunder, Xoma agrees, at the request of Pfizer, to allow Pfizer personnel to visit manufacturing and research facilities of Xoma and to consult with Xoma personnel, at mutually agreeable times, to discuss and review Xoma's Technical Information. In addition, Xoma agrees, at the request and expense of Pfizer, to permit personnel of Xoma to visit Pfizer's manufacturing and research facilities, at mutually agreeable times, to discuss and review Xoma's Technical Information.

5.05 Xoma agrees, upon the request of Pfizer, with respect to each Licensed Product to give Pfizer copies of all submissions to or applications for registration or approval by governmental health authorities (including, without limitation all Product License Applications submitted to FDA). To the extent legally possible, upon receipt by Xoma of any approvals by FDA of any Product License Applications (including supplements thereto) covering any Licensed Products, Xoma shall promptly assign to Pfizer such approved Product License Applications; provided, however, Xoma shall have such rights of reference and other rights as shall be necessary or appropriate for Xoma to perform (and/or subcontract) its obligations to supply Licensed Products to Pfizer under the terms of the Supply Agreement. In addition, Xoma shall assign to Pfizer, upon request of Pfizer, or if not legally possible, grant to Pfizer rights of reference under, all other governmental approvals, permits or registrations held by Xoma or its Affiliates necessary to market any Licensed Products; provided, however, the foregoing does have material adverse consequences to Xoma's other operations and provided that reversion thereof to Xoma is reasonably feasible. All of the foregoing will be at Pfizer's expense, and Pfizer shall be responsible for requisite documentation.

SECTION 6.00 - REDUCTION OF ROYALTIES

6.01 Royalties payable by Pfizer to Xoma under Section 3.00 hereof shall be reduced or abated in their entirety, as the case may be, as follows:

(a) In the event of any patent infringement, royalties shall be reduced as provided in Section 7.00 hereof.

(b) If Pfizer within any country in the Territory is required by a final court order from which no appeal can be taken to obtain a license under any patent not licensed hereunder in order to make, use or sell Licensed Products and to pay a royalty under such license, and the infringement of such patent cannot reasonably be avoided by Pfizer, Pfizer's obligations to pay royalties under Section 3.01 hereof shall be reduced with respect to Net Sales in such country by the amount of the royalty payable by Pfizer under such additional license. Pfizer shall, however, make a good faith attempt to negotiate the royalty rate and calculation of royalties payable to such third parties with a view to minimizing the royalty to be deducted under this Section 6.01(b). In the event any such additional license shall be required for Territory A or any three Selected Countries in Territory B, Pfizer's obligation to pay minimum royalties under Section 3.03 hereof with respect to Net Sales in Territory A or Territory B, as the case may be, shall be reduced by the amount of royalties paid by Pfizer to such third party.

(c) If a third party obtains, by order, decree or grant from a competent governmental authority in any country in the Territory, a compulsory license under Licensed Patents authorizing such third party to manufacture, use or sell any Licensed Product in such country, Xoma shall give prompt notice to Pfizer. During the effective period of such compulsory license, Pfizer's obligations to pay royalties under Section 3.01 hereof with respect to sales in such country for such Licensed Product shall be reduced to a rate equivalent to the rate payable to Xoma by said third party, and Pfizer's obligations to pay minimum royalties under Section 3.03 hereof with respect to Net Sales in Territory A or Territory B, as the case may be, shall be terminated for so long as such compulsory license shall affect Territory A or any three Selected Countries in Territory B.

SECTION 7.00 - PATENTS

7.01 Xoma shall take all reasonable steps and pay all necessary expenses to prosecute the patent applications listed in Appendix I and shall take all reasonable steps and pay all expenses necessary to maintain for the full life thereof all Licensed Patents, unless Xoma, in consultation with Pfizer, shall in good faith determine that it is not in the best interests of both parties for Xoma to continue such prosecution, take such steps, or make such payments. Pfizer shall have the right, upon consultation with Xoma, to file on behalf of and as agent for Xoma all applications and take all actions necessary to obtain the benefits under the Drug Price Competition and Patent Term Restoration Act of 1984 and any amendments thereof. Xoma agrees to sign such further authorizations
and instruments and take such further actions as may be requested by Pfizer to implement the foregoing.

7.02 If any claim relating to Licensed Patents becomes, within any country in the Territory, the subject of a judgment, decree or decision of a court, tribunal, or other authority of competent jurisdiction, which judgment, decree, or decision is or becomes final (there being no further right of review) and adjudicates the validity, enforceability, scope, or infringement of the same, the construction of such claim in such judgment, decree or decision shall be followed thereafter in such country in determining whether a product is licensed hereunder, not only as to such claim but also as to all other claims to which such construction reasonably applies. If at any time there are two or more conflicting final judgments, decrees, or decisions with respect to the same claim, the decision of the higher tribunal shall thereafter control, but if the tribunal be of equal rank, then the final judgment, decree, or decision more favorable to such claim shall control unless and until the majority of such tribunals of equal rank adopt or follow a less favorable final judgment, decree, or decision, in which event the latter shall control.

7.03 If any patent infringement action shall be brought within any country in the Territory against Pfizer or any Affiliate or sublicensee because of the manufacture, use or sale of Licensed Products, Pfizer shall promptly notify Xoma thereof. Pfizer and Xoma shall cooperate with each other in connection with any such action. Pfizer shall continue to pay royalties during the continuance of such infringement action and all appeals thereof, provided that Pfizer or Xoma shall defend such action. If neither Pfizer nor Xoma shall commence defense of such infringement action, upon request by Pfizer to Xoma, then during the pendency of such infringement action, Pfizer's obligations to pay royalties under Section 3.01 with respect to such Licensed Product for sales in such country shall be suspended. In addition, if such infringement action shall relate to Territory A or to any three Selected Countries in Territory B, Pfizer's obligations to pay minimum royalties under Section 3.03 for Net Sales in Territory A or Territory B, as the case may be, shall be suspended during the continuance of such infringement action.

7.04 If any third party shall, in the reasonable opinion of Pfizer, infringe any of the Licensed Patents, Pfizer shall promptly notify Xoma. Pfizer, its Affiliates or sublicensees shall have the right to bring suit and to take action in its own name or in the name of Xoma where necessary. Xoma and Pfizer shall, at the other's request, take all action necessary to assist in such suits (including joining as a party), and each party shall bear its own expenses relating thereto. Any monetary recovery in connection with such infringement action shall be first applied to reimburse Xoma and Pfizer. Any balance shall be shared equally by Pfizer and Xoma. If such recovery is less than the out-of-pocket expenses, reimbursement shall first be on a pro-rata basis. During the pendency of any such action, regardless of whether Pfizer or Xoma shall prosecute such action, Pfizer shall continue to pay royalties due under Section 3.01, but Pfizer's obligations to pay minimum royalties under Section 3.03 for Net Sales in Territory A or Territory B, as the case may be, shall be suspended if such infringement shall be occurring in Territory A or any three Selected Countries of Territory B.

SECTION 8.00 - UNIVERSITY OF CALIFORNIA LICENSE

8.01 So as not to adversely affect Pfizer rights hereunder or under the R&D Agreement, Xoma agrees during the term of this Agreement not to take any actions to terminate or restrict its rights under the University of California License as it relates to the Licensed Products, the Licensed Patents or Technical Information and to discharge all of Xoma's material obligations and responsibilities under the University of California License, including, without limitation, making all required payments thereunder. In the event Xoma shall receive any notice of default thereunder, Xoma shall promptly notify Pfizer. To the extent, if any, Pfizer as Xoma's sublicensee shall have any obligations or responsibilities to the University of California under the University of California License resulting from Xoma's sublicense to Pfizer hereunder, Pfizer shall diligently discharge such obligations and responsibilities. In the event Pfizer shall be required to pay any royalties under the University of California License or otherwise shall be required to make any payments to the University of California with respect to the manufacture, use or sale of Licensed Products which are the subject of the University of California License, Pfizer shall be permitted to deduct such royalties from any royalties or other amounts due Xoma hereunder.

SECTION 9.00 - TERM AND TERMINATION

9.01 This Agreement shall be effective as of the date first set forth above and shall remain in effect for so long as Pfizer, its Affiliates or sublicensees shall be obligated to make payments to Xoma under Section 3.00 hereof, unless
earlier terminated pursuant to this Section 9.00. Upon natural expiration of this Agreement pursuant to this Section 9.01, the licenses granted to Pfizer under Section 2.01 with respect to Technical Information shall be deemed to be fully paid licenses. In addition, the provisions of Sections 5.02 and 10.00 hereof shall survive the expiration or any termination of this Agreement.

9.02 At any time, upon sixty (60) days' prior notice to Xoma, Pfizer shall have the right, without cause at Pfizer's sole discretion, to terminate in full this Agreement, whereupon this Agreement together with the R&D Agreement and Supply Agreement (if still in effect) shall terminate sixty (60) days after the date of such notice.

9.03 At any time Pfizer shall be permitted to terminate its rights and licenses granted hereunder with respect to any Product as provided in Sections 6.1 and 10.2(a) of the R&D Agreement. In the event of such termination, all licenses of Pfizer hereunder with respect to such Product shall terminate, and Pfizer, at its expense, shall return to Xoma all Technical Information regarding such Product (including all Product License Applications and all other rights regarding such Product assigned to Pfizer hereunder.)

9.04 If either Pfizer or Xoma materially breaches or defaults in the performance or observance of any of the provisions of this Agreement, and such breach or default is not cured within ninety (90) days or, in the case of failure to pay an amounts due hereunder, sixty (60) days after the giving of notice by the other party specifying such breach or default, the other party shall have the right to terminate this Agreement in full upon a further thirty (30) days' notice.

9.05 Upon termination under Sections 9.02 or 9.04 hereof, or Section 10.3(b) of the R&D Agreement, or termination in full under Section 6.1 of the R&D Agreement, or termination by Pfizer under Section 10.3(c) of the R&D Agreement, and except as otherwise provided to the contrary in the Security Agreement, all licenses of Pfizer hereunder shall terminate and all obligations and restrictions upon Xoma shall terminate, and Pfizer shall, at its expense, return to Xoma all Technical Information (including all Product License Applications and all other rights assigned to Pfizer hereunder) and use reasonable efforts to return to Xoma all copies thereof provided, however, none of the provisions of this Section 9.05 shall apply in the event Pfizer shall terminate this Agreement under Section 9.04 hereof for Xoma's breach of its obligations under Section 2.01 hereof or if Pfizer shall terminate the R&D Agreement under Section 10.3(c) thereof for Xoma's breach of its obligations under Sections 4.1 or 4.2 of the R&D Agreement, and in each case the parties shall have whatever rights and remedies are provided at law or in equity.

9.06 Termination of this Agreement for any reason shall be without prejudice to:

(a) The rights and obligations of the parties provided in Sections 5.02 and 10.00 hereof.

(b) Xoma's right to receive all payments accrued under Section 3.00 hereof prior to the effective date of such termination; and

(c) Any other remedies which either party may otherwise have.

SECTION 10.00 - INDEMNIFICATION

10.01 Except as otherwise provided in the Supply Agreement (if then in effect), Xoma shall indemnify Pfizer against any and all liability, damages, loss, cost and expenses, including reasonable attorneys' fees made against or sustained by Pfizer or any of its Affiliates arising from the death of, or bodily injury to, any person on account of the ingestion or use of any Licensed Product (collectively "Pfizer Losses") to the extent such Pfizer Losses are finally determined by a court of competent jurisdiction or by specific reference in a settlement of litigation consented to by Xoma pursuant to Section 10.04 to have been caused by Xoma's gross negligence or willful misconduct.

10.02 Except as otherwise provided in the Supply Agreement (if then in effect), Pfizer shall indemnify Xoma against any and all liability, damages, loss, cost and expenses, including reasonable attorneys' fees made against or sustained by Xoma or any of its Affiliates arising from the death of, or bodily injury to, any person on account of the ingestion or use of any Licensed Product such Xoma Losses are finally determined by a court of competent jurisdiction or by specific reference in a settlement of litigation consented to by Pfizer pursuant to Section 10.4 to have been caused by Pfizer's gross negligence or willful misconduct.

10.03 The indemnities of Sections 10.01 and 10.02 shall not apply (i) if the indemnified party fails to give the indemnifying party prompt notice of any claim it receives and such failure materially prejudices the indemnifying party,
or (ii) unless the indemnifying party is given the opportunity to approve any settlement, which approval shall not be unreasonably withheld. Furthermore, the indemnifying party shall not be liable for attorneys' fees or expenses of litigation of the indemnified party unless the indemnified party gives the indemnifying party the opportunity to assume control of the defense or settlement. In addition, if the indemnifying party assumes such control, it shall only be responsible for the legal fees and litigation expenses of the attorneys it designates to assume control of the litigation. In no event shall the indemnifying party assume control of the defense of the indemnified party without the consent of the indemnified party (which consent shall be given or not at its sole discretion).

10.04 In no event shall the indemnified party be entitled to settle any of the above-mentioned claims without the consent of the indemnifying party, which consent shall not be unreasonably withheld.

10.05 To the extent the foregoing indemnities shall not be applicable, the parties shall have such rights and remedies as provided by law.

SECTION 11.00 - MISCELLANEOUS

11.01 Force Majeure. No party shall be liable for failure of or delay in performing obligations set forth in this Agreement, and no party shall be deemed in breach of its obligations, if such failure or delay is due to natural disasters or any causes reasonably beyond the control of such party.

11.02 Assignability. The Agreement may not be assigned by either party without the prior consent of the other party; provided, however, (a) either party may assign this Agreement to any entity which acquires substantially all of its assets and business, and (b) Pfizer may assign this Agreement, in whole or in part, to any Affiliate of Pfizer.

11.03 Pfizer Status. For the purpose of carrying out this Agreement Pfizer shall act as an independent contractor and not as partner, joint venturer, or agent and shall not bind nor attempt to bind Xoma to any contract.

11.04 Notices. Any notice, consent or approval required under this Agreement shall be in writing sent by registered or certified airmail, postage prepaid, or by telex or cable (confirmed by such registered or certified mail) and addressed as follows:

If to Pfizer:                              If to Xoma:
Pfizer Inc.                                 Xoma Corporation
235 East 42nd Street                        2910 Seventh Street
New York, New York 10017                   Berkeley, California 94710
Telex: 420440                                Telex: 856-697
Attention: General Counsel                 Attention: Chairman

All notices shall be deemed to be effective on the date of mailing. In case any party changes its address at which notice is to be received, written notice of such change shall be given without delay to the other party.

11.05 Entire Agreement. This Agreement together with the R&D Agreement, the Supply Agreement and the Security Agreement and any other agreements referred to in any of the foregoing set forth the entire agreement and understanding among the parties hereto as to the subject matter hereof and has priority over all documents, verbal consents or understandings made between Pfizer and Xoma before the conclusion of this Agreement with respect to the subject matter hereof; none of the terms of this Agreement shall be amended or modified except in writing signed by the parties hereto.

11.06 Waivers. A waiver by any party of any term or condition of this Agreement in any one instance shall not be deemed or construed to be a waiver of such term or condition for any similar instance in the future or of any subsequent breach hereof.

11.07 Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to the conflicts of laws provisions thereof. The exclusive jurisdiction and venue of any action with respect to this Agreement shall be the Superior Court of California for the County of Alameda or the United States District Court for the Northern District of California and each of the parties hereto submits itself to the exclusive jurisdiction and venue of such courts for the purpose of any such action. Service of process in any such action may be effected in the manner provided in Section 11.04 for delivery of notices. The prevailing party in any legal action to enforce or interpret this Agreement shall be entitled to costs and attorney's fees.

11.08 Remedies. The rights and remedies of a party set forth herein with respect to failure of the other to comply with the terms of this Agreement.
This Agreement ("Agreement"), dated as of June 9, 1987, by and between XOMA CORPORATION ("XOMA"), a Delaware corporation, and PFIZER INC. ("Pfizer"), a Delaware corporation.

WITNESSETH:

WHEREAS, XOMA is engaged in research and clinical studies on monoclonal antibody-based biological drug products; and
WHEREAS, Pfizer wishes to purchase certain of such products from XOMA in bulk purified form, and XOMA is willing to supply Pfizer with such products.

NOW, THEREFORE, in consideration of the premises and the mutual promises and covenants set forth below, XOMA and Pfizer mutually agree as follows:

ARTICLE I
DEFINITIONS

1.1 "Affiliate" shall mean (a) any company owned or controlled to the extent of at least fifty percent (50%) of its issued and voting capital by a party to this Agreement and any other company so owned or controlled (directly or indirectly) by any such company or the owner of any such company, or (b) any partnership, joint venture or other entity directly or indirectly controlled by, controlling, or under common control of, to the extent of fifty percent (50%) or more of voting power (or otherwise having power to control its general activities), a party to this Agreement, but in each case only for so long as such ownership or control shall continue.

1.2 "Agreement" shall mean this Supply Agreement, as amended from time to time.

1.3 "Delivery Date" shall have the meaning set forth in Section 2.2 hereof.

1.4 "FDA" means the United States food and Drug Administration.

1.5 "First Commercial Sale" shall mean, as to each Product, the first commercial sale by Pfizer, its Affiliates or sublicensees of such Product following Product Approval.

1.6 "Initial Term" shall have the meaning set forth in Section 5.1 hereof.

1.7 "License Agreement" means the agreement so named dated the date hereof between Pfizer and XOMA.

1.8 "Manufacturing Cost" means XOMA'S manufacturing cost for each product as determined pursuant to Exhibit I attached hereto and made a part hereof.

1.9 "Product" shall mean each subject product (as defined under the R.D&O Agreement unless terminated thereunder) supplied hereunder by Xoma in purified bulk form and meeting the specifications set forth in Exhibit II, attached hereto and made a part hereof, as such Exhibit is amended by the parties from time to time.

1.10 "Product Approval" means final FDA approval to market commercially in the U.S.A. the specified Product for use in humans.

1.11 "R,D&O Agreement" means the Research, Development and Option Agreement dated the day hereof between Pfizer and XOMA.

ARTICLE II
SALE AND PURCHASE OF PRODUCTS

2.1 Sale and Purchase. XOMA, within the limitations contained in this Article, agrees to sell to Pfizer such quantities of Product as Pfizer may require for sale pursuant to the License Agreement. Subject to the provisions of Sections 4.1 and 5.1 hereof, so long as this Agreement shall remain in effect, XOMA agrees to sell, and Pfizer agrees, for 100% of Pfizer's, its Affiliates' and sublicensees' requirement of Product. It is understood that Xoma shall have the right in connection with supply hereunder to contract with respect to manufacture of Product with such third parties as Xoma deems advisable, provided, however, Xoma shall remain fully responsible hereunder.

2.2 Quantity: Forecasts.

(a) With respect to each Project, Pfizer shall deliver to XOMA (i) at least four (4) full calendar quarters prior to the calendar quarter in which the First Commercial Sale of such Product is projected to occur, a forecast of Pfizer's quantity requirements for such Product for the calendar quarter in which the First Commercial Sale of such Product is projected to occur and (ii) at least one (1) full calendar quarter prior to the calendar quarter in which the First Commercial Sale of such Product ("Delivery Date") for such calendar quarter and a forecast of its quantity requirements for such Product for the three (3) following calendar quarters. Thereafter, Pfizer shall deliver to XOMA at or prior to the end of each calendar quarter, Pfizer's firm order and Delivery Date for such Product for the second calendar quarter following such calendar quarter and a forecast of its quantity requirements for such Product for the
For the three (3) following calendar quarters.

For purposes of illustration only, on or before September 30, 1987, Pfizer must give to XOMA its firm order for delivery of Product in the first calendar quarter of 1988 and a forecast of its requirements for the second, third and fourth quarters of 1988. On or before December 31, 1987, Pfizer must give XOMA its firm order for delivery of Product in the second quarter of 1988, updated forecasts of its requirements for the third and fourth quarter of 1988 and a forecast of its requirements for the first quarter of 1989.

(b) For each quarterly forecast of Product, the amount of Product forecasted for delivery in the first of the three calendar quarters forecasted shall be not less than fifty percent (50%) or more than one hundred fifty percent (150%) of the most recent previous forecast for such quarter.

(c) The total amount of each Product ordered by Pfizer for delivery in any one calendar quarter may not be less than seventy-five percent (75%) of Pfizer's most recent forecast of its requirements for such Product for such quarter. In addition, XOMA will not be obligated to supply more than one hundred twenty-five percent (125%) of Pfizer's most recent forecast of its requirements for such product for such quarter. If a Pfizer product requirement for any quarter exceeds 125% of Pfizer's most recent forecast of its requirements for such Product for such calendar quarter, XOMA and Pfizer will discuss in good faith the additional amount which XOMA will be able to supply consistent with its other obligations and Pfizer will adjust its order accordingly (however, Pfizer's orders will have first priority on equipment funded under the Credit Agreement between the parties of even date herewith). Pfizer shall indemnify XOMA and reimburse it promptly upon request for all reasonable out of pocket costs and expenses, including the cost of carrying increased inventory, to the extent caused by any deviation in order quantities from the limits imposed by the preceding sentence, and XOMA will act reasonably to mitigate any such costs and expenses.

2.3 Delivery.

(a) XOMA shall, subject to the terms of this Agreement, deliver to Pfizer all Product ordered by Pfizer. All Products delivered to Pfizer shall be F.O.B. XOMA's plant or other place of shipment. XOMA shall use its reasonable best efforts to assist Pfizer in arranging any desired insurance (in amounts that Pfizer shall determine) and transportation, via air freight unless otherwise specified in writing, to any destinations specified in writing from time to time by Pfizer. All customs, duties, costs, taxes, insurance premiums, and other expenses relating to such transportation and delivery, shall be at Pfizer's expense.

(b) XOMA will package the Products in accordance with the specifications set forth in Exhibit II hereto.

2.4 Rejection of Product in Case of Nonconformity.

(a) Pfizer may reject any shipment of Product which is (i) not conforming with the specifications contained in Exhibit II or (ii) adulterated or misbranded within the meaning of the Federal, Food, Drug and Cosmetic Act (the "Act"). In order to reject a shipment, Pfizer must (i) give notice to XOMA of Pfizer's intent to reject the shipment within thirty (30) days of receipt together with an indication of the reasons for such possible rejection, and (ii) as promptly as reasonably possible thereafter, provide XOMA with notice of final rejection and the full basis therefor. After notice of intention to reject is given, Pfizer shall be deemed to have accepted such delivery of Product, provided, however, in the case of products having latent defects which upon diligent examination by Pfizer upon receipt could not have been discovered, Pfizer must give notice of Pfizer's intent to reject within thirty (30) days after discovery of such defects.

In any event, Pfizer shall pay for the shipment as otherwise provided herein and shall be entitled to a refund of the purchase price (together with insurance and freight charges) of rejected Products at the time they are ultimately rejected, provided that if XOMA disputes the rejection, refund shall be made at the time the dispute is finally resolved. XOMA shall notify Pfizer as promptly as reasonably possible whether it accepts Pfizer's basis for any rejection.

(b) Whether or not XOMA accepts Pfizer's basis for rejection, promptly on receipt of a notice of rejection, XOMA shall use its reasonable efforts, at Pfizer's request, to provide replacement Product which shall be purchased by Pfizer as provided hereunder.

(c) Unless XOMA requests the return to it of a rejected batch within sixty (60) days of receipt of Pfizer's notice of rejection, Pfizer shall destroy such batch promptly and provide XOMA with certification of such destruction. Pfizer
shall, upon receipt of XOMA's request for return, promptly dispatch said batch to XOMA, at XOMA's cost.

ARTICLE III

PRICE AND PAYMENTS

3.1 Price. Pfizer shall pay to XOMA for Product purchased hereunder an amount equal to [*] or such amount as determined under Section 4.1(a) hereof.

3.2 Method of Payment. All payments due hereunder to XOMA shall be paid to XOMA in United States dollars not later than thirty (30) days following the date of the applicable invoice.

3.3 Examination of Books. Pfizer shall have the right, at its own expense, for any period during which Product is purchased by Pfizer hereunder and for one (1) year thereafter, to have an independent public accountant, reasonably acceptable to XOMA, examine the relevant financial books and records of account of XOMA at normal business hours, upon reasonable demand, to determine or verify the appropriate manufacturing Cost of Product purchased hereunder. If errors of five percent (5%) or more in Pfizer's favor are discovered as a result of such examination, XOMA shall reimburse Pfizer for the expense of such examination. As a condition to such examination, the independent public accountant selected by Pfizer shall execute a written agreement, reasonably satisfactory in form and substance to XOMA, to maintain in confidence all information obtained during the course of any such examination except for disclosure to Pfizer as necessary for the above purpose. The opinion of such independent public accountant shall be binding on the parties hereto with respect to Manufacturing Cost hereunder.

ARTICLE IV

SUPPLY OBLIGATION

4.1 Termination of Supply Obligations, Breach of Delivery Obligation. In addition to any Termination of this Agreement under Article V hereof, this Agreement shall terminate as follows:

(a) If at any time after the Initial Term Pfizer notifies XOMA that Pfizer has received a good faith firm quote from a reputable third party supplier of recognized standing (other than an Affiliate) to supply Pfizer for a period of at least two years with all Pfizer's requirements of any Product at a price which is less than 75% of XOMA's then current transfer price to Pfizer of such product, XOMA shall have sixty (60) days after receipt of such notice to notify Pfizer that XOMA intends or does not intend to reduce its then applicable transfer price of such Product to a price no greater than 125% of the third party quoted price effective upon the expiration of such 60-day period. If XOMA fails to give such notice or notifies Pfizer that it does not intend to so reduce its then applicable transfer price of such Product, Pfizer may, upon thirty (30) day's prior notice to XOMA, elect to terminate Pfizer's obligations to purchase, and XOMA's obligations to supply, such Product. Notwithstanding the foregoing, Pfizer shall have not rights under this Section 4.1(a) if the third party quote is given in connection with or in anticipation of some other relationship with Pfizer.

(b) If XOMA materially fails to deliver the amount of any Product ordered by Pfizer as required hereunder for any reason, including force majeure, or XOMA fails to deliver Product conforming to the warranties set forth in Section 6.1 hereof, in each case for ninety (90) or more consecutive days, then Pfizer may upon twenty (20) days prior notice to XOMA elect to terminate Pfizer's obligations to purchase, and XOMA's obligations to supply, such Product hereunder. Except as otherwise expressly provided in Section 6.2 hereof, and except in the case where XOMA has generally not been attempting in good faith to meet its supply obligations, the foregoing shall be Pfizer's sole remedy for breach of warranty or for failure of XOMA to supply products hereunder.

ARTICLE V

TERMINATION, RIGHTS AND OBLIGATIONS UPON TERMINATION

5.1 Term. Unless termination for any particular Product pursuant to Sections 4.1(a) or 4.1(b) hereof or by either party pursuant to the other provisions of this Article V, this Agreement shall continue in effect for a period of three (3) years from the date of First Commercial Sale of the first Product supplied hereunder (the "Initial Term"), and shall thereafter remain in effect until terminated by XOMA upon at least one (1) year prior notice to Pfizer (which notice may be given any time after the second year of the Initial Term). In addition, Pfizer shall have the right at any time after the Initial Term to terminate this Agreement upon three years' prior notice (given after the Initial
Term) to XOMA, provided however, Pfizer shall be required to purchase from Xoma 100% of its requirements and those of its Affiliates and sublicensees in the first year after said notice, 50% of such requirements in the second such year and 25% of such requirement in the third such year provided further that XOMA shall have the right, by notice given to Pfizer not more than 60 days after the date of any Pfizer notice of termination under this Section 5.1, to decline to supply any Product in the second and third year after the date of Pfizer's termination notice.

5.2 Termination by Mutual Agreement. This Agreement may be terminated upon mutual written agreement between the parties.

5.3 Termination by Default. If either party materially defaults in the performance of any materials agreement, condition or covenant of this Agreement, the R&D Agreement or the License Agreement, and such default or noncompliance shall not be initiated to remedy the same to the other party's reasonable satisfaction, within ninety (90) days after receipt by the defaulting party of a notice thereof from the other party, the party not in default may terminate this Agreement.

5.4 Termination of License Rights. In the event any Product supplied hereunder shall no longer be a Licensed Product under the License Agreement or Pfizer's license with respect thereto under the License Agreement is no longer in effect, then Pfizer's obligations to purchase and XOMA's obligation to supply such Product hereunder shall terminate.

5.5 Rights and Obligations on Term, Termination or Suspension. Unless expressly provided to the contrary, the following provisions shall survive the termination of this Agreement: Article III, the last sentence of Section 4.1(b), this Section 5.5 and Article VI. Any rights of XOMA to payments accrued through termination as well as obligations of the parties under firm orders for purchase and delivery of Products at the time of such termination shall remain in effect.

ARTICLE VI

WARRANTY AND INDEMNIFICATION

6.1 Warranties. XOMA warrants that the Products, when shipped to Pfizer by XOMA, (i) will conform in all respects to the specifications set forth on Exhibit II, as then in effect, and (ii) will not be adulterated or misbranded within the meaning of the Act. PFIZER'S SOLE AND EXCLUSIVE REMEDY FOR ANY BREACH OF THE FOREGOING WARRANTIES SHALL BE ITS RIGHTS UNDER SECTIONS 2.4, 4.1(B) and 6.2 HEREOF. EXCEPT FOR THE FOREGOING WARRANTIES, XOMA DOES NOT WARRANT THE MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OF THE PRODUCTS OR THE PERFORMANCE THEREOF, DOES NOT MAKE ANY WARRANTY, EXPRESS OR IMPLIED, WITH RESPECT TO PRODUCTS, SPECIFICATION, SUPPORT, SERVICE OR ANYTHING ELSE AND DOES NOT MAKE ANY WARRANTY TO PFIZER'S CUSTOMERS OR AGENTS. XOMA HAS NOT AUTHORIZED ANYONE TO MAKE ANY REPRESENTATION OR WARRANTY OTHER THAN AS PROVIDED ABOVE. THE FOREGOING LIMITATIONS OF WARRANTIES SHALL NOT IN ANY WAY LIMIT PFIZER'S RIGHTS UNDER SECTION 6.2 HEREOF.

6.2 XOMA Indemnification.

(a) XOMA shall indemnify Pfizer against any and all liability, damages, loss, cost and expenses, including reasonable attorneys' fees made against or sustained by Pfizer or any of its Affiliates arising from the death of, or bodily injury to, any person on account of the ingestion or use of any Product, and any reasonable out-of-pocket costs to Pfizer and its Affiliates of the recall of any Product (collectively "Pfizer Losses") to the extent (i) such Pfizer Losses are finally determined by a court of competent jurisdiction or by specific reference in a settlement of litigation consented to by XOMA pursuant to Section 6.5 to have been caused by XOMA's failure to deliver such Product in accordance with XOMA's warranties as provided in this Agreement or (ii) such Pfizer Losses are finally determined by a court of competent jurisdiction or by specific reference in a settlement of litigation consented to by XOMA pursuant to Section 6.5 to have been caused other than by Pfizer's gross negligence or willful misconduct.

(b) In addition to indemnification pursuant to Section 6.2(a) hereof, and except in cases where Xoma is entitled to indemnification under 6.3(a) hereof, XOMA shall further indemnify Pfizer for any and all Pfizer Losses arising from the death of, or bodily injury to, any person on account of the ingestion or use of any Product to the extent such Pfizer Losses are finally determined by a court of competent jurisdiction or by XOMA pursuant to Section 6.5 to have been caused other than by XOMA's gross negligence or willful misconduct, and then (i) with respect to each such incident to the extent of the first $1,000,00 of XOMA's insurance coverage for such Losses, and (ii) to the extent any Pfizer Losses exceed Pfizer's recovery pursuant to such insurance, XOMA's indemnification shall be to the extent of the lesser of (a) such excess Pfizer Losses or (b) one-half of the aggregate of such excess Pfizer Losses and related Xoma Losses referred to in Section 6.3(b) hereof. XOMA agrees to use its best
efforts to procure and, at all times during the term of this Agreement and for a
period of three (3) years after the termination hereof, to maintain in full
force and effect liability insurance coverage of at least $1,000,000 per
occurrence (with a deductible of no more than $250,000 aggregate per year

with Pfizer as a named insured party as provided herein). Such insurance
shall cover any and all Pfizer Losses (as provided herein for which
indemnification is provided by this Section 6.2(b)) and Xoma’s contractual
liability hereunder to indemnify Pfizer as provided in this Section 6.2(b), in
each case to the extent such insurance coverage in such amount is obtainable at
premiums which are reasonable in the reasonable good faith judgment of XOMA.
Xoma, upon request of Pfizer, will supply Pfizer with appropriate certificates
of insurance evidencing the foregoing insurance.

6.3 Pfizer Indemnification.

(a) Pfizer shall indemnify XOMA against any and all liability, damages,
loss, cost and expenses, including reasonable attorneys’ fees made against or
sustained by XOMA or any of its Affiliates arising from the death of, or bodily
injury to, any person on account of the ingestion or use of any Product
(collectively “XOMA Losses”) to the extent such XOMA Losses are finally
determined by a court of competent jurisdiction or by specific reference in a
settlement of litigation consented to by Pfizer pursuant to Section 6.5 to have
been caused by Pfizer's gross negligence or willful misconduct.

(b) In addition to indemnification pursuant to Section 6.3(a) hereof, and
except in cases where Pfizer is entitled to indemnification under Section 6.2(a)
hereof, Pfizer shall further indemnify XOMA for any and all XOMA Losses arising
from the death of, or bodily injury to, any person on account of the ingestion or
use of any Product to the extent such XOMA Losses are finally determined by a
court of competent jurisdiction or by specific reference in a settlement of
litigation consented to by Pfizer pursuant to Section 6.5 to have been caused
other than by XOMA's gross negligence or willful misconduct, and then with
respect to each incident to the extent of the lesser of (a) such XOMA Losses or
(b) one-half of the aggregate of such XOMA Losses and the related Pfizer Losses
referred to in Section 6.2(b) hereof which are in excess of the recovery by
Pfizer under the XOMA insurance policy pursuant to Section 6.2(b) hereof.

6.4 Limitations to Indemnity. The indemnities of Sections 6.2 and 6.3 shall
not apply (i) if the indemnified party fails to give the indemnifying party
prompt notice of any claim it receives and such failure materially prejudices
the indemnifying party, or (ii) unless the indemnifying party is given the
opportunity to approve any settlement, which approval shall not be unreasonably
withheld. Furthermore, the indemnifying party shall not be liable for attorneys'
fees or expenses of litigation of the indemnified party unless the indemnified
party gives the indemnifying party the opportunity to assume control of the
defense or settlement. In addition, if the indemnifying party assumes such
control, it shall only be responsible for the legal fees and litigation expenses
of the attorneys it designates to assume control of the litigation. In no event
shall the indemnifying party assume control of the defense of the indemnified
party without the consent of the indemnified party (which consent shall be given
or not at its sole discretion).

6.5 Settlement. In no event shall the indemnified party be entitled to
settle any of the above-mentioned claims without the consent of the indemnifying
party, which consent shall not be unreasonably withheld.

ARTICLE VII

MISCELLANEOUS

7.1 Entire Agreement. This Agreement contains the entire agreement of the
parties regarding the subject matter hereof and, together with the License
Agreement, R&D Agreement and all other agreements referred to therein,
supersedes all prior agreements, understandings and negotiations regarding the
same. This Agreement may not be changed, modified, amended or supplemented
except by a written instrument signed by both parties.

7.2 Assignability. This Agreement may not be assigned by either party
without the prior consent of the other party; provided, however, (a) either
party may assign this Agreement to any entity which acquires substantially all
of its assets and business, and (b) Pfizer may assign this Agreement, in whole
or in part, to any Affiliate of Pfizer.

7.3 Severability. If any part of this Agreement shall be held
unenforceable, the remainder of the Agreement shall nevertheless remain in full
force and effect.
7.4 Further Assurances. Each party hereto agrees to execute, acknowledge and deliver such further instruments, and to do all such other acts, as may be necessary or appropriate in order to carry out the purposes and intent of this Agreement.

7.5 Use of Party's Name. No right, express or implied, is granted by this Agreement to either party to use in any manner the name of the other or any other trade name or trademark of the other in connection with the performance of this Agreement.

7.6 Notice and Reports. All notices, consents or approvals required by this Agreement shall be in writing sent by certified or registered airmail, postage prepaid or by telex or cable (confirmed by such certified or registered mail) to the parties at the following addresses or such other addresses as may be designated in writing by the respective parties:

To XOMA: XOMA Corporation
2910 Seventh Street
Berkeley, California 94710
Attention: Chairman
Telex: 856-697

To Pfizer: Pfizer Inc.
235 East 42nd Street
New York, New York 10017
Attention: General Counsel
Telex: 420440

Notices shall be deemed effective on the date of the mailing.

7.7 Relationships of the Parties. Both parties are independent contractors under this Agreement. Nothing contained in this Agreement is intended nor is to be construed as to constitute XOMA and Pfizer as partners or joint venturers with respect to this Agreement. Neither party hereto shall have any express or implied right or authority to assume or create any obligations on behalf of or in the name of the other party or to bind the other party to any contract, agreement or undertaking with any third party.

7.8 Waiver. The waiver by either party of a breach of any provisions contained herein shall be in writing and shall in no way be construed as a waiver of any succeeding breach of such provision of the waiver of the provision itself.

7.9 Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to the conflicts of laws provisions thereof. The exclusive jurisdiction and venue of any action with respect to this Agreement shall be the Superior Court of California for the County of Alameda or the United States District Court for the Northern District of California and each of the parties hereto submits itself to the exclusive jurisdiction and venue of such courts for the purpose of any such action. Service or process in any such action may be effected in the manner provided in Section 7.6 for delivery of notices. The prevailing party in any legal action to enforce or interpret this Agreement shall be entitled to reasonable costs and attorney's fees.

7.10 Captions. Paragraph captions are inserted for convenience only and in no way are construed to define, limit or affect the construction or interpretation hereof.

7.11 Force Majeure. A party shall not be liable for nonperformance or delay in performance caused by any event reasonably beyond the control of such party including, but not limited to wars, hostilities, revolutions, riots, civil commotion, national emergency strikes, lockouts, unavailability of supplies, epidemics, fire, flood, earthquake, force of nature, explosion, embargo, or any other Act of God, or any law, proclamation, regulation, ordinance, or other act or order of any court, government or governmental agency.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement to be effective as of the date first written above.

XOMA Corporation
By: /s/Steven C. Mendell
Title Chairman/CEO

PFIZER INC.
By: /s/William C. Steere
Title Vice President
Xoma will provide the Product to Pfizer at its direct cost of production as evidenced by written records plus a reasonable allowance for manufacturing overhead based on utilization of the facility for the Product as a percentage of capacity as follows:

Direct Costs of Production

Labor - Actual cost of labor incurred for production of the Product.

Materials - Actual cost of materials consumed in the manufacture of the Product

Quality Control - Actual cost of labor hours and supplies used in the testing and inspection of the Product.

Manufacturing Overhead

The cost of required manufacturing support services and supplies. Product cost will include the percentages of these costs that the product represents as a percentage of total production capacity for the year. Pfizer and Xoma will use their best efforts to develop these percentages at the time the PLA is filed with the FDA and annually thereafter. If the parties are unable to agree upon such total production capacity or the relevant percentages for the Product, the parties agree to submit a determination to Arthur Anderson & Company for resolution of any such matter which shall be binding on the parties.

These costs include:

Manufacturing supervision and management

Facility and Occupancy Costs

- Depreciation of leasehold improvements, machinery and equipment used in manufacturing the Product.
- Utilities
- Material handling
- Supplies
- Clerical Support

PRODUCT SPECIFICATIONS

To be agreed upon.

SECURITY AGREEMENT

This SECURITY AGREEMENT (this "Security Agreement"), dated as of June 9, 1987, by and between Pfizer Inc., a Delaware corporation, 235 East 42nd Street, New York, New York 10017 ("Pfizer"), and Xoma Corporation, a Delaware corporation, 2910 Seventh Street, Berkeley, California 94710 ("Xoma").

WHEREAS, Pfizer and Xoma have entered into a License Agreement (the "License Agreement") and a Research, Development and Option Agreement (the "R&D Agreement"), both dated the date hereof (the License Agreement and the R&D Agreement shall be referred to collectively as the "Agreements"), which memorialize Xoma's agreement to grant Pfizer certain rights and options regarding monoclonal antibodies that have been researched and developed by Xoma and the products relating to such monoclonal antibodies; and

WHEREAS, Xoma has agreed to secure the full and complete performance of certain of its obligations and agreements to Pfizer under the Agreements and this Security Agreement and the payment of any claims arising thereunder by executing this Security Agreement, which grants to Pfizer certain hereinafter defined security interests.

NOW, THEREFORE, Pfizer and Xoma, in consideration of their respective obligations and agreements stated in the Agreements and for other good and valuable consideration, the
receipt and sufficiency of which are hereby acknowledged, agree as follows:

1. For purposes of this Security Agreement, the following terms shall have the meanings set forth below:

(a) "Affiliate" means (a) any company owned or controlled to the extent of at least fifty percent (50%) of its issued and voting capital by a party to this Security Agreement and any other company so owned or controlled (directly or indirectly) by any such company or the owner of any such company, or (b) any partnership, joint venture or other entity directly or indirectly controlled by, controlling, or under common control of, to the extent of fifty percent (50%) or more of voting power (or otherwise having power to control its general activities), a party to this Security Agreement, but in each case only for so long as such ownership or control shall continue.

(b) "E5 Product" means any product for human and/or animal therapeutic or prophylactic use, now or hereafter developed by Xoma, which is produced (or susceptible of being produced) from or incorporates any antibody (including Fragments thereof as hereinafter defined) secreted from the E5 Cell Line (as hereinafter defined) or any other cell line capable of producing said antibody, or which product is chemically, organically, biologically or synthetically derived from or based upon any such antibody, in each case (i) either alone or in combination with any other therapeutic agent and (ii) together with all pharmaceutical compositions and dosage units thereof. For the purposes of this Section 1(b), the term "Fragments" shall mean any part or parts of any said antibody chemically, biologically or organically obtained from said antibody, or synthetically produced, and which mimics the biological behavior of said antibody. For purposes of this Section 1(b), the term "E5 Cell Line" shall mean the cell line described as a murine hybridoma as identified by American Type Culture Collection No. HB 9081 and mutants and genetically manipulated variants thereof.

(c) "FDA" means the United States Food and Drug Administration or any successor governmental agency performing similar functions.

(d) "Other Antibody Product" means any product for human and/or animal therapeutic or prophylactic use, now or hereafter developed by Xoma, which is produced (or susceptible of being produced) from, or incorporates any antibodies (including Fragments thereof as hereinafter defined) secreted from the J5D4 Cell Line and/or PCB5 Cell Line (as hereinafter defined) or any other cell lines capable of producing any such antibodies, or which product is chemically, organically, biologically or synthetically derived from or based upon any such antibodies, in each case (i) either alone or in combination with any other therapeutic agent and (ii) together with all pharmaceutical compositions and dosage units thereof. For purposes of this Section 1(d), the term "Fragments" shall mean any part or parts of any said antibodies chemically, biologically or organically obtained from said antibodies, or synthetically produced, and which mimics the biological behavior of said antibodies. For purposes of this Section 1(d), the term "J5D4 Cell Line" shall mean the cell line described as a murine hybridoma as identified by American Type Culture Collection No. HB 9083 and mutants and genetically manipulated variants thereof; and the term "PCB5 Cell Line" shall mean the cell line described as a murine hybridoma as identified by American Type Culture Collection No. HB 8909 and mutants and genetically manipulated variants thereof.

(e) "Other Septic Shock Product" means any product, now or hereafter developed by Xoma, for the treatment, cure or prevention of Septic Shock, other than any E5 Product or any Other Antibody Product.

(f) "Patents" means (i) all patents listed in Appendix A, annexed hereto and made a part hereof, and any patents which may issue from the applications listed on Appendix A, in each case together with any divisionals, continuations, continuations-in-part, reissues, patents of addition and extensions thereof, and (ii) all other patents and applications in the Territory now owned or controlled by, or licensed to, or hereafter during the term of this Security Agreement owned or controlled by, or licensed to, Xoma that are used in or related to any E5 Product, Other Antibody Product, and/or Other Septic Shock Product or methods of use or manufacturing processes for any E5 Product, Other Antibody Product, and/or Other Septic Shock Product, together with any divisionals, continuations, continuations-in-part, reissues, patents of addition and extensions thereof.

(g) "PLA" means a Product License Application or such other application as shall be required to obtain Product Approval for any E5 Product, Other Antibody Product, and/or Other Septic Shock Product.
(h) "PLA Submission" means the submission to FDA by Xoma of a PLA which has been prepared in good faith by Xoma in a reasonable manner to comply with FDA requirements necessary to obtain Product Approval.

(i) "Product Approval" means final FDA approval to market commercially in the U.S.A the specified product for use in humans.

(j) "Septic Shock" means endotoxin mediated complications of gram negative bacterial sepsis.

(k) "Supply Agreement" means the agreement so named of even date herewith between Pfizer and Xoma.

(l) "Technical Information" means all of Xoma's trade secrets, information, and know-how, now owned, licensed or controlled or hereafter acquired, developed, owned, licensed or controlled by Xoma during the term of this Security Agreement, with respect to (i) the medical, clinical, toxicological or other scientific data or information used in or related to any E5 Product, Other Antibody Product, and/or Other Septic Shock Product (including, without limitation, pre-clinical and clinical data, notes, reports, models, and samples) and (ii) the manufacture, production, and purification procedures and processes, as well as analytical methodology, used in or related to the testing, assaying, analysis, production, and packaging of any E5 Product, Other Antibody Product, and/or Other Septic Shock Product. Technical Information shall also include: (i) Xoma's actual cell lines and hybridomas used or useful in the production of any E5 Product, Other Antibody Product, and/or Other Septic Shock Product and (ii) Xoma's other general intangibles (excluding rights to payment), information, and non-patent proprietary rights (to the extent not already included in this definition of Technical Information) arising out of, used in or related to any E5 Product, Other Antibody Product, and/or Other Septic Shock Product.

(m) "Territory" means all countries of the world.

(n) "University of California License" means the License Agreement for Monoclonal Antibodies to Gram Negative Sepsis-Related Bacteria and Human Diagnostics and Therapeutics Derived Therefrom, effective September 3, 1986, between Xoma and The Regents of the University of California.

2. In addition to the definitions stated in Section 1 of this Security Agreement, the term "Security", for the purposes of this Security Agreement, means, collectively, the following property of Xoma to the full extent of Xoma's rights and interests therein, now owned, licensed or controlled or hereafter acquired, owned or controlled by Xoma, and any proceeds of such property: (a) all Technical Information, (b) all Patents, (c) all licenses (and sublicenses) that have been granted to or by Xoma that are used in or related to any E5 Product, Other Antibody Product, and/or Other Septic Shock Product including, without limitation, the University of California License (the property described in this Subsection (c) shall be referred to collectively as the "Licenses"); for the purposes of this Security Agreement the terms sublicense, sublicensee and sublicensed are included and encompassed within the terms license, licensee, and licensed, respectively), (d) all information, applications, instruments, authorizations, and other property of Xoma that would be required to be submitted to any governmental agency in the Territory in order to be granted permission or authority to manufacture, produce or sell any E5 Product, Other Antibody Product, and/or Other Septic Shock Product including, without limitation, the information, applications, instruments, authorizations, and other property of Xoma used in or related to any Product Approval, PLA or PLA Submission, (e) all approvals, consents, permits, product license applications, and authorizations of Xoma (or received by or granted to Xoma) to manufacture, produce or sell any E5 Product, Other Antibody Product, and/or Other Septic Shock Product including, without limitation, any "orphan drug designation" under Section 526 of the Federal Food, Drug and Cosmetic Act, as amended, or any other similar legislation in the Territory, (f) all claims, causes of action, and lawsuits belonging to Xoma arising from, related to or connected with the Technical Information, the Licenses; provided, however, Xoma may handle such claims, causes of action, and lawsuits in a manner that those claims, causes of action, and lawsuits included and encompassed within the Security are separate and segregatable from those that relate to Xoma's properties that are not Security, and this Subsection (f) shall not be deemed to convert assets that are not Security into Security merely because any claims, causes of action or lawsuits are combined into one lawsuit, (g) the equipment of Xoma described in Appendix B, annexed hereto and made a part hereof.
(collectively the "Equipment"), and (h) all of Xoma's inventory of (i) E5 Products, Other Antibody Products, and Other Septic Shock Products (including, without limitation, the purified active bulk of any E5 Product, Other Antibody Product, and/or Other Septic Shock Product) and (ii) the actual cell lines used in or related to the manufacture, production and purification of E5 Products, Other Antibody Products, and Other Septic Shock Products.

For purposes of this Security Agreement, the term "proceeds" includes, without limitation, whatever is receivable or received when the Security or proceeds of such Security is sold, licensed, collected, exchanged or otherwise disposed of, whether such disposition is voluntary or involuntary, and includes, without limitation, all proceeds consisting of receivables, accounts, general intangibles, documents, instruments, chattel paper, rights to payment, money, contract or license rights, notes, proceeds, products, revenues, and returned premiums with respect to any insurance related thereto.

For purposes of this Security Agreement, Security shall constitute "Foreign Security" to the extent that the perfection or priority of Pfizer's security interests and liens (or any other rights or interests to be acquired by Pfizer under this Security Agreement) in the Security is not governed by the law of the United States or any political subdivision within the United States (hereinafter the laws of any jurisdiction other than the United States or any political subdivision within the United States shall be referred to collectively as the "Foreign Laws").

3. As security for Xoma's full and complete performance of its agreements and obligations to Pfizer under the Agreements and this Security Agreement and the payment of any claims arising under the Agreements and this Security Agreement (collectively the "Secured Obligations"), Xoma hereby grants to Pfizer a security interest in the Security (including, without limitation, the Foreign Security), wherever located or situated in the Territory, and the proceeds thereof; provided, however, nothing in this Security Agreement shall be deemed (i) to cause the Foreign Security not to be included or encompassed within the Security or not to be subject to the rights or interests granted to Pfizer pursuant to this Security Agreement or (ii) to require Xoma to suffer or permit disclosure of any document, information or asset to Pfizer of any other party in violation of any license agreement or other contract or obligation of Xoma.

4. Xoma represents and warrants to Pfizer as of the date of this Agreement as follows: (a) the tangible Security is located at 890 Heinz Street, Berkeley, California 94710, (b) Xoma's principal place of business is at 2910 Seventh Street, Berkeley, California 94710, and Xoma also conducts business at the following locations: 890 Heinz Street, Berkeley, California 94710 and 2840 Eighth Street, Berkeley, California 94710, (c) Xoma has title to the Security (including any as licensee), free and clear of all mortgages, liens, charges, encumbrances, equities, assignments or security interests of any kind other than as granted or created in favor of Pfizer by this Security Agreement, and no financing statement or other similar type of filing, other than a financing statement or a filing in the United States Patent and Trademark Office naming Pfizer as the secured party or the assignee or mortgagee of any Patent, is now on file in any public office, (d) Xoma has no Affiliate that has any rights or interests in any of the Security or rights or interests in any property that would be included or encompassed within the Security if any such rights or interests were held by Xoma, (e) no person or other entity has any rights or interests in any of the Security, and Xoma has not granted, or agreed to grant, to any person or other entity any rights or interests in any of the Security, (f) Xoma has the corporate power to make this Security Agreement and to grant the security interests and liens hereunder and such security interests and liens shall constitute (to the extent possible under the laws of the United States or any political subdivision in the United States) first valid and perfected security interests and liens on the Security and, to the extent possible under the Foreign Laws and where specifically required by Pfizer to be perfected or protected under the Foreign Laws, shall constitute first valid and perfected security interests and liens on the Foreign Security subject to no consensual prior security interests or liens, and this Security Agreement has been duly authorized by all necessary corporate action of Xoma and does not violate any provision of law or of the charter or by-laws of Xoma or any contract, license or agreement to which Xoma is a party or by which it is bound, and (g) Xoma's representations and warranties in the Agreements are true and correct as of the date hereof.

5. So long as this Security Agreement and the rights and interests, including security interests and liens, created hereunder shall remain in effect, unless Pfizer shall otherwise consent in writing, Xoma hereby covenants to
and agrees with Pfizer as follows:

(a) Xoma shall give Pfizer not less than thirty (30) days prior written notice of any change of its name, in the location of its chief executive office, any location where it conducts business, or the location where it keeps any of the Security or any of the records related thereto or of any change in Xoma's circumstances that affects or may affect the continuing efficacy of any financing statement or other document filed by Xoma or Pfizer or, subject to Pfizer's specific instructions for perfection or protection of any Foreign Security under the Foreign Laws, the continuing status of Pfizer's security interests and liens as the first valid and perfected security interests and liens on the Security in the U.S.A. and the continuing status of Pfizer's security interests and liens as the first valid and perfected consensual security interests and liens on the Security in countries other than the U.S.A.; provided, however, Pfizer shall pay the reasonable out-of-pocket costs and expenses incurred by Xoma in complying with Pfizer's instructions for perfecting or protecting Pfizer's rights and interests in any Foreign Security under the Foreign Laws. Xoma shall promptly notify Pfizer of the need for Pfizer under the laws of the United States or any political subdivision within the United States to take any action or to execute any financing statement, filing, application, assignment, registration, notice, document of further assurances or other document or writing to perfect or protect the rights and interests of Pfizer in any Security that is herein referred to or is owned or controlled by Xoma including, without limitation, prompt notice of the need to take any action or to file any document or writing to perfect or protect Pfizer's rights and interests in any Patent in the United States or any political subdivision within the United States and prompt notice of the filing of any application for a Patent anywhere in the Territory. Xoma shall give notice to Pfizer on the first business day of every other month of its activities in countries other than the U.S.A. to enable Pfizer to specify any action it requires Xoma to take under the Foreign Laws to perfect or protect Pfizer's rights and interests in the Security; provided, however, nothing in this Subsection (a) shall restrict or limit Xoma's other obligations or agreements under this Security Agreement. Xoma shall take such action as Pfizer may reasonably require to perfect or protect Pfizer's rights and interests in the Foreign Security, and Pfizer shall pay the reasonable out-of-pocket costs and expenses incurred by Xoma in taking any such action.

(b) Xoma shall not breach, default or wrongfully terminate any agreement, contract, lease or license that is encompassed or included in the Security where such action could have any material adverse effect on the rights and interests of Pfizer, and Xoma shall give Pfizer written notice of any allegation or assertion by any other party that Xoma has so breached, defaulted or improperly terminated any such agreement, contract, lease or license within five (5) business days of the making of such allegation or assertion in the case of material matters and within fifteen (15) business days in other cases. Xoma may terminate any license it has granted to others that is included or encompassed within the Security in accordance with its terms where it is commercially reasonable and does not have any material adverse effect on Pfizer's rights and interests in the Security and where Xoma has given Pfizer fifteen (15) business days notice of such intended termination; provided, however, nothing in this provision or any other provision of this Security Agreement shall restrict or limit Xoma's obligations, or waive such obligations, under Section 2.4 of the R&D Agreement and Section 8 of the License Agreement. Xoma shall also give Pfizer five (5) business days written notice of its intent to breach, default, terminate, reject or repudiate any such agreement, contract, lease or license. Xoma shall not create or suffer to exist or permit any mortgage, pledge, lien, charge, encumbrance, equity, assignment or security interest (other than non-consensual liens or interests on the Foreign Security that arise in the normal course of Xoma's business) upon or in respect of the Security and, subject to the provisions of Section 5(a) of this Security Agreement regarding the Foreign Security, shall take any and all actions necessary to perfect or protect the rights and interests of Pfizer in the Security including, without limitation, (i) paying all claims and charges that in Pfizer's reasonable opinion might prejudice, imperil or adversely affect the Security in any significant respect or any security interest or lien of Pfizer in the Security, (ii) reasonably curing any breaches or defaults relating to or arising out of the Security, and (iii) commencing or
processing any patent applications or infringement or misappropriation proceedings or lawsuits relating to the Security in a manner not inconsistent with the License Agreement. Pfizer acknowledges that Xoma may conduct its business outside the United States in the ordinary course even though certain of the Foreign Laws may create non-consensual liens and encumbrances senior or junior to those of Pfizer. Xoma shall not under any circumstances permit any Equipment to become a fixture by attachment to any real property, unless such Equipment is described on any financing statement filed as a mortgage or fixture filing perfecting Pfizer's security interests and liens on such Equipment.

(c) Xoma shall not sell or otherwise dispose of any rights or interests in or to any of the Security other than as permitted by the terms of this Subsection (c), Section 5(b) or (d) of this Security Agreement or with Pfizer's written consent, which consent shall not be unreasonably withheld in the case of the disposal of obsolete or practically worthless tangible property, in the case of the settlement of litigation or disputes with third parties, or in the case of the trade-in of equipment that does not affect any material portion of the Security. Xoma may use and spend cash proceeds of the Security in the ordinary course of business as long as no Event of Default (as such term is defined in Section 10 of this Security Agreement) occurs and is continuing. Nothing in this Security Agreement shall be deemed to limit or restrict Pfizer's rights and interests under the License Agreement, the R&D Agreement, and the Supply Agreement.

(d) Xoma shall not grant, or agree to grant, to any Affiliate any rights or interests in any of the Security or to cause any Affiliate to own any rights or interests in any property that would be included or encompassed within the Security if any such rights and interests were held by Xoma. Notwithstanding any other provision of this Security Agreement, Xoma, prior to an Event of Default, shall be permitted to license (exclusively or nonexclusively) to any person or entity any of the Security, including the Technical Information and the Patents, subject to the rights and interests of Pfizer created by this Security Agreement and subject to and not inconsistent with Pfizer's rights and interests under the License Agreement, the R&D Agreement, and the Supply Agreement. Xoma shall be permitted to license any of its obligations or agreements under any such license permitted under the immediately preceding sentence of this Subsection (d) or the payment of any claims arising under such license by creating or suffering to exist or permitting any mortgage, pledge, lien, charge, encumbrance, equity, assignment or security interest upon or in respect of any of the Security.

(e) To the extent reasonably desirable for the protection of Pfizer's rights and interests in the Security, Xoma shall keep accurate and complete records of the Security and, after any Event of Default, the proceeds therefrom separate and distinct from its other property. After any Event of Default shall have occurred, Xoma shall account for, and, promptly deliver to Pfizer, in the form received, all proceeds of the Security received, endorsed to Pfizer as appropriate, and until so delivered, all proceeds shall be held by Xoma in trust for Pfizer, separate and apart from all other property of Xoma and identified as the Security of Pfizer.

(f) Risk of loss of the Security shall be on Xoma, and the loss, injury or destruction of the Security shall not release Xoma hereunder. To the extent commercially reasonable, Xoma shall insure the Equipment in such amounts and against such risks, as Pfizer shall reasonably deem acceptable, and Xoma shall deposit complete insurance policies or copies thereof with Pfizer, provided, however, Pfizer has agreed that Xoma's current insurance policies on the Equipment are commercially reasonable. Pfizer shall be named as an insured and loss payee under such insurance policies. If Xoma fails to obtain appropriate insurance covering the Equipment in a timely fashion, Pfizer may, but shall not be obligated to, obtain such insurance and the cost thereof shall be immediately due and owing from Xoma to Pfizer and shall become a Secured Obligation and, at Pfizer's option, set-off against any amounts owing to Xoma under the License Agreement or Supply Agreement. Xoma hereby irrevocably appoints Pfizer to adjust all insurance losses, to sign all applications, receipts, releases, and other papers necessary to collect any such loss and any return or unearned premium, to execute proofs of loss, to make settlements, to endorse and collect any check or other item payable to Xoma issued in connection therewith, and to apply the same to payment of the debt; provided, however, Pfizer may exercise the rights set forth in this sentence of this Subsection (f) only after an Event of Default.
(g) Without limiting the generality of the foregoing, promptly upon Pfizer's request, Xoma shall sign and execute together, alone or with Pfizer, any financing statement, filing, application, assignment, registration, notice, document of further assurances or other document or writing or take such other additional actions as Pfizer may reasonably require to perfect or protect the rights and interests of Pfizer in the Security (including, without limitation, making any filing with the United States Patent and Trademark Office that may be requested by Pfizer or assigning to Pfizer any application, instrument or authorization that seeks or grants approval or authority for the manufacture, production or sale of any E5 Product, Other Antibody Product, and/or Other Septic Shock Product). Except after an Event of Default, nothing in this Security Agreement shall accelerate or expand Xoma's disclosure obligations beyond those obligations set forth in other agreements between Xoma and Pfizer; provided, however, (i) Xoma shall provide to Pfizer notice of the filing of any application for a Patent or the issuance of any Patent anywhere in the Territory and (ii) Xoma shall provide to Pfizer all information that is reasonably necessary for Pfizer to perfect its security interests and liens in the Security. Xoma, however, hereby irrevocably appoints Pfizer as its agent to execute such documents or take such other action as is reasonably necessary to perfect or protect Pfizer's rights and interests in the Security. Xoma shall not file or authorize to be filed in any jurisdiction in the Territory or with any public office any financing statement, filing, application, assignment, registration, notice, document of further assurances or other document or writing relating to the Security in which Pfizer is not named as the sole secured party or assignee; provided, however, Xoma may record or file any Existing License (as such term is defined in Section 7 of this Security Agreement) if (i) such recording or filing does not have the effect of perfecting or creating a security interest or lien in the Security and (ii) such recording or filing would be subject to and not inconsistent with the rights and interests of Pfizer created by this Security Agreement and subject to and not inconsistent with the provisions of Section 7 of this Security Agreement. Notwithstanding anything to the contrary in this Security Agreement, Xoma shall not be required to file, prosecute, enforce or maintain any Patent or any application for a Patent except to the extent required by the Agreements; provided, however, nothing in this sentence of this Subsection (g) shall affect, limit or restrict (i) whatever rights or remedies Pfizer may possess after an Event of Default under this Security Agreement or under law or equity and (ii) Xoma's obligations and agreements after an Event of Default.

(h) Xoma shall keep the Equipment in good condition and repair, normal wear and tear excepted. Subject to the provisions of Section 5(c) of this Security Agreement, Xoma shall do all acts that may be reasonable and necessary to maintain, preserve, and protect the Security that is tangible personal property, including the payment of all repair, maintenance, and preservation costs relating to the Security. Xoma shall pay promptly when due all taxes, assessments, charges, encumbrances, levies, and liens now or hereafter imposed upon or affecting the Security subject to Xoma's right to contest in good faith any such claim or lien and to defer payment pending the resolution of such contest unless Pfizer's rights or interests in the Security shall be materially threatened or diminished by such deferral of payment.

(i) Xoma shall not use or permit any Security to be used unlawfully or in violation of any provision of this Security Agreement, or any applicable statute, regulation or ordinance or any policy of insurance covering the Security. To the extent not inconsistent with the License Agreement or any other written agreement between Pfizer and Xoma, Xoma shall appear in and defend any proceedings or lawsuits that may affect its right, title or interest to the Security or Pfizer's rights or interests in the Security in the United States and, at Pfizer's expense, any other country in the Territory where directed to by Pfizer.

6. After an Event of Default has occurred, Pfizer, at its option, may, in its name or in the name of Xoma or otherwise, demand, sue for, collect or receive any money or property at any time payable or receivable on account of or in exchange for, or make any compromise or settlement deemed desirable with respect to, any of the Security, but Pfizer shall be under no obligation to do so, or Pfizer may extend the time of payment, arrange for payment in installments, or otherwise modify the terms of, or release, any of the Security, without thereby incurring responsibility to, or discharging otherwise
7. After an Event of Default has occurred, Pfizer may also, at its option and without notice to or demand on Xoma, and in addition to all rights and remedies available to Pfizer as a secured party, at law or in equity or otherwise, (a) foreclose or otherwise enforce Pfizer's security interests and liens or other rights and interests in the Security in any manner permitted by law or provided for in this Security Agreement, (b) sell or otherwise dispose of the Security or any part thereof or interest therein at one or more public or private sales at Pfizer's place of business or any other place or places, whether or not such Security is present at the place of sale, for cash or credit or future delivery, on such terms and in such manner as Pfizer may reasonably determine, (c) recover from Xoma the reasonable costs and expenses (including, without limitation, attorneys' fees) reasonably incurred or paid by Pfizer in exercising any right, power or remedy provided by law or this Security Agreement (including, without limitation, the reasonable costs and expenses incurred in assembling, taking, repairing or selling the Security or any part thereof), (d) require Xoma to promptly assemble the Security and all information, books, records, and other materials relating thereto and make such available to Pfizer at a place designated by Pfizer, (e) enter upon the property where any Security is located and take possession thereof with or without judicial process, (f) cure any breach, default or improper termination of any agreement, contract, lease or license of Xoma that is included or encompassed in the Security, (g) substitute itself for Xoma in any proceeding or lawsuit included or encompassed within, arising from, related to or connected with the Security or Pfizer's rights and interests in it (including, without limitation, substituting itself for Xoma in any proceeding seeking the approval of any application for a Patent or any proceeding seeking approval or authorization for the manufacture, production or sale of any ES Product, Other Antibody Product, and/or Other Septic Shock Product) or commence, on behalf of Xoma and in Xoma's name, any proceeding or lawsuit to protect the Security or Pfizer's rights and interests in it, and (h) prior to the disposition of the Security, prepare it for disposition in any manner and to the extent Pfizer deems appropriate. Xoma shall be given ten (10) business days prior written notice of the time and place of any public sales or of the time after which any private sales or other intended dispositions are to be made, which notice Xoma hereby agrees shall be deemed reasonable notice thereof; provided, however, Pfizer shall not be required to give such notice in the case of any Security that Pfizer in good faith determines to be declining speedily in value. Upon any sale or other disposition pursuant to this Security Agreement, Pfizer shall have the right to deliver, assign, and transfer to the purchaser thereof the Security or portion thereof so sold or disposed of by Pfizer. Each purchaser at any such sale or other disposition (including Pfizer) shall hold the Security free from any claim or right of whatever kind, including any equity or right of redemption of Xoma.

Notwithstanding any of the provisions of this Security Agreement, Pfizer (for the purposes of this second paragraph of this Section 7 the term "Pfizer" means Pfizer and its Affiliates, successors, and assigns) covenants for the benefit of and any licensee or sublicensee of any of the Security from Xoma that, in or after exercising its rights and remedies under this Security Agreement, Pfizer shall not sue for infringement or misappropriation any person or other entity (a "Licensee") that has licensed or sublicensed rights in any of the Security, including any of the Patents and Technical Information, from Xoma pursuant to a license (or sublicense) (an "Existing License") that is not inconsistent with or contrary to the provisions of Section 5(d) of this Security Agreement, as Xoma's successor in interest, has no right to terminate such Existing License with such Licensee pursuant to the terms and conditions of such Existing License or otherwise, including, without limitation, any rightful repudiation (by words or action) or termination by Xoma of its obligations, covenants or agreements with such Licensee under an Existing License, and (ii) Xoma has not rejected its agreement with such Licensee under an Existing License pursuant to Section 365 of the Bankruptcy Code, 11 U.S.C ss. 365; provided, however, subject to Pfizer's agreement stated in this first sentence of this second paragraph of this Section 7, nothing in this Section 7 shall restrict or limit in any fashion or manner whatsoever (i) Pfizer's rights and interests (including security interests and liens) in the proceeds of any Existing License and the claims, causes of action or lawsuits included or encompassed within the Security, (ii) Pfizer's rights and remedies against a Licensee arising under either an Existing License, this Security Agreement, the Agreements or otherwise, (iii) the description and scope of the Security granted to Pfizer pursuant to Section 2 of
this Security Agreement, and (iv) Pfizer's rights or interests in any of the Security (including, without limitation, all claims and fields of use included or encompassed within any of the Patents and any of the Technical Information) or Pfizer's rights or remedies against the Security or Xoma under this Security Agreement or otherwise.

8. After an Event of Default has occurred, Xoma shall pay to Pfizer all reasonable expenses of, or incidental to, the enforcement or application of any of the provisions hereof, or any actual or attempted sale, or any exchange, enforcement, collection, compromise or settlement of any of the Security or receipt of the proceeds thereof, and for the care of the Security and defending or asserting the rights and claims of Pfizer in respect thereof, by litigation or otherwise, including, without limitation, reasonable attorneys' fees and insurance expenses; and all such expenses shall be Secured Obligations within the terms of this Security Agreement and, at

Pfizer's option, set-off against any amounts owing to Xoma under the License Agreement or Supply Agreement.

9. No delay on the part of Pfizer in exercising any power or right hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any power or right hereunder preclude other or further exercise thereof or the exercise of any other power or right. The rights, remedies, and benefits herein expressly specified are cumulative and not exclusive of any rights, remedies or benefits that Pfizer may otherwise have. Xoma hereby waives presentment, notice of dishonor, and protest of all instruments included in or evidencing Xoma's liability for payment or performance of the Secured Obligations or the Security and any and all other notices and demands whatsoever, whether or not related to such instruments. Xoma hereby waives, to the full extent permitted by law, the right to plead any statute of limitations as a defense to any action or proceeding for the enforcement hereof, or for the enforcement of any of the Secured Obligations.

10. For purposes of this Security Agreement, an "Event of Default" shall be deemed to occur if (a) Xoma shall materially breach or materially default in the performance or observance of any of its material obligations, covenants or agreements under Section 4.1 and Section 4.2 of the R&D Agreement, and such breach or default is not cured within the cure period following notice thereof as provided therein, (b) Xoma shall materially breach or materially default in the performance or observance of any of its material obligations, covenants or agreements under the License Agreement, and such breach or default is not cured within the cure period following notice thereof as provided therein, (c) Xoma shall breach or default in the performance of or observance of any of its obligations, covenants or agreements under Section 5(d) of this Security Agreement or (d) Pfizer obtains a judgment for money or specific performance against Xoma arising out of Xoma's breach or default in the performance of its obligations, covenants or agreements under this Security Agreement (other than Section 5(d) of this Security Agreement) and such judgment goes unsatisfied for a period of thirty (30) days after the resolution of the last appeal taken by Xoma of such judgment; provided, however, nothing in this Section 10 shall restrict or limit Pfizer's right to bring an action in equity or law against Xoma for its breach or default of any of its obligations, covenants or agreements set forth in this Security Agreement or in the Agreements.

11. No provision hereof shall be modified or limited except by a written instrument expressly referring hereto and to the provision so modified or limited. This Security Agreement shall be binding upon the successors and assigns of Xoma and Pfizer and shall be assignable by Pfizer to any of its Affiliates. Xoma and Pfizer intend to bind any subsequent purchaser of the Security in accordance with the provisions of Section 17 of this Security Agreement.

12. No course of dealing, omission or delay of Pfizer in the exercise of any right, power or privilege referred to in this Security Agreement or in either of the Agreements shall operate as a waiver hereof, nor shall any partial exercise thereof preclude any further exercise thereof, as Pfizer may exercise each such right, power or privilege either independently or concurrently and as often and in such order as Pfizer deems expedient. Nothing in the Agreements and the Supply Agreement shall be deemed to limit or restrict Pfizer's remedies, rights and interests under this Security Agreement.

13. Any notice, consent or approval required under this Security Agreement shall be in writing sent by registered or certified airmail, postage prepaid, or by telex or cable (confirmed by such registered or certified mail) and addressed as follows:

If to Pfizer:  If to Xoma:

26

27

28
14. If Pfizer, pursuant to Sections 4, 6.1 or 10.2 of the R&D Agreement or Section 9.03 of the License Agreement (or in the case of an Other Septic Shock Product accepted under

Section 4.2 of the R&D Agreement in accordance with the terms of a license agreement between Pfizer and Xoma with respect thereto), (a) rejects its option to acquire rights to any Other Antibody Product or Other Septic Shock Product or terminates its rights or licenses with respect to any such Other Antibody Product or Other Septic Shock Product or any E5 Product (the "Rejected or Terminated Product") and (b) Pfizer no longer has any right under the R&D Agreement to exercise an option at any time in the future to acquire such rights to such Rejected or Terminated Product or to acquire any other rights or interests in such Rejected or Terminated Product, (i) such Rejected or Terminated Product shall no longer be included or encompassed within the Security if it is in no fashion or manner included or encompassed within the Security and (ii) any Security that is exclusively and solely used in and related to such Rejected or Terminated Product and is in no fashion or manner used in and related to any E5 Product, Other Antibody Product, and/or Other Septic Shock Product (which is not a Rejected or Terminated Product) shall also not be included or encompassed within the Security (the "Rejected or Terminated Security"). Pfizer shall execute any financing statement, filing, application, assignment registration, notice, document of further assurances or other document or writing to evidence Pfizer's lack of rights or interests in any Rejected or Terminated Product and any Rejected or Terminated Security.

15. If it should appear that any provisions of this Security Agreement are in conflict with any statute or rule of law of any jurisdiction wherein it may be sought to be enforced, then such provisions shall be deemed null and void to the extent that they conflict therewith, but without invalidating the remaining provisions hereof.

16. This Security Agreement and the rights and obligations of the parties hereunder shall be construed in accordance with and governed by the laws of the State of California.

17. To state and evidence the agreements between Xoma and Pfizer embodied in this Security Agreement, any financing statement or filing made by Pfizer (or any of its Affiliates) with any governmental authority in the Territory (including, without limitation, any UCC-1 financing statement) to perfect or protect Pfizer's rights and interests in the Security shall include the following language:

Subject to the terms and conditions of a certain Security Agreement (the "Security Agreement") between Pfizer Inc. (including its Affiliates (as such term is defined in the Security Agreement), successors, and assigns) ("Pfizer") and Xoma Corporation ("Xoma"), Pfizer and Xoma intend that the Security Agreement shall bind Pfizer and any subsequent purchaser of the Security (as such term is defined in the Security Agreement) that purchases the Security pursuant to, and after, Pfizer's exercise of its rights and remedies under the Security Agreement from suing for infringement or misappropriation any person or other entity (a "Licensee"; this is the meaning given such term in the Security Agreement) that has licensed or sublicensed rights in any of the Security, including any of the Patents and Technical Information (as such terms are defined in the Security Agreement), from Xoma pursuant to a license (or sublicense) (an "Existing License"; this is the meaning given such term in the Security Agreement) that is not inconsistent with or contrary to the provisions of Section 5(d) of the Security Agreement so long as (i) Xoma or Pfizer, as Xoma's successor in interest, has no right to terminate such Existing License with such Licensee pursuant to the terms and conditions of such Existing License or otherwise, including, without limitation, any rightful repudiation (by words or action) or termination by Xoma of its obligations, covenants or agreements with such Licensee under an Existing License, and (ii) Xoma has not rejected its agreement with such Licensee under an Existing License pursuant to Section 365 of the Bankruptcy Code, 11 U.S.C ss. 365; provided, however, subject to Pfizer's agreement stated
in the first sentence of the second paragraph of Section 7 of the Security Agreement, nothing in Section 7 of the Security Agreement shall restrict or limit in any fashion or manner whatsoever (i) Pfizer's rights and interests (including security interests and liens) in the proceeds of any Existing License and the claims, causes of action or lawsuits included or encompassed within the Security, (ii) Pfizer's rights and remedies against a Licensee arising under either an Existing License, the Security Agreement, the Agreements (as such term is defined in the Security Agreement) or otherwise, (iii) the description and scope of the Security granted to Pfizer pursuant to Section 2 of the Security Agreement, and (iv) Pfizer's rights or interests in any of the Security (including, without limitation, all claims and fields of use included or encompassed within any of the Patents and any of the Technical Information) or Pfizer's rights or remedies against the Security or Xoma under the Security Agreement or otherwise.

18. This Security Agreement shall terminate at such time that (a) Xoma shall have fully performed and complied with, in all material respects, all of its material obligations and agreements with Pfizer under the License Agreement (other than any obligation or agreement stated in Section 10.01 of the License Agreement) and Section 4.1 of the R&D Agreement and Pfizer, under the Agreements, shall have no rights or interests (including, without limitation, future rights, interests of expectation, a Product” and/or any Other Antibody Product and Pfizer shall have no right to obtain any such rights or interests; (b) no Event of Default shall exist and be occurring; (c) no claim or cause of action arising or resulting from any Event of Default shall exist; and (d) no lawsuit or appeal thereof that is or could be encompassed in Section 10(d) of this Security Agreement shall exist or be pending (the events, claims, and occurrences described in or encompassed or included within Subsections (a) through (d) of this Section 18 shall hereinafter be referred to collectively as the "Continuing Obligations"). In the event that Pfizer alleges, in the exercise of its reasonable judgment, that this Security Agreement has not and cannot terminate due only to the occurrence or existence of any Continuing Obligation described in or encompassed or included within Subsection (c) or Subsection (d) of this Section 18 (an "Open Secured Obligation"), this Security Agreement shall terminate and be released upon the occurrence or existence of any other Continuing Obligation, including any Open Secured Obligation) if, without admitting the existence or merit of any disputed Open Secured Obligation and without prejudice to Xoma's right to dispute or defend against any Open Secured Obligation, (i) Xoma and Pfizer agree as to the potential liquidated amount of such Open Secured Obligation (the "Claim Amount") and Xoma shall have provided to Pfizer a letter of credit or surety bond in the Claim Amount, in a form and substance reasonably satisfactory to Pfizer, to secure Xoma's full payment of such Open Secured Obligation upon entry of a final judgment in Pfizer's favor on such Open Secured Claim or (ii) Xoma and Pfizer agree to a mechanism or arbitrator to settle the disputes (the "Dispute Resolution Mechanism") between them regarding the Claim Amount and the form and substance of the letter of credit or surety bond to be given to Pfizer to secure Xoma's full payment of such Open Secured Obligation upon entry of a final judgment in Pfizer's favor on such Open Secured Claim and Xoma provides to Pfizer the letter of credit or surety bond in the Claim Amount and in the form and substance established by the Dispute Resolution Mechanism; provided, however, in the absence of any agreement between Xoma and Pfizer as to the Dispute Resolution Mechanism, a federal court having jurisdiction over Xoma and Pfizer (or, if no jurisdiction shall exist in any federal court in the United States, then the Superior Court of California for the County of Alameda) shall serve as the Dispute Resolution Mechanism in accordance with and subject to the provisions of Subsection (ii) of this Section 18. Nothing in this Security Agreement shall cause this Security Agreement or the rights and interests created hereunder to terminate or lapse or shall cause any property of Xoma to not be included or encompassed within the Security due to the rejection or repudiation of Xoma's obligations and agreements (including, without limitation, a rejection under 11 U.S.C. ss. 365) stated in this Security Agreement or either of the Agreements except in accordance with and consistent with the express terms and provisions of such agreements.

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

PFIZER INC.
By /s/William C. Steere
Title Vice President
Debt: Xoma Corporation

Appendix A
Page 1

LICENSED PATENTS

<table>
<thead>
<tr>
<th>I</th>
<th>II</th>
<th>III</th>
</tr>
</thead>
<tbody>
<tr>
<td>US 06/855,878 (2)</td>
<td>US 06/781,242 (1)</td>
<td>US 06/855,878 (2)</td>
</tr>
<tr>
<td>(Plus foreign filings listed under Col I)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AUSTRALIA 63236/86</td>
<td>US 06/855,878 (2)</td>
<td>US 07/036,766 (3)</td>
</tr>
<tr>
<td>CANADA 519,066</td>
<td>U.S. 07/036,766 (3)</td>
<td></td>
</tr>
<tr>
<td>EUROPE 86306420.0 (10 EPO Countries)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IRELAND 2546/86</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ISRAEL 79719</td>
<td></td>
<td></td>
</tr>
<tr>
<td>JAPAN 229481/86</td>
<td></td>
<td></td>
</tr>
<tr>
<td>KOREA 8128/86</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NEW ZEALAND 217283</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PHILLIPINES 34297</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SOUTH AFRICA 86/7342</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SPAIN 8602198</td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. 07/036,766 (3)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(1) Filing Date 9/27/84
(2) Filing Date 4/24/86
(3) Filing Date 4/10/87

Appendix B
Page 1

All equipment of Xoma Corporation ("Xoma"), now owned, leased or controlled or hereafter acquired, owned, leased or controlled by Xoma that is used in the purification of raw antibody into purified active antibody for the purpose of producing and manufacturing products for supply to Pfizer, Inc. pursuant to a certain Supply Agreement, between Pfizer and Xoma including, without limitation, the following equipment of Xoma so long as so used or intended to be so used:

<table>
<thead>
<tr>
<th>Equipment Description</th>
<th>Serial Number</th>
<th>Leased Equipment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amicon Columns</td>
<td>180-0101</td>
<td></td>
</tr>
<tr>
<td></td>
<td>0309</td>
<td></td>
</tr>
<tr>
<td></td>
<td>450-006</td>
<td></td>
</tr>
<tr>
<td></td>
<td>300-0089</td>
<td></td>
</tr>
<tr>
<td></td>
<td>180-0149</td>
<td></td>
</tr>
<tr>
<td></td>
<td>NSN (1)</td>
<td></td>
</tr>
<tr>
<td>Masterflex Pumps</td>
<td>391282</td>
<td></td>
</tr>
<tr>
<td></td>
<td>401895</td>
<td></td>
</tr>
<tr>
<td></td>
<td>405402</td>
<td></td>
</tr>
<tr>
<td></td>
<td>426501</td>
<td></td>
</tr>
<tr>
<td>LKB Uvicords SII</td>
<td>1723</td>
<td></td>
</tr>
<tr>
<td></td>
<td>282</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>3783</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>128</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3788</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>3798</td>
<td>X</td>
</tr>
<tr>
<td>Chart Records:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kipp &amp; Zonen</td>
<td>866600</td>
<td></td>
</tr>
<tr>
<td>E&amp;K</td>
<td>842476</td>
<td></td>
</tr>
<tr>
<td></td>
<td>861781</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>861779</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>861778</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>861780</td>
<td>X</td>
</tr>
<tr>
<td>Millipore Diafiltration</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unit</td>
<td>NSN (1)</td>
<td></td>
</tr>
</tbody>
</table>
(1) No Serial Number on Equipment

Debtor: Xoma Corporation
Appendix B
Page 2

<table>
<thead>
<tr>
<th>Equipment Description</th>
<th>Serial Number</th>
<th>Leased Equipment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lightnin Mixers</td>
<td>86/271843/4</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>86/271843/3</td>
<td></td>
</tr>
<tr>
<td></td>
<td>86/271843/5</td>
<td></td>
</tr>
<tr>
<td></td>
<td>MN DS3004</td>
<td></td>
</tr>
<tr>
<td></td>
<td>MN DS3004</td>
<td></td>
</tr>
<tr>
<td>Watson-Marlow Pumps</td>
<td>106149</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>105307</td>
<td></td>
</tr>
<tr>
<td></td>
<td>105704</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>105311</td>
<td></td>
</tr>
<tr>
<td></td>
<td>105306</td>
<td></td>
</tr>
<tr>
<td>Millipore High Volume Cell</td>
<td>NSN (1)</td>
<td>X</td>
</tr>
<tr>
<td>Mettler PE22 Balance</td>
<td>F12856</td>
<td></td>
</tr>
<tr>
<td>Sartorius Filter Housing</td>
<td>3607019</td>
<td>X</td>
</tr>
</tbody>
</table>

(1) No Serial Number on Equipment

Nothing herein shall be deemed to grant a security interest to Pfizer in any equipment leased to Xoma (the "Leased Equipment") except to the extent of Xoma's rights and interests as lessee in the Leased Equipment and then only to the extent the granting of such security interest in the Leased Equipment would not cause a material breach of any lease between Xoma and any equipment lessor; provided, however, Pfizer, notwithstanding any other agreement between it and Xoma, shall have a security interest in the proceeds of any lease of the Leased Equipment to Xoma.
MANUFACTURING AGREEMENT

AGREEMENT dated as of January 1, 1991 by and between XOMA CORPORATION ("Xoma"), a Delaware corporation with principal offices at 2910 7th Street (P.O. Box 11261), Berkeley, California 94710, and PFIZER INC ("Pfizer"), a Delaware corporation with principal offices at 235 East 42nd Street, New York, New York 10017 and a facility at 630 Flushing Avenue, Brooklyn, New York 11206 (the "Facility").

WHEREAS, the defined terms used in this Agreement shall have the meanings ascribed to them in Attachment 1 attached hereto; and

WHEREAS, the parties desire that Pfizer perform certain manufacturing and distribution activities pursuant to Xoma's PLA, in accordance with the terms and subject to the conditions set forth in this Agreement;

NOW, THEREFORE, in consideration of the mutual covenants and agreements provided herein, Pfizer and Xoma hereby agree as follows:

1. DESCRIPTION OF STEPS

1.01 General. The parties hereby agree that Xoma shall package, label and ship E5 to Pfizer pursuant to Section 1.02, in accordance with the terms and subject to the conditions set forth herein. In addition, the parties hereby agree that Pfizer shall have the right to perform additional steps on such E5 pursuant to Sections 1.03, 1.04, and 1.05, in accordance with the terms and subject to the conditions set forth herein. The parties agree and acknowledge that all of the steps to be performed by Pfizer shall be performed according to specifications and procedures that comply with Sections 6.01 and 6.02.

1.02 Packaging, Labelling and Shipment to Pfizer. Xoma shall fill and label bulk drug containers with E5, freeze the filled and labelled containers and ship the frozen containers to Pfizer by Federal Express Overnight Delivery, or another mutually agreed upon delivery service.

1.03 Steps Prior to Filling, Labelling and Packaging. Pfizer shall perform the following steps prior to filling, labelling and packaging:

1. Receive frozen E5 from Xoma, inspect the containers and labels and store the E5 frozen.

2) Review the Xoma certificate of analysis and shipping records.

3) Thaw frozen E5 under controlled conditions.

4) Sample the E5.

1.04 Filling, Labelling and Packaging Steps. Pfizer shall perform the following filling, labelling and packaging steps:

1) Process the E5 by aseptic filtration.

2) Fill the E5 into sterilized vials and seal the filled vials.

3) Conduct in-process testing, which may include fill volume, seal integrity and appearance.

4) Label and package the filled vials.

5) Sample the labelled vials.

6) Submit lot samples and Xoma test data to CBER for release.

7) Upon approval by CBER, ship the filled, labelled and packaged E5 for commercial use.

8) Maintain production records, quality control records and reserve samples as required.

1.05 Storage and Handling. Pfizer shall maintain the appropriate storage conditions throughout holding and shipping of the filled and labelled E5, in accordance with Sections 6.01 and 6.02.

2. SUPERVISION BY XOMA
2.01 The following employee of Xoma is hereby designated as the individual responsible for ensuring that the above operations are carried out in accordance with the PLA and GMP:

Name:          C.L. Dellio  
Title:         Senior Vice President-Operations  
Address:       Xoma Corporation Headquarters  
               2910 Seventh Street  
               Berkeley, California 94710  
Telephone  
Number:        (415) 644-1170

Another employee of Xoma may be designated from time to time, provided Pfizer is notified in advance in writing of his or her name, title, address and telephone number.

2.02 The individual designated by Xoma pursuant to Section 2.01 shall carry out his responsibilities through periodic on-site visits, telephonic reports and written memoranda. Such individual shall be assisted by Dr. Frances M. Bogdansky, Vice President, Quality Control of Xoma, or her designee or replacement, who shall monitor quality control and compliance issues. Xoma will continue to monitor Pfizer's operations as they relate to E5 by conducting regularly scheduled audits of the Facility to assure ongoing compliance with the PLA and GMP.

3. STANDARD OPERATING PROCEDURES AND FORMS

3.01 All activities conducted hereunder by Pfizer will be conducted in accordance with Standard Operating Procedures prepared by Pfizer that comply with Sections 6.01 and 6.02.

3.02 Pfizer agrees that for each lot of E5 filled and packaged hereunder, Pfizer shall complete and furnish to Xoma batch production records. It is acknowledged by the parties that such records shall include test data for each lot.

3.03 Xoma agrees to maintain a complete record of information for each lot for the period required by law, including the information referred to in Section 3.02. Xoma acknowledges that maintenance of summaries of such information, as opposed to complete copies of the original records themselves, shall not constitute fulfillment of the obligation referred to in the immediately preceding sentence.

4. DISTRIBUTION AND RECALL SYSTEM

4.01 The parties agree that, after filled and packaged E5 product has been approved for release and placed into finished stock, it is subject to being shipped to Pfizer's distribution centers for distribution to customers. Pfizer will comply with Section 1.05 in holding and shipping the finished stock at and from such distribution centers.

4.02 The parties agree that, after released E5 product has been distributed to customers, it shall be subject to recall by Pfizer using the sales information recorded by Pfizer's distribution centers at the time of sale.

5. PERMISSION TO INSPECT

5.01 Pfizer hereby agrees and acknowledges that it shall permit authorized representatives of the FDA, including without limitation authorized representatives of the CBER, to inspect those portions of the Pfizer facilities in which Pfizer performs the activities provided for in this Agreement.

6. COMPLIANCE WITH CURRENT GMP AND PLA

6.01 Pfizer agrees that, in performing the activities provided for in this Agreement, it shall comply with GMP.

6.02 Pfizer agrees to perform all of the activities provided for in this Agreement in accordance with the PLA. In the event Xoma desires to modify the PLA, Xoma agrees to notify Pfizer of the planned modifications a reasonable period of time before the submission of such modifications to the FDA, so that Pfizer has sufficient time to implement those modifications that affect its activities hereunder.

7. FDA REGISTRATION OF THE FACILITY

Pfizer shall perform the activities provided for in this Agreement at its Brooklyn Facility, unless otherwise specified or approved in advance by Xoma and the appropriate regulatory authorities. The Facility is registered with the FDA, its current Drug Establishment Registration Number being 2410924.

8. LABEL CONTROL
8.01 Pfizer acknowledges that an example of the in-process labels to be used by Pfizer in performing the activities provided for in this Agreement are attached hereto as Attachment 8.01. The parties agree that Pfizer has the right to modify said labels to the extent permitted by law, upon written notice to Xoma and, where required, after authorization by CBER.

8.02 Xoma acknowledges that copies of shipping labels to be used by Xoma in performing the activities provided for in this Agreement are attached hereto as Attachment 8.02. The parties agree that Xoma has the right to modify said labels to the extent permitted by law, upon written notice to Pfizer and, where required, after authorization by CBER.

8.03 Each party agrees to ensure that all of its labels comply with the applicable laws and regulations including without limitation Section 351(a) (2) of the Public Health Service Act, Biological Products, which requires, among other things, that each package be plainly marked with a manufacturer license number.

9. ULTIMATE USE AND EXPORT OF E5

9.01 Pfizer represents that (a) E5 may be both shipped domestically and exported, and (b) E5 is an injectable product.

9.02 Pfizer further represents that (a) it shall not permit the return to the U.S. of any partially processed E5 product received hereunder from Xoma that is exported by Pfizer or any E5 product processed by Pfizer hereunder and exported by Pfizer; provided that Pfizer shall permit the return of any such E5 product to Pfizer (b) the U.S. PLA license number for E5 shall not appear on the labelling of the final E5 product received or processed by Pfizer hereunder that is exported, it being acknowledged and agreed by Pfizer that it shall not claim that any exported E5 product processed by Pfizer hereunder meets U.S. standards, and (c) any E5 product exported by Pfizer shall meet the specifications of the foreign purchaser and shall not be in conflict with the laws of the importing country.

10. TERM

This Agreement shall be effective as of the date first set forth above and shall remain in effect for an unlimited period of time, subject to early termination in accordance with the terms of the provisions of Section 11.

11. TERMINATION

11.01 In the event Pfizer ceases to have the right to use or sell E5 product, this Agreement shall terminate automatically, effective the date on which such right ceases.

11.02 Pfizer shall have the right, exercisable in its sole discretion with or without cause, to terminate this Agreement by giving to Xoma one (1) year's advance written notice of termination. After giving notice of termination and throughout the year ending on the date the notice of termination becomes effective, Pfizer agrees to render its reasonable cooperation and assistance in connection with the assumption by Xoma or a third party of Pfizer's obligations and duties hereunder.

11.03 If either Pfizer or Xoma materially breaches or defaults in the performance or observance of any of the provisions of this Agreement, and such breach or default is not cured within ninety (90) days after the giving of notice by the other party specifying such breach or default, the other party shall have the right to terminate this Agreement in full upon a further thirty (30) days' notice.

12. MISCELLANEOUS

12.01 Force Majeure. No party shall be liable for failure of or delay in performing obligations set forth in this Agreement, and no party shall be deemed in breach of its obligations, if such failure or delay is due to natural disasters or any causes reasonably beyond the control of such party.

12.02 Assignability. The Agreement may not be assigned by either party without the prior consent of the other party; provided, however, (a) either party may assign this Agreement to any entity which acquires substantially all of its assets and business, and (b) Pfizer may assign this Agreement, in whole or in part, to any Affiliate of Pfizer.

12.03 Pfizer Status. For the purpose of carrying out this Agreement, Pfizer shall act as an independent contractor and not as partner, joint venturer, or agent and shall not bind nor attempt to bind Xoma to any contract.
12.04 Notices. Any notice, consent or approval required under this Agreement shall be in writing sent by registered or certified mail, postage prepaid, or by telex or teletypewriter (confirmed by such registered or certified mail) and addressed as follows:

If to Pfizer:

Pfizer Inc
235 East 42nd Street
New York, New York 10017
Attn: General Counsel
Telex: 856-697
Telecopier No.: (212) 573-1445

If to Xoma:

Xoma Corporation
2910 Seventh Street
Berkeley, California 94710
Attn: General Counsel
Telex: 420440
Telecopier No.: (415) 644-2011

All notices shall be deemed to be effective on the date of mailing. In case any party changes its address at which notice is to be received, written notice of such change shall be given without delay to the other party.

12.05 Entire Agreement. This Agreement sets forth the entire agreement and understanding among the parties hereto as to the subject matter hereof and has priority over all documents, verbal consents or understandings made between Pfizer and Xoma before the conclusion of this Agreement with respect to the subject matter hereof; none of the terms of this Agreement shall be amended or modified except in writing signed by the parties hereto.

12.06 Waivers. A waiver by any party of any term or condition of this Agreement in any one instance shall not be deemed or construed to be a waiver of such term or condition for any similar instance in the future or of any subsequent breach hereof.

12.07 Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to the conflicts of laws provisions thereof.

12.08 Remedies. The rights and remedies of a party set forth herein with respect to failure of the other to comply with the terms of this Agreement (including, without limitation, rights of full or partial termination of this Agreement) are not exclusive, the exercise thereof shall not constitute an election of remedies and the aggrieved party shall in all events be entitled to seek whatever additional remedies may be available in law or in equity.

12.09 Headings and Sections. Headings in this Agreement are included herein for ease of reference only and shall have no legal effect. References to sections are to sections of this Agreement, unless otherwise specified.

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

XOMA CORPORATION

By /s/ C.L. Dellio
Clarence L. Dellio,
Senior Vice President, Operations

PFIZER INC

By /s/ John Mitchell
Vice President

SCHEDULE OF ATTACHMENTS

Attachment 1 Definitions
Attachment 8.01 Pfizer In-Process Labels
Attachment 8.02 Xoma Shipping Labels
1. "Affiliate" means (a) any company owned or controlled to the extent of at least fifty percent (50%) of its issued and voting capital by a party to this Agreement and any other company so owned or controlled (directly or indirectly) by any such company or the owner of any such company, or (b) any partnership, joint venture or other entity directly or indirectly controlled by, controlling, or under common control of, to the extent of fifty percent (50%) or more of voting power (or otherwise having power to control its general activities), a party to this Agreement, but in each case only for so long as such ownership or control shall continue.

2. "CBER" means FDA's Center for Biologics Evaluation and Research.

3. "E5" means the antibody drug substance that is the subject of the PLA.

4. "FDA" means the U.S. Food and Drug Administration.

5. "GMP" means current good manufacturing practices, as specified in regulations promulgated from time to time by the FDA.

6. "PLA" means the application for a product license submitted by Xoma to the FDA for E5 on or about March 31, 1989 and assigned reference number 89-0246, as amended from time to time.

ATTACHMENT 8.01

PFIZER IN-PROCESS LABELS

1. Label for bulk drug container
   (Image of label with the following data inserted here)

   E5 ANTIBODY
   LOT NUMBER       ITEM CODE
   (BAR CODE)       (BAR CODE)
   R00000           97205
   QUANTITY         UM
   (BAR CODE)       (BAR CODE)
   TBD              GM
   HAZARD WARNING INFORMATION
   NONE
   See MSDS for Full Information

2. Label for in-process filled vials

   E - 5 ANTIBODY 2 MG/ML 10 ML FILL LOT # 00000A QC 721

ATTACHMENT 8.02

XOMA SHIPPING LABELS

(Image of label with the following information inserted here)

E5(R) DRUG SUBSTANCE  XOMA
Volume: Liters
2 mg/ml Monoclonal Antiendotoxin Antibody in 5 mM Sodium Phosphate/0.15 M Sodium Chloride Buffer, pH 7.3 containing 0.01% Polysorbate 80
CAUTION: NEW DRUG -- LIMITED BY FEDERAL LAW TO INVESTIGATIONAL USE FOR FURTHER MANUFACTURING PROCESSING OR REPACKING ONLY. XOMA Corporation Store at -10(degree)C to -20(degree)C Berkeley, CA 94710 P/N 101390 Lot: XXXXXXX Label 101554E
This Settlement Agreement ("Agreement"), effective as of the 28th day of July, 1992, is made and entered into by and among Centocor, Inc., a Pennsylvania corporation having offices at 200 Great Valley Parkway, Malvern, Pennsylvania 19355 ("Centocor"); Pfizer Inc, a Delaware corporation having offices at 235 East 42nd Street, New York, New York 10017 ("Pfizer"); The Regents of the University of California, a California corporation having offices at 300 Lakeside Drive, 22nd Floor, Oakland, California 94612 ("University"); Velos Group, a Maryland partnership having a business address of 4824 Montgomery Lane, Bethesda, Maryland 20814 ("Velos"); and Xoma Corporation, a Delaware corporation having offices at 2910 Seventh Street, Berkeley, California 94710 ("Xoma").

RECITALS

WHEREAS, Centocor has developed a product for treating bacterial infections comprised of the HA-1A monoclonal antibody ("HA-1A Product") which (i) is the subject of a product license application pending before the United States Food and Drug Administration ("FDA"), and (ii) has been approved for sale by governmental authorities in certain European countries; and

WHEREAS, Xoma has developed a product for treating bacterial infections comprised of the E5 monoclonal antibody ("E5 Product") which is the subject of product license applications pending before (i) the FDA and (ii) the Committee for Proprietary Medicinal Products ("CPMP") and other governmental authorities; and

WHEREAS, Centocor is the owner by assignment of (i) U.S. Patent Application Serial No. 542,111 filed October 14, 1983, and all divisionals, continuations, continuations-in-part, reissues, reexaminations and extensions thereof; and (ii) any patent applications or patents that have issued or may issue under the law of any jurisdiction other than the United States that are counterparts of or that, in whole or in part, claim or are entitled to claim priority directly or indirectly from U.S. Patent Application Serial No. 542,111 and all divisionals, continuations, continuations-in-part, reissues, reexaminations, and extensions thereof (collectively, "Centocor Patent Rights"); and

WHEREAS, Velos is the owner by assignment of patent applications and patents that have issued or may issue under the law of any jurisdiction other than the United States that are counterparts of or that, in whole or in part, claim or are entitled to claim priority directly or indirectly from U.S. Patent Applications Serial Nos. 492,374 and 304,884 and U.S. Letters Patent No. 5,057,598, and all divisionals, continuations, continuations-in-part, reissues, reexaminations and extensions thereof (collectively, "Non-U.S. Velos Patent Rights"), and Centocor is the exclusive licensee of Non-U.S. Velos Patent Rights; and

WHEREAS, University is the owner by assignment of (i) U.S. Patent Application Serial No. 855,878 filed April 24, 1986 and U.S. Letters Patent No. 4,918,163 entitled "Monoclonal Antibodies Specific for Lipid A Determinants on Gram Negative Bacteria" issuing thereon and U.S. Patent Application Serial No. 781,242 filed September 27, 1985 and U.S. Letters Patent No. 4,777,136 issuing thereon and all divisionals, continuations, continuations-in-part, reissues, reexaminations and extensions thereof; and (ii) any patent applications or patents that have issued or may issue under the law of any jurisdiction other than the United States that are counterparts of or that, in whole or in part, claim or are entitled to claim priority directly or indirectly from U.S. Patent Applications Serial Nos. 781,242 and 855,878 and U.S. Letters Patent Nos. 4,918,163 and 4,777,136, and all divisionals, continuations, continuations-in-part, reissues, reexaminations and extensions thereof (collectively, "University Patent Rights"), and XOMA is the exclusive licensee of University Patent Rights; and
WHEREAS, certain of the parties hereto are involved in litigation and other proceedings concerning, inter alia, (a) claims of infringement by HA-1A Product of U.S. Letters Patent No. 4,918,163 in Civil Action No. 92-1267 pending in the United States District Court for the Northern District of California captioned Xoma Corporation v. Centocor, Inc. (the "California Action") in which Centocor has filed a notice of appeal to the United States Court of Appeals for the Federal Circuit, No. 92-1267 (the "Appeal") and in Investigation No. 337-TA-323, pending under suspension in the United States International Trade Commission captioned In the Matter of Certain Monoclonal Antibodies for Therapeutically Treating Humans Having Gram Negative Bacterial Infections, (the "ITC Proceeding"); and (b) claims of infringement by E5 Product of U.S. Letters Patent No. 5,057,598 in Civil Action No. C 92-95 (LON) pending in the United States District Court for the District of Delaware captioned Centocor, Inc. v. Xoma Corporation and Pfizer Inc (the "Delaware Action"); and

WHEREAS, the parties do not intend by this Agreement to affect in any way the rights and obligations, if any, of University, the Board of Trustees of the Leland Stanford Junior University ("Stanford") and Centocor under a license from Stanford to Centocor of the right to make, use and/or sell HA-1A Product ("Stanford/Centocor License"); and

WHEREAS, in order to avoid the expense and inconvenience of continued litigation and other proceedings, the parties hereto wish to compromise and resolve their differences with respect to the above and other matters.

NOW THEREFORE, in consideration of the promises and mutual covenants, agreements and releases herein contained, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Centocor and Velos Releases. Centocor and Velos, on behalf of themselves and their affiliates, parents and subsidiaries and each of their respective directors, officers, employees, partners, representatives, agents, subcontractors, sublicensees, attorneys, heirs, executors, administrators, successors and assigns and all others claiming under or through them (sometimes hereinafter referred to as "Centocor/Velos Releasors" and sometimes hereinafter referred to as "Centocor/Velos Releasees") hereby release and discharge (i) Xoma and Pfizer and their affiliates, parents and subsidiaries and each of their respective employees, partners, representatives, agents, subcontractors, sublicensees, attorneys, heirs, executors, administrators, successors and assigns (sometimes hereinafter referred to as "Xoma/Pfizer Releasees" and sometimes hereinafter referred to as "Xoma/Pfizer Releasors") of and from all manner of actions, causes of action, suits, debts, dues, sums of money, accounts, reckonings, bonds, bills, specialities, covenants, contracts, controversies, agreements, promises, variances, trespasses, damages, judgments, extents, executions, claims and demands whatsoever, in law, in admiralty or in equity, whether known or unknown, which Centocor/Velos Releasors or any of them ever had, now have or may have for, upon or by reason of any matter, cause or thing whatsoever from the beginning of the world to the effective date of this Agreement against Xoma/Pfizer Releasees, or any of them, and (ii) University and its affiliates, parents and subsidiaries and each of their respective directors, officers, employees, partners, representatives, agents, subcontractors, sublicensees, attorneys, heirs, executors, administrators, successors and assigns (sometimes hereinafter referred to as "University Releasees" and sometimes hereinafter referred to as "University Releasors") of and from all manner of actions, causes of action, suits, debts, dues, sums of money, accounts, reckonings, bonds, bills, specialities, covenants, contracts, controversies, agreements, promises, variances, trespasses, damages, judgments, extents, executions, claims and demands whatsoever, in law, in admiralty or in equity, whether known or unknown, which Centocor/Velos Releasors or any of them ever had, now have or may have for, upon or by reason of any matter, cause or thing whatsoever related to the infringement of Centocor Patent Rights, U.S. Velos Patent Rights and/or Non-U.S. Velos Patent Rights from the beginning of the world to the effective date of this Agreement against University Releasees, or any of them.

Centocor and Velos Covenants Not To Sue. Centocor/Velos Releasors covenant that they will not hereafter cause or assist in the assertion, instigation, maintenance or pursuit of any claim for infringement, contributory infringement or inducement of infringement of any patent now or hereafter owned, licensed, acquired or otherwise controlled by Centocor/Velos Releasors against Xoma/Pfizer Releasees and/or University Releasees, or any of them, or their distributors or
customers or any health care professionals, for the making, using or selling of the E5 Product. In addition, Centocor and Velos on behalf of themselves and their respective parents and subsidiaries and each of their respective directors, officers, employees, agents, attorneys and distributors (sometimes hereinafter referred to as "Centocor/Velos Developers"), covenant that they will not hereafter cause or assist in the assertion, instigation, maintenance or pursuit of any claim for infringement, contributory infringement or inducement of infringement of Centocor Patent Rights, U.S. Velos Patent Rights and/or Non-U.S. Velos Patent Rights against [*] [*] and each of their respective directors, officers, employees, agents, attorneys and distributors (sometimes hereinafter referred to as [*]), or any of them, or their customers or any health care professionals, for the making, using or selling of [*]

Also, Centocor/Velos Releasors covenant that they will not hereafter cause or assist in the assertion, instigation, maintenance or pursuit of any claim against Xoma/Pfizer Releasees or University Releasees, or any of them, related to the assertion of University Patent Rights in the California Action and the existence of the Stanford/Centocor License.

3. Xoma, Pfizer and University Releases. (i) Xoma/Pfizer Releasors hereby release and discharge Centocor/Velos Releasees of and from all manner of actions, causes of action, suits, debts, dues, sums of money, accounts, reckonings, bonds, bills, specialties, covenants, contracts, controversies, agreements, promises, variances, trespasses, damages, judgments, extents, executions, claims and demands whatsoever, in law, in admiralty or in equity, whether known or unknown, which Xoma/Pfizer Releasors or any of them ever had, now have or may have for, upon or by reason of any matter, cause or thing whatsoever from the beginning of the world to the effective date of this Agreement against Centocor/Velos Releasees or any of them, and (ii) University Releasors hereby release and discharge Centocor/Velos Releasees of and from all manner of actions, causes of action, suits, debts, dues, sums of money, accounts, reckonings, bonds, bills, specialties, covenants, contracts, controversies, agreements, promises, variances, trespasses, damages, judgments, extents, executions,

claims and demands whatsoever, in law, in admiralty or in equity, whether known or unknown, which University Releasors or any of them ever had, now have or may have for, upon or by reason of any matter, cause or thing whatsoever related to the infringement of University Patent Rights from the beginning of the world to the effective date of this Agreement, against Centocor/Velos Releasees or any of them.

4. Xoma, Pfizer and University Covenants Not To Sue. Xoma/Pfizer Releasors and University Releasors covenant that they will not hereafter cause or assist in the assertion, instigation, maintenance or pursuit of any claim for infringement, contributory infringement or inducement of infringement of any patent now owned, licensed or otherwise controlled by Xoma/Pfizer Releasors and/or University Releasors (or, in the case of Xoma/Pfizer Releasors only, hereafter owned, licensed, acquired or otherwise controlled) against Centocor/Velos Releasees, or any of them, or their distributors or customers or any health care professionals, for the making, using or selling of the HA-1A Product, except that in the case of University Releasors, this covenant not to sue is limited to patent rights administered by The Office of Technology Transfer, Manager, Licensing, Biotechnology of the University ("OTT"). In addition, [*] covenant that they will not hereafter cause or assist in the assertion, instigation, maintenance or pursuit of any claim for infringement, contributory infringement or inducement of infringement of University Patent Rights against [*] [*], or any of them, or their customers or any health care professionals, for the making, using or selling of [*].

5. The California Action. Promptly upon execution of this Agreement, Xoma and Centocor shall (a) execute and file a stipulation in the form annexed hereto as Exhibit A providing for the dismissal of the Appeal and (b) execute and file a final judgment on consent in the California Action in the form annexed hereto as Exhibit B.

6. The Delaware Action. Promptly upon execution of this Agreement, Xoma, Pfizer and Centocor shall execute and file a final judgment on consent in the Delaware Action in the form annexed hereto as Exhibit C.

7. The ITC Proceeding. Promptly upon execution of this Agreement, Xoma and Centocor shall execute and file a stipulation in the form annexed hereto as Exhibit D providing for withdrawal of the complaint in, and termination of, the
8. Further Consideration. From the date of FDA
approval of the product license application for the HA-1A Product [*] ("Centocor
HA-1A Product Royalty Term"), Centocor shall pay to Xoma royalties of [*] of all
Net Sales of HA-1A Product in the United States. [*] [*]

The term "Net Sales" shall mean the [*] [*] sold by Centocor during the
Centocor HA-1A Product Royalty Term or the Centocor [*] Royalty Term, as the
case may be, to any [*] less the sum of deductions actually applicable to such
sales for: (a) discounts and allowances; (b) credits for rejected, damaged and
returned goods; (c) transportation charges; and (d) tariffs, import/export
duties, excise taxes, value added taxes, sales and use taxes and other similar
governmental charges

paid in connection with any such sales (collectively, "Deductions"). Net Sales
of HA-1A Product or any Non-HA-1A Product shall not include sales of HA-1A
Product or any Non-HA-1A Product by Centocor to [*], but shall include the [*],
less Deductions, for HA-1A Product [*] during the Centocor HA-1A Product Royalty
Term or the Centocor Non-HA-1A Product Royalty Term, as the case may be, to [*].

Within 90 days following the end of each calendar quarter during the
Centocor HA-1A Product Royalty Term and/or Centocor Non-HA-1A Product Royalty
Term in which Net Sales of HA-1A Product or any Non-HA-1A Product are made,
Centocor shall provide to Xoma a written report setting forth the total Net
Sales of HA-1A Product and/or any Non-HA-1A Product made during that quarter and
the aggregate fee due and payable to Xoma for such quarter, and with such report
Centocor shall remit to Xoma the amount of royalty payment shown thereby to be
due. If no Net Sales of HA-1A Product or any Non-HA-1A Product are made during
any such quarterly reporting period, a statement to that effect shall be made.

Centocor shall keep complete and accurate books and records for the latest
three (3) years during the Centocor HA-1A Product Royalty Term and/or the
Centocor Non-HA-1A Product Royalty Term showing the Net Sales of HA-1A Product
and any Non-

HA-1A Product. Such records shall be in sufficient detail to enable the
royalties payable hereunder by Centocor to be determined. Centocor shall permit
the books and records referred to in this paragraph to be examined by Arthur
Andersen & Co., but not more than twice in any calendar year. Any such
examinations shall be at the expense of Xoma and conducted during reasonable
business hours of Centocor and upon reasonable notice to Centocor. The purpose
of any such examination shall be solely for verifying the amount of Net Sales of
HA-1A Product and/or any Non-HA-1A Product and the royalties payable as provided
for in this Agreement, and Arthur Andersen & Co. shall keep such information in
strict confidence, except as legally required in the judgment of counsel to
Arthur Andersen & Co., and disclose to Xoma only Net Sales of HA-1A Product and
any Non-HA-1A Product and royalties due and payable thereon.

In the event any royalties payable under this Article 8 are not received by
Xoma when due, Centocor shall pay to Xoma interest charges on the total
royalties due but unpaid at the rate of [*] per annum or the highest rate
permitted by law (whichever is lower). In the event that any examination of
Centocor's records by Arthur Andersen & Co. under this Article 8 discloses that
the amount of the royalties paid for any quarterly reporting period was more
than [*] less than the amount finally determined to be due, Centocor shall pay
Xoma the reasonable cost of such examination.

[**]
Patent Rights and/or Non-U.S. Velos Patent Rights; except that nothing in this Agreement shall prevent Pfizer from challenging or denying the validity of any claims contained in any Centocor Patent Rights, U.S. Velos Patent Rights and/or Non-U.S. Velos Patent Rights (sometimes hereinafter referred to as "Centocor/Velos Patent Rights") in response to any claims against Pfizer for infringement, contributory infringement or inducement of infringement of Centocor/Velos Patent Rights. Immediately after the effective date of this Agreement, Xoma and Pfizer shall cease to participate in any proceeding with respect to any and all oppositions filed against European Patent No. 0 151 128; provided that such conduct shall not constitute evidence that Pfizer acknowledges the validity of said European Patent in any proceeding charging Pfizer with infringement of said European Patent. No party to this Agreement shall voluntarily make any statement which is slanderous, libelous or otherwise defamatory of any other party hereto or its employees.


(a) Centocor and Velos represent and warrant that the making, having made, using and selling of E5 Product does not infringe any patents or patent applications owned by or licensed to Centocor or Velos as of the date hereof except for Centocor Patent Rights, U.S. Velos Patent Rights and Non-U.S. Velos Patent Rights.

(b) Xoma, Pfizer and University represent and warrant that the making, having made, using and selling of HA-1A Product does not infringe any patents or patent applications owned by or licensed to Xoma, Pfizer or University (in University's case, administered by the OTT) as of the date hereof except for University Patent Rights.

(c) Each party to this Agreement represents and warrants that (i) it has full right and authority to enter into this Agreement and to perform its obligations hereunder without consent or approval of any third person; and (ii) that it is not subject to any restriction which would impair its rights and obligations under this Agreement. Each party further represents and warrants that it has taken all action required to authorize it to enter into this Agreement and to render it binding upon it.

(d) Centocor and Velos shall indemnify and hold harmless Xoma, Pfizer and University from any loss, cost, expense or expenditure (including reasonable attorneys' fees) suffered or incurred by Xoma, Pfizer or University in connection with any breach by Centocor or Velos of the release(s) set forth in Article 1 hereof or the covenants not to sue set forth in Article 2 hereof.

(e) Xoma, Pfizer and University (and in the University's case, only for the direct release herein by the University) shall indemnify and hold harmless Centocor and Velos from any loss, cost, expense or expenditure (including reasonable attorneys' fees) suffered or incurred by Centocor or Velos in connection with any breach by Xoma, Pfizer or University of the release(s) set forth in Article 3 hereof or the covenants not to sue set forth in Article 4 hereof.

11. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which shall be deemed to be and constitute one and the same instrument; and in making proof of this Agreement it shall not be necessary to produce or account for more than one such fully executed Agreement.

12. No Prior Assignment. The parties (in the case of University, the OTT) hereto, and each of them, hereby represent and warrant that none of them has assigned or transferred, in whole or in part, any claim, right, demand or cause of action which it may now have or may have had or claim to have, of whatever kind or nature, against any other party hereto, or any of the directors, officers, employees, partners, affiliates, parents, subsidiaries, representatives, agents or attorneys of such party, either in their representative or in their individual capacities, to any other person, corporation or other entity in any manner, including but not limited to assignment or transfer by subrogation or by operation of law. In the event that any party shall have assigned or transferred, or purported to assign or to transfer, any claim or other matter herein released, such party shall indemnify, defend and hold harmless each other party from and against any loss, cost, claim or expense (including but
not limited to all costs related to the defense of any action, including reasonable attorneys’ fees) based upon, arising out of or occurring as a result of any such claim, assignment or transfer.

13. Assignment. This Agreement shall not be assignable by any party without the prior written consent of each of the other parties which consents shall not be unreasonably withheld. Xoma covenants that it will not sell or otherwise transfer its business relating to the ES Product and/or University Patent Rights (or the right to sue thereunder) without requiring the transferee(s) to assume in writing all of the obligations of Xoma under this Agreement. Centocor covenants that it will not sell or otherwise transfer its business relating to the HA-1A Product and/or Centocor Patent Rights, U.S. Velos Patent Rights and/or Non-U.S. Velos Patent Rights (or the right to sue thereunder) without requiring the transferee(s) to assume in writing all of the obligations of Centocor under this Agreement.

Xoma and/or University shall record, and request the United States Patent and Trademark Office and each foreign patent office in which University Patent Rights are pending or have issued, to file with each patent or patent application included in University Patent Rights, a statement that each such patent or patent application is subject to an agreement which transfers rights thereunder to Centocor and Velos and which provides that such patents or patent applications may not be further assigned or licensed hereunder unless any such assignee or licensee agrees to accept Xoma's obligations hereunder. Centocor and Velos shall record, and request the United States Patent and Trademark Office and each foreign patent office in which Centocor Patent Rights, U.S. Velos Patent Rights and/or Non-U.S. Velos Patent Rights are pending or have issued, to file with each patent or patent application included in Centocor Patent Rights, U.S. Velos Patent Rights and/or Non-U.S. Velos Patent Rights a statement that each such patent or patent application is subject to an agreement which transfers rights thereunder to Xoma, Pfizer and University and which provides that such patents or patent applications may not be further assigned or licensed hereunder unless any such assignee or licensee agrees to accept Centocor's obligations hereunder (and in the case of Non-U.S. Velos Patent Rights any such assignee or licensee agrees to accept Velos' obligations hereunder).

14. Stanford/Velos/Centocor Licenses. Anything herein to the contrary notwithstanding, nothing in this Agreement is intended, nor shall be deemed, to affect or modify in any way the rights and obligations, if any, of University, Stanford, Velos and Centocor under the Stanford/Centocor License or the Velos/Centocor License dated June 25, 1987 as amended.

15. Execution of Agreement. This Agreement may be amended, modified or otherwise changed only in a writing signed by all parties hereto. Each party further represents and warrants that, except as set forth in this Agreement, it has not relied upon or been induced by any representation, statement or disclosure of any other party but has relied upon its own knowledge and judgment and upon the advice and representation of counsel of its own selection in entering into this Agreement, that it has read and fully understands the terms of this Agreement and is fully advised as to the legal effect thereof.

16. Confidentiality. The parties agree that all terms of this Agreement shall be kept confidential and shall not be disclosed to anyone other than the parties' directors, officers, employees, partners, accountants, insurers and attorneys, except as legally required in the judgment of counsel to the parties, provided that Centocor and Xoma will issue the press release attached hereto as Exhibit E at 8:00 A.M. Eastern Standard Time on the first business day following the effective date of this Agreement. Xoma, University and Pfizer shall maintain information received from Centocor pursuant to this Agreement in strict confidence and shall use the same only for the purpose of confirming the royalties due hereunder.

17. Remedies For Breach. The parties acknowledge that their remedy at law for breach of this Agreement may not be adequate and, therefore, each of the parties agrees that any party shall be entitled to the equitable remedy of specific performance in the event of a breach or threatened breach by any other party, without any bond or other security being required.
18. Severability. If any one or more of the provisions of this Agreement shall, for any reason, be held invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof, but this Agreement shall be construed as if such invalid, illegal or unenforceable provisions had never been contained herein.

19. Further Assurances. Each of the parties hereto shall take or cause to be taken all such further actions to execute, deliver and file or cause to be executed, delivered and filed such further documents and instruments, and to use reasonable best efforts to obtain such consents, as may be necessary or as may be reasonably requested in order to fully effectuate the purposes, terms and conditions of this Agreement.

20. Notices. All reports, notices and other communications hereunder shall be in writing and shall be sent by registered mail or overnight courier to the address of the party as set forth below:

For Centocor: Centocor, Inc.
200 Great Valley Parkway
Malvern, Pennsylvania 19355
Attention: General Counsel

For Pfizer: Pfizer Inc
235 East 42nd Street
New York, New York 10017
Attention: General Counsel

For University: The Regents of the
300 Lakeside Drive, 22nd Floor
Oakland, California 94612
Attention: General Counsel

For Velos: Velos Group
4824 Montgomery Lane
Bethesda, Maryland 20814
Attention: General Counsel

For Xoma: Xoma Corporation
2910 Seventh Street
Berkeley, California 94710
Attention: General Counsel

21. Parties To Bear Own Costs and Attorneys' Fees. Each of the parties hereto shall bear its own costs, expenses and attorneys' fees, whether taxable or otherwise, incurred in, or arising out of or connected with the Delaware Action, the California Action, the Appeal and the ITC Proceeding.

22. Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws of the State of New York without regard to conflicts of law provisions; provided that each of the parties hereby acknowledges and agrees that all claims under Section 1542 of the California Civil Code and any other provision of law now or hereafter enacted, adjudicated or sought to be adjudicated relating to the release or waiver of unknown or unspecified claims are hereby specifically and expressly released and waived. Each of the parties understands that Section 1542 of the California Civil Code provides that "[a] general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor." For purposes of this Agreement, each of the parties acknowledges and agrees that he, she or it may be considered to be both a "creditor" and a "debtor" for all purposes and with respect to all claims, he, she or it may not know or suspect to exist within the meaning of Section 1542 of the California Civil Code and any other provision of law now or hereafter enacted, adjudicated or sought to be adjudicated relating to the release or waiver of unknown or unspecified claims.

23. Binding Effect. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors, transferees and assigns.
24. No Implied Rights. Nothing contained in this Agreement shall be construed to grant by implication, estoppel or otherwise any license or freedom from suit under any patent or patent application other than University Patent Rights, Centocor Patent Rights, U.S. Velos Patent Rights and Non-U.S. Velos Patent Rights or any patent which would be infringed by the manufacture, use or sale of HA-1A Product or E5 Product.

25. Entire Agreement. With the exception of the license agreement between Xoma and University related to University Patent Rights, this Agreement, together with the exhibits hereto, constitutes, on and as of the effective date hereof, the entire agreement of the parties with respect to the subject matter hereof, and all prior or contemporaneous understandings or agreements, whether written or oral, between or among the parties with respect to such subject matter are hereby superseded in their entireties.

IN WITNESS WHEREOF, and intending to be bound thereby, the parties have caused this Agreement to be executed by their duly authorized representatives on the dates set forth below.

Dated: 7/23/92 CENTOCOR, INC.
By: /s/ Hubert J.P. Shoemaker
Hubert J.P. Shoemaker, Ph.D.
Chairman of the Board and
Chief Executive Officer
Attest: /s/(unknown)

Dated: 7/24/92 PFIZER INC
By: /s/Peter C. Richardson
Assistant Secretary
Attest: /s/(unknown)

Dated: 7/30/92 THE REGENTS OF THE UNIVERSITY OF CALIFORNIA
By: /s/ John F. Lundberg
John F. Lundberg
Deputy General Counsel
Attest: /s/(unknown)

Dated: 7/23/92 VELOS GROUP
By: /s/Arthur S. House
Attest: /s/(unknown)

Dated: 7/23/92 XOMA CORPORATION
By: /s/ John L. Castello
John L. Castello
President and
Chief Executive Officer
Attest: /s/(unknown)

EXHIBIT A

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

XOMA CORPORATION,
Plaintiff - Appellee, No. 92-1267

v.
CENTOCOR, INC., Defendant - Appellant.

XOMA'S AND CENTOCOR'S JOINT MOTION FOR DISMISSAL

Plaintiff-Appellee Xoma Corporation ("Xoma") and Defendant-Appellant Centocor, Inc. ("Centocor") hereby jointly move for dismissal of the above-identified appeal in accordance with Fed. R. App. Pro. 42(b), without costs. A proposed ORDER is attached.
UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

XOMA CORPORATION,
Plaintiff-Appellee,

v.                                                      No. 92-1267
CENTOCOR, INC.,
Defendant-Appellant.

ORDER OF DISMISSAL

The Court, pursuant to Fed. R. App. Pro. 42(b), having been advised by
counsel for the parties that the parties consent to entry of the following Order
of Dismissal:

IT IS ORDERED, ADJUDGED AND DECREED:

(1) This appeal is hereby dismissed; and (2) No costs or attorneys'
fees are assessed or awarded.

Dated: (blank), 1992                      (blank line)

EXHIBIT B

IN THE UNITED STATES DISTRICT COURT FOR THE
NORTHERN DISTRICT OF CALIFORNIA

XOMA CORPORATION,
Plaintiff,                                  C-90-1129 RHS

vs.                                        (blank line)
CENTOCOR, INC.,
Defendant.

FINAL JUDGMENT ON CONSENT

WHEREAS, plaintiff, Xoma Corporation ("Xoma"), a corporation organized and
existing under the laws of the State of Delaware with its primary place of
business in Berkeley, California, has filed suit against defendant, Centocor,
Inc. ("Centocor"), a corporation organized and existing under the laws of the
Commonwealth of Pennsylvania having its principal place of business in Malvern,
Pennsylvania, in Civil Action No. C-90-1129-RHS;

WHEREAS, Centocor counterclaimed against Xoma in said Civil Action;

WHEREAS, said Civil Action was tried to a jury and the jury returned a
verdict on or about October 26, 1991 that United States Patent No. 4,918,163 is
valid and is infringed both literally and under the doctrine of equivalents by
Centocor's manufacturing and distributing the monoclonal antibody known as
HA-1A (trade name CENTOXIN) for the treatment of gram negative infections in
humans;

WHEREAS, the jury also found that Centocor did not have an implied license
to make, use or sell HA-1A under United States Patent No. 4,918,163; and

WHEREAS, Xoma and Centocor have consented to the entry of this judgment;
There being no just reason for delay, and upon an express direction for the entry of judgment, it is hereby ORDERED, ADJUDGED and DECREED as follows:

1. United States Patent No. 4,918,163 is valid.

2. United States Patent No. 4,918,163 has been infringed by CENTOCOR.

3. Centocor does not have an implied license to United States Patent No. 4,918,163.

4. Centocor shall pay to Xoma damages in the amount of $100,000.

5. All other claims and all counterclaims are dismissed with prejudices.

6. The Amended Order entered on January 14, 1992 is hereby superseded and is of no further force or effect.

SO ORDERED

Date: (blank)

United States District Judge

Entry of the foregoing Order and Decree hereby is consented to:

XOMA CORPORATION

Date: (blank)

By (blank line)

Name:

Title:

CENTOCOR, INC.

Date: (blank)

By (blank line)

Name:

Title:

KAYE, SCHOLER, FIERMAN,
HAYS & HANDLER
425 Park Avenue
New York, New York 10022
(212) 836-8000
Attorneys for Plaintiff
Xoma Corporation

Date: (blank)

By (blank line)

Gerald Sobel, Esq.

FINNEGAN, HENDERSON, FARABOW,
GARRETT & DUNNER
1300 I Street, N.W.
Washington, D.C. 20005
Attorneys for Defendant
Centocor, Inc.

Dated: (blank)

By (blank line)

Thomas H. Jenkins, Esq.

EXHIBIT C

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

CENTOCOR, INC.,
Plaintiff,

v.

XOMA CORPORATION,
and PFIZER INC.,
Defendants.

Civil Action No. 92-95

FINAL JUDGMENT ON CONSENT

WHEREAS, plaintiff, Centocor, Inc. ("Centocor"), a corporation organized and existing under the laws of the Commonwealth of Pennsylvania having its
principal place of business in Malvern, Pennsylvania, has filed suit against
defendants, Xoma Corporation ("Xoma"), a corporation organized and existing
under the laws of the State of Delaware with its primary place of business in
Berkeley, California, and Pfizer Inc. ("Pfizer"), a corporation organized and
existing under the laws of the State of Delaware with its primary place of
business in New York, New York, in Civil Action No. 92-95; and

WHEREAS, Xoma Pfizer counterclaimed against Centocor in said Civil Action;
and

WHEREAS, Xoma, Centocor and Pfizer have consented to the entry of this
judgment;

There being no just reason for delay, and upon an express direction for the
entry of judgment, it is hereby ORDERED, ADJUDGED and DECREED as follows:

(1) This action including all claims and all counterclaims is hereby
dismissed with prejudice; and
(2) No costs or attorneys' fees are assessed or awarded.

SO ORDERED

Date: (blank)                        (blank line)
United States District Judge

Entry of the foregoing Order and Decree hereby is consented to:

XOMA CORPORATION

Date: (blank)                        By (blank line)
Name:
Title:

CENTOCOR, INC.

Date: (blank)                        By (blank line)
Name:
Title:

2

PFIZER INC.

Date: (blank)                        By (blank line)
Name:
Title:

KAYE, SCHOLER, FIERMAN,
HAYS & HANDLER
425 Park Avenue
New York, New York 10022
(212) 836-8000
Attorneys for Defendants
Xoma Corporation and
Pfizer Inc.

Date: (blank)                        By (blank line)
Gerald Sobel, Esq.

POTTER, ANDERSON & CARROON
Delaware Trust Building
P.O. Box 951 Wilmington,
Delaware 19899 Attorneys
for Plaintiff Centocor,
Inc.

Dated: (blank)                        By (blank line)
Robert K. Payson, Esq.
IN THE MATTER OF

CERTAIN MONOCLONAL ANTIBODIES
USED FOR THERAPEUTICALLY
TREATING HUMANS HAVING GRAM NEGATIVE
BACTERIAL INFECTIONS

XOMA'S AND CENTOCOR'S JOINT MOTION FOR DISMISSAL

Petitioner Xoma Corporation ("Xoma") and Respondents Centocor, Inc., Centocor Partners II, L.P. and Centocor B.V. ("Centocor") jointly move for dismissal of this proceeding without costs. A proposed ORDER is attached.

Dated:   New York, New York
        July , 1992
Respectfully submitted,

Gerald Sobel
KAYE, SCHOLER, FIERMAN,
HAYS & HANDLER
425 Park Avenue
New York, New York  10022
Attorneys for Complainant

Tom M. Schaumberg
ADDUCI, MASTRIANI, MEEKS
AND SCHILL
1140 Connecticut Avenue
Washington, D.C.
Attorneys for Respondents

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, D.C. 20436
Before Janet D. Saxon
Administrative Law Judge

IN THE MATTER OF

CERTAIN MONOCLONAL ANTIBODIES
USED FOR THERAPEUTICALLY
TREATING HUMANS HAVING GRAM NEGATIVE
BACTERIAL INFECTIONS

ORDER OF DISMISSAL

Having been advised by counsel for the parties that the parties consent to entry of the following Order of Dismissal:

IT IS ORDERED, ADJUDGED AND DECREED:

(1)  This proceeding is hereby dismissed; and

(2)  No costs or attorneys' fees are assessed or awarded.

Dated: (blank), 1992

2

Exhibit E

Centocor and XOMA Announce Settlement of All Outstanding Litigation and Disputes

Centocor, Inc. of Malvern, PA (NASDAQ: CNTO) and XOMA Corporation of Berkeley, CA (NASDAQ: XOMA) announced today an agreement to settle all outstanding litigation and disputes regarding each company's products, patents and patent applications related to anti-endotoxin monoclonal antibodies.

The agreement covers the XOMA v. Centocor litigation in the U.S. District Court for the Northern District of California and pending appeals, a proceeding initiated at the U.S. International Trade Commission, and the Centocor v. XOMA lawsuit filed in the U.S. District Court for the District of Delaware.

Centocor has agreed to pay royalties to XOMA for U.S. sales, if any, of its monoclonal antibody HA-1A, and the companies have agreed to forego all future
litigation and administrative proceedings regarding each other's patents and patent applications related to anti-endotoxin monoclonal antibodies.

Centocor, Inc. is a biopharmaceutical company specializing in monoclonal antibody technology.

XOMA Corporation is a leading company in the development of therapeutic products using monoclonal antibody and recombinant DNA technologies.

News Release

For Release: July 29, 1992
For Information Contact: Carol D. DeGuzman
(510) 644-1170

XOMA AND CENTOCOR ANNOUNCE SETTLEMENT
OF ALL OUTSTANDING LITIGATION AND DISPUTES

(Berkeley, CA, and Malvern, PA, July 29, 1992.) XOMA Corporation (NASDAQ: XOMA) and Centocor, Inc. (NASDAQ: CNTO) announced today an agreement to settle all outstanding litigation and disputes worldwide regarding each company's products, patents and patent applications related to anti-endotoxin monoclonal antibodies.

The agreement covers the XOMA v. Centocor litigation in the U.S. District Court for the Northern District of California and pending appeals, a proceeding initiated at the U.S. International Trade Commission, and the Centocor v. XOMA lawsuit filed in the U.S. District Court for the District of Delaware.

Centocor has agreed to pay royalties for U.S. sales, if any, of its monoclonal antibody HA-1A, and the companies have agreed to forego all future litigation and administrative proceedings regarding each other's patents and patent applications related to anti-endotoxin monoclonal antibodies.

XOMA Corporation is a leading company in the development of therapeutic products using monoclonal antibody and recombinant DNA technologies.
SUPPLY AGREEMENT
CHARLES RIVER BIOTECHNICAL SERVICES
FOR THE PRODUCTION OF ASCITES FOR
XOMA CORPORATION
AS OF DECEMBER 8, 1988

THIS SUPPLY AGREEMENT ("Agreement") made as of this 8th day of December, 1988, by and between CHARLES RIVER BIOTECHNICAL SERVICES, INC., a Delaware company with its principal offices located at 251 Ballardvale Street, Wilmington, Massachusetts 01887 ("CRBS") and XOMA CORPORATION, a Delaware company with its principal offices located at 2910 Seventh Street, Berkeley, CA 94710 "XOMA".

PURPOSE

XOMA desires to engage the facilities and services of CRBS for the production of ascites (the "Product" or "Products") from the cell line owned by XOMA described in the Statement of Work attached hereto as Exhibit A (the "Statement of Work"), and CRBS desires to undertake such production, all according to the terms and conditions set forth in this Agreement, the Statement of Work and a certain Purchase Order hereinafter described.

Intending to be legally bound hereby, CRBS and XOMA hereby agree as follows:

1.0 TERM; SCOPE

1.1 The effective date of this Agreement (the "Effective Date") shall be February 27, 1989, such date being the date on which this Agreement, the Statement of Work and the Purchase Order (as hereinafter described) are mutually agreed to and accepted by XOMA and CRBS. The initial term of this Agreement shall be for one (1) year from the Effective Date.

1.2 The parties may extend the term of this Agreement for one or more additional terms (an "Additional Term") by a written renewal agreement entered into no later than the eight (8) month anniversary of the Effective Date, revising the provisions hereof as they may agree for each Additional Term.

1.3 This Agreement, including the Statement of Work and the Purchase Order attached hereto and made a part hereof, covers the purchase by XOMA of Products produced by CRBS during the Initial Term and any Additional Term. A description of the Product is set forth in the Statement of Work.

2.0 PURCHASES; COMMITMENTS; PURCHASE ORDER

2.1 XOMA shall be obligated to purchase a guaranteed amount of Products during the Initial Term as specified in the Purchase Order and CRBS guarantees it will produce and deliver the guaranteed amount (the "Guaranteed Amount"). In addition, XOMA may in its discretion order additional Products in excess of the Guaranteed Amount as provided in the Purchase Order by giving written notice to CRBS of such increase at least one hundred-2-twenty (120) days prior to the requested delivery date for the additional Products.

2.2 XOMA shall initially order Products under the Agreement by issuing to CRBS an initial purchase order (the "Purchase Order") which references this Agreement, a copy of which is attached hereto as Exhibit B. The Purchase Order shall contain the ordered amount, the Guaranteed Amount, estimated delivery dates, definitive prices and any other specific terms agreed to by the parties.

3.0 PRICES; PAYMENT

3.1 XOMA will pay for the Product as set forth in the Statement of Work and the Purchase Order. Terms of the payment are One Hundred Percent (100%) of the invoiced amount due net thirty (30) days from the later of the date of invoice or the receipt of Product provided the shipped Product has been tested and is acceptable. If XOMA gives notice to CRBS to retain an agreed upon shipment of Product, then XOMA will pay for that shipment of Product within 30 days from the later of the date of invoice or the receipt of samples of Product, provided the Product sample is found to be acceptable.

3.2 The agreed upon prices for Product as set forth in the Purchase Order includes the cost to CRBS of production, bulk product packaging, and internal quality assurance activities as set forth in the Statement of Work. The prices do not include sales, use, excise or any other similar taxes imposed by Federal, state or local governments, and accordingly such taxes shall be paid by XOMA.
3.3 The prices for the Product shall be in accordance with the Pricing Schedule attached hereto as Exhibit C.

3.3.1 Pricing will be adjusted retroactively in relation to the amount of Product ordered by XOMA and shipped by CRBS within a one-year term of the Agreement wherein the first one year begins with the initial shipment made under the Purchase Order issued December 13, 1988.

3.3.2 The price for Product shall be reduced [*] percent [*] if XOMA finds after testing three or more successive lots or five lots cumulatively unacceptable due to failure of the Product to meet the specifications set forth in the Statement of Work. The price for Product shall also be reduced [*] percent [*] for each shipment which is not "timely" (as defined in Sections 4.2 and 7.0). This reduction in price shall apply only to the replacement(s) for each unacceptable lot and/or untimely Product shipment and shall not affect XOMA's right of termination set forth in Section 6.

3.3.3 XOMA shall pay CRBS a "bonus" of an additional [*] percent [*] over and above the price for Product where such Product is delivered by CRBS at the request of XOMA on advance notice of 60 days or less. This bonus shall apply only to each advance shipment.

3.4 XOMA agrees to pay CRBS [*] percent [*] per month on any monies not paid when due, or the legal maximum monthly rate; if lower, where the Products are delivered.

4.0 DELIVERY; ACCEPTANCE

4.1 Delivery shall be F.O.B. Raleigh, NC, with all freight and dry ice expenses being prepaid by CRBS and added to CRBS's invoice to XOMA for payment by XOMA. CRBS shall arrange insured common carrier transportation of the Products to XOMA's specified plant or other designated destination. CRBS shall arrange for adequate transportation insurance coverage for the replacement value of the shipped Products. Title to and risk of loss of the Products shall pass to XOMA at the time of delivery to XOMA. CRBS shall promptly following delivery invoice XOMA for all Products tendered. Invoices shall be accompanied by the commercial bills of lading.

4.2 CRBS shall ship the Products in accordance with the Delivery Schedule attached hereto as Exhibit D. For purposes of this Agreement, a timely shipment shall be a shipment received by XOMA not later than two (2) weeks after the agreed upon delivery date, subject to allowances for special delays set forth in Section 7.

4.3 XOMA shall give notice to CRBS as to the acceptance or rejection of Product within thirty (30) days of receipt of Product or a representative sample. The warranty on the Product under this Agreement shall survive such acceptance.

5.0 WARRANTY; QUALITY ASSURANCE

5.1 CRBS warrants that the Product is produced from XOMA's cell lines as provided to CRBS and manufactured according to the Statement of Work. Upon notification by XOMA that the Product is not acceptable, CRBS shall replace the Product or remit to XOMA an amount equal to the price actually paid by XOMA to CRBS for the unacceptable Product. Any modification of the Product by XOMA shall void this warranty. The foregoing warranty shall be subject to XOMA maintaining the Product in accordance with CRBS's instructions. THIS WARRANTY IS IN LIEU OF, AND CRBS SPECIFICALLY DISCLAIMS AND EXCLUDES ALL OTHER WARRANTIES, EXPRESS, IMPLIED OR STATUTORY, INCLUDING THE WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE AND NON-INFRINGEMENT OF A PATENT, TRADEMARK OR OTHER INTELLECTUAL PROPERTY RIGHT. CRBS shall not, under any circumstances, be liable for any special, indirect, consequential or incidental damages arising out of or in connection with the Product.

5.2 CRBS shall maintain a manufacturing and quality assurance program that meets all applicable FDA/GMP requirements.

5.3 CRBS agrees to notify XOMA within 48 hours of learning of the failure of any batch of Products to meet the specifications set forth in Statement of Work.

5.4 XOMA shall have the right during normal business hours to audit CRBS's facility for the purpose of observing production and quality control and ensuring that CRBS's activities comply with FDA regulatory GMP requirements, upon at least 24-hour advance notice. XOMA acknowledges that all information learned from said audit, whether received in writing, orally or by observation, is confidential and proprietary pursuant to a Secrecy Agreement between XOMA and CRBS dated as of December 8, 1988 (the "Secrecy Agreement").
5.5 In the event XOMA concludes following an audit pursuant to Section 5.4 that CRBS has been or is presently engaging in activities which reasonably appear to XOMA to amount to a material violation of FDA/GMP requirements, then CRBS shall either correct such violation or commence reasonable corrective action pursuant to a corrective action plan deemed appropriate by XOMA within 30 days.

6.0 TERMINATION

6.1 Either party shall have the right to terminate this Agreement during the Initial Term or any Additional Term if:

6.1.1 the other party fails to remedy or to commence reasonable corrective action to remedy any default in the performance of any material condition or obligation under this Agreement within thirty (30) days of written notice thereof, or

6.1.2 the other party files a petition in bankruptcy, or enters into an arrangement with its creditors, or applies for and consents to the appointment of a receiver or trustee, or makes an assignment for the benefit of creditors, or suffers or permits the entry of an order adjudicating it to be bankrupt or insolvent.

6.2 The failure of either party to terminate this Agreement by reason of the breach of any of its material provisions by the other party shall not be construed as a waiver of the rights or remedies available for any subsequent breach of the terms and provisions of this Agreement.

7.0 FORCE MAJEURE

7.1 Neither party shall be responsible for any failure to comply with the terms of this Agreement, except for failure to make timely payments hereunder, where such failure is due to force majeure, which shall include, without limitation, fire, flood, explosion, strike, labor disputes, labor shortages, picketing, lockout, transportation embargo or failures or delays in transportation, strikes or labor disputes affecting supplies, or acts of God, civil riot or insurrection, acts of the Federal Government or any agency thereof, or judicial action. The time for performance where delay is excusable hereunder shall be extended by a period of time equal to the time lost by reason of the excused delay, provided that all reasonable efforts are taken by a party to overcome the delay.

8.0 RECORDS INSPECTION; SAMPLE RETENTION

8.1 All records relating to the manufacture of Products shall be retained for a period of not less than five (5) years from the date of manufacture of ascites or six (6) months from the expiration of the final released Product, whichever is later. Prior to the destruction of any record, written notice shall be provided to XOMA and XOMA shall have the right to request and retain said record.

8.2 CRBS shall retain repository samples for a period of not less than two (2) years from the date of expiration of each batch of the Products. All such samples shall be available for inspection and testing by XOMA upon reasonable notice.

9.0 INDEMNITY

9.1 XOMA will defend, at its own expense, any claim made or any suit or proceeding brought against CRBS so far as it is based on the allegation that the Product infringes a patent. XOMA will pay any costs, damages and attorney's fees finally awarded against CRBS in such actions that are attributable to such claim, provided that (a) CRBS promptly notifies XOMA in writing of such claim, (b) CRBS gives XOMA such information and assistance as may be necessary to defend or settle the claim and CRBS otherwise cooperates fully in such defense, (c) XOMA is given the sole authority to defend or settle the claim at XOMA's expense, (d) XOMA is afforded the opportunity to participate in the negotiation of, and the right to approve or disapprove, any settlement of the claim, and (e) CRBS complies with the terms of any court order or settlement entered with respect to the claim.

In no event shall CRBS have any liability for any infringement of patents resulting from (a) CRBS's compliance with XOMA's specifications or instructions, or (b) XOMA's modification of the Product. The foregoing states the entire
9.2 XOMA hereby agrees to indemnify and hold harmless CRBS and its officers and directors from and against any and all cost, damages, expenses and attorneys' fees incurred by CRBS as a result of any claims of third parties based on or arising out of or based upon any acts or omissions, breach or alleged breach of XOMA's agreements, obligations and warranties hereunder, and CRBS hereby agrees to indemnify and hold harmless XOMA, and its officers and directors from and against any and all cost, damages, expenses and attorneys' fees incurred by XOMA as a result of any claims of third parties (other than patent infringement claims as described in Section 9.1) based on or arising out of or based upon any acts or omissions, breach or alleged breach of CRBS's agreements, obligations and warranties hereunder.

10.0 TRADE NAMES AND TRADEMARKS

10.1 XOMA hereby acknowledges that it does not have, and shall not acquire, any interest in any of CRBS's trademarks or trade names appearing on the labels or packaging materials for the Products unless otherwise expressly agreed.

11.0 CONFIDENTIALITY

11.1 The parties hereby acknowledge that any and all information, knowledge, technology and trade secrets relating to the production, processing and testing of Products are subject to the Secrecy Agreement and that the obligations thereunder shall survive termination of this Agreement.

12.0 NOTICES

12.1 Any and all notices permitted or required to be given hereunder shall be sent by registered or certified mail, postage and fees paid, with return receipt requested, addressed as follows:

CRBS:

Charles River Biotechnical Services, Inc.
251 Ballardvale Street
Wilmington, Massachusetts 01887

Attention: James C. Foster
President

XOMA:

XOMA Corporation
2910 Seventh Street
Berkeley, CA 94710

Attention: Steven C. Mendell
Chairman and Chief Executive Officer

Notice shall be deemed given as of the date of mailing.

13.0 ASSIGNMENT

13.1 Neither party shall assign this Agreement in whole or in part without prior written consent of the other, except that no consent shall be required to an assignment of this Agreement to a successor corporation in a merger or acquisition. Once assigned, all of the provisions of this Agreement and all rights and obligations of the parties hereunder shall be binding upon and inure to the benefit of and be enforceable by the successors and assigns of CRBS and XOMA.

14.0 ENTIRE AGREEMENT

14.1 This Agreement, including the Statement of Work and the Purchase Order, and the Secrecy Agreement, together constitute the entire Agreement between the parties. Any and all amendments, or releases from any provisions hereof and of the Statement of Work, Purchase Order and Secrecy Agreement must be in writing, signed by both parties and specifically state that it is an amendment or release.

15.0 INDEPENDENT CONTRACTOR

15.1 In all activities under this Agreement, CRBS shall act as and be deemed an independent contractor with no authorization to in any way obligate or bind XOMA. This Agreement shall not be deemed held or construed as creating a copartnership between XOMA and CRBS for any purpose whatsoever.

16.0 GOVERNING LAW
16.1 The rights and obligations of the parties to this Agreement shall be construed in the event of a dispute in accordance with the laws of the Commonwealth of Massachusetts where CRBS is the defending party, and in accordance with the laws of the State of California where XOMA is the defending party.

17.0 SEVERABILITY

17.1 If any term or provision of this Agreement shall be held invalid or unenforceable, the remaining terms hereof shall not be affected, but shall be valid and enforced to the fullest extent permitted by law.

18.0 HEADINGS

18.1 The headings used in this Agreement are intended for guidance only and shall not be considered part of the written understanding between the parties hereto.

19.0 RIGHTS AND REMEDIES

19.1 All rights and remedies, whether conferred hereby or by any other instrument or by law shall be cumulative, any may be exercised singularly or concurrently.

20.0 GOVERNMENT APPROVALS; EXPORT

20.1 Each party represents and warrants to the other party that any and all governmental approvals and/or licenses necessary for the satisfactory performance of such party's obligations hereunder have been duly obtained.

20.2 No United States Government Procurement Regulations shall be binding on either party unless specifically agreed to in writing prior to incorporation in this Agreement.

20.3 XOMA acknowledges that the Product may be subject to certain export controls, laws and regulations of the United States government, and accordingly XOMA agrees not to export the Product outside the United States without the prior consent of CRBS.

[Signature page immediately follows.]
3. Ascites Production

All ascites collection from mice must be carried out in [*].

[*]

[*] Only [*] may be used. [*]

[*] at least [*] prior to being used for production.

[*]

[*]

[*]. Subsequent operations are performed following the procedure outlined in [*].

[*]

[*]

[*]

4. Testing and Specifications

To be accepted by XOMA, the [*] ascites must meet the specifications described in the paragraphs below.

[*]

[*]

[*]

5. Shipment

[*] ascites and samples are to be shipped to XOMA and other destinations identified in the production batch record, [*] via overnight carrier.

6. Reporting Requirements

Copies of all batch records and QC data are to be sent to XOMA at the same time as the ascites.

7. Attachments

1) [*] Assessment Profile

2) Ascites [*] Test Requirements
STATEMENT OF WORK TO
CHARLES RIVER BIOTECHNICAL SERVICES, INC. FOR
ASCITES PRODUCTION WITH [*] CELL LINE

1. General

Production procedures are to be performed in compliance with CGMP's.

2. Cell Culture

XOMA will supply a [*] cell line to be used [*] for each lot. The medium [*] is described in the [*] production batch record number [*]. An inoculum of [*] cells will be prepared as described in production batch record [*].

3. Ascites Production

All ascites collection from mice must be carried out [*]

[*] Only

[*] may be used.
[*] at least
[*] prior to being used for production.
[*]
[*] Subsequent operations are performed following the procedure outlined
[*]

4. Testing and Specifications

To be accepted by XOMA, the pooled [*] must meet the specifications described in the paragraphs below. [*]

5. Shipment

Bulk ascites and samples are to be shipped to XOMA and other destinations identified in the production batch record, [*] via overnight carrier.

6. Reporting Requirements

Copies of all batch records and QC data are to be sent to XOMA at the same time as the ascites.

7. Attachments

1) [*] Assessment Profile
2) Ascites [*] Test Requirements

XOMA CORPORATION

By: /s/ Nevada Blair Date: 2-21-89
Nevada Blair
Production Planning, Inventory Control

CHARLES RIVER BIOTECHNICAL SERVICES, INC.

By: /s/ Robert J. Judge Date: 2-21-89
Robert J. Judge
Vice President, Operations

Attachment 1
CRBS Statement of Work
[*]

[*] Assessment Profile

<table>
<thead>
<tr>
<th>Agent</th>
<th>Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
</tr>
</tbody>
</table>
Attachment 2
CRBS Statement of Work
[*]

[*] Test Requirements

<table>
<thead>
<tr>
<th>Agent</th>
<th>Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
</tr>
</tbody>
</table>

4

Exhibit B

PURCHASE ORDER

Bill to: XOMA Corporation
2910 Seventh Street
Berkeley, CA. 94710
Attn: Accts. Payable

TO: Charles River Biotechnical
251 Ballardvale Street
Wilmington, MA 01887
Attn: Jack Wheeler

PLEASE SHIP THE FOLLOWING:

ORDERED  REC'D  DESCRIPTION            PRICE  AMOUNT
[*]     [*]     Cell line [*] ascites  [*] ea.  [*]
[*]     [*]     Cell line [*] ascites  [*] ea.  [*]

Subtotal: [*]
Est Frt: [*]

The above volumes refer to delivered ascites of which Xoma will guarantee to take [*]. Xoma and Charles River Biotechnical will at this time refer to the terms and conditions discussed on [*] at the Chicago Airport Hilton. This purchase order is for one year from the first shipment by Charles River Biotechnical. Delivery dates will be established by Nevada Blair at a future date and work will be performed according to previously received Statements of Work. Any increase or decrease in the above volumes must be prefaced by [*] days notice. Any total volume increase greater than [*] mice are subject to negotiation.

E.D.A. As scheduled

Note: Any additions or deletions to this purchase order are invalid without the approval of B. Kirby @ Xoma.

DATE RECEIVED AND DISPOSITION

ORDERED BY /s/ Bruce E. Kirby
Bruce E. Kirby
### Exhibit B

#### Estimated Delivery Schedule

**March 1, 1989**

<table>
<thead>
<tr>
<th>Volume (liters)</th>
<th>Product: (*)</th>
<th>Shipment To XOMA</th>
<th>Volume (liters)</th>
<th>Shipment To XOMA</th>
</tr>
</thead>
<tbody>
<tr>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
</tbody>
</table>

**Product: [*]**

### Exhibit C

#### PRICING SCHEDULE

**CELL LINE [*]**

Assumes yield of [*] post filtration

<table>
<thead>
<tr>
<th>[*]</th>
<th>Liters</th>
<th>Price/Liter</th>
</tr>
</thead>
<tbody>
<tr>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
</tbody>
</table>

**CELL LINE [*]**

Assumes yield of [*] post filtration

<table>
<thead>
<tr>
<th>[*]</th>
<th>Liters</th>
<th>Price/Liter</th>
</tr>
</thead>
<tbody>
<tr>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
<tr>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
</tbody>
</table>

EXHIBIT C-1
Dear Jack:

After Charles River Biotechnical Services, Raleigh, North Carolina does [*] lots of cell line [*], we will agree upon the yield per mouse and utilize the attached page for the appropriate pricing level.

Sincerely,

Clarence L. Dellio
Vice President
Operations

Signed: /s/ John H. Wheeler                      Date: 3-7-89
John H. Wheeler
Vice President
Marketing & Sales

Signed: /s/ Clarence L. Dellio                   Date: 3-7-89
Clarence L. Dellio
Vice President
Operations

CELL LINE DESIGNATION
[*]
 Assumes the following yields per mouse post filtration

<table>
<thead>
<tr>
<th>[*]</th>
<th>[*]</th>
<th>[*]</th>
<th>[*]</th>
</tr>
</thead>
<tbody>
<tr>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>[*]</th>
<th>[*]</th>
<th>[*]</th>
<th>[*]</th>
</tr>
</thead>
<tbody>
<tr>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>[*]</th>
<th>[*]</th>
<th>[*]</th>
<th>[*]</th>
</tr>
</thead>
<tbody>
<tr>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>[*]</th>
<th>[*]</th>
<th>[*]</th>
<th>[*]</th>
</tr>
</thead>
<tbody>
<tr>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>[*]</th>
<th>[*]</th>
<th>[*]</th>
<th>[*]</th>
</tr>
</thead>
<tbody>
<tr>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>[*]</th>
<th>[*]</th>
<th>[*]</th>
<th>[*]</th>
</tr>
</thead>
<tbody>
<tr>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>[*]</th>
<th>[*]</th>
<th>[*]</th>
<th>[*]</th>
</tr>
</thead>
<tbody>
<tr>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>[*]</th>
<th>[*]</th>
<th>[*]</th>
<th>[*]</th>
</tr>
</thead>
<tbody>
<tr>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>[*]</th>
<th>[*]</th>
<th>[*]</th>
<th>[*]</th>
</tr>
</thead>
<tbody>
<tr>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
<td>[*]</td>
</tr>
</tbody>
</table>
AMENDMENT AGREEMENT

THIS AMENDMENT AGREEMENT ("Amendment Agreement"), made as of this 17th day
of October, 1991, by and between CHARLES RIVER LABORATORIES, INC., a Delaware
corporation with its principal offices located at 251 Ballardvale Street,
Wilmington, Massachusetts 01887 ("CRL"), and XOMA CORPORATION, a Delaware
corporation with its principal offices located at 2910 Seventh Street, Berkeley,
California 94710 ("XOMA").

BACKGROUND/PURPOSE

XOMA and CRL entered into a Supply Agreement dated as of December 8, 1988
(as amended to date, the "Supply Agreement"), for the production by CRL of
murine ascites fluid ("Ascitic Fluid") from two cell lines owned by XOMA: N024
(or E5) for septic shock (the "E5 Product") and N020 (or H65) for graft-vs-host
reactions (together with the E5 Product, the "Products"). *[*] the parties hereby
agree to amend the Supply Agreement in the manner set forth below.

1. Nullification of Previous Amendment Agreement. By their execution of
this Amendment Agreement, CRL and XOMA hereby agree that the Amendment Agreement
dated as of March 1, 1991, between CRL and XOMA (the "Expansion Amendment"),
relating to the reservation of expansion space at CRL's ascites manufacturing
facilities in Raleigh, North Carolina (the "Raleigh Facility") and the
reimbursement of fixed facility and operating expenses by XOMA, shall be a
nullity as of December 31, 1991 and shall be of no further force or effect on or
after such date. The nullification of the Expansion Amendment shall not,
however, relieve either party of any duties or obligations thereunder,
including, without limitation, the obligation to pay any expenses, fees or
reimbursement amounts which were incurred pursuant to the Expansion Amendment on
or before December 31, 1991. In the event of a conflict between the terms of
this Amendment Agreement and the terms of the Expansion Amendment, the terms of
this Amendment Agreement shall prevail.

2. Amendment of Existing Purchase Order. Pursuant to Section 14.1 of the
Supply Agreement, the Supply Agreement and Purchase Order #31100-2 currently
outstanding thereunder for calendar year 1991 (the "Existing Purchase Order")
are each hereby amended by substituting for the Existing Purchase Order the
purchase order attached hereto as Exhibit A (the "Modified 1991 Purchase
Order"). XOMA hereby acknowledges that it understands the terms of the Modified
1991 Purchase Order and agrees (i) to execute and deliver the Modified 1991
Purchase Order simultaneous with the execution of this Amendment Agreement and
(ii) that the Modified 1991 Purchase Order shall take effect upon execution and
shall supersede in all respects the Existing Purchase Order. CRL and XOMA
acknowledge and agree that the Modified 1991 Purchase Order, when read in
conjunction with Section 7 of this Amendment Agreement, requires XOMA to
guarantee payment to CRL of an aggregate of [*] for Ascitic Fluid produced by
CRL during calendar year 1991.

3. 1992 Purchase Order. CRL and XOMA hereby agree that, during calendar
year 1992, CRL will deliver the quantities of Ascitic Fluid set forth on Exhibit
B hereto in accordance with the schedule set forth therein, which will result in
CRL delivering to XOMA a quantity of Ascitic Fluid sufficient to require XOMA to
pay CRL aggregate payments of at least [*] (the "1992 Minimum Payment") during
such calendar year. Ascitic Fluid which is available for delivery on a specified
date, but segregated and not shipped pursuant to Section 6 of this Amendment
Agreement, shall be deemed "delivered" for purposes of this Amendment Agreement.
Attached hereto as Exhibit C is a form of purchase order (the "1992 Purchase
Order"), which Purchase Order sets forth the specific terms necessary to ensure
that CRL receives not less than the 1992 Minimum Payment in connection with the
sale of Ascitic Fluid to XOMA in calendar year 1992. XOMA hereby acknowledges
that it has read and understands the terms of the 1992 Purchase Order and agrees
to execute and deliver the 1992 Purchase Order simultaneous with the execution of
this Amendment Agreement.

4. Availability of Production Space. Effective January 1, 1992, CRL hereby
agrees [*]
terms of the 1992 Purchase Order, for any additional quantities of Ascitic Fluid
ordered by XOMA in excess of the amount required to ensure the 1992 Minimum
Payment. In its effort to meet any of XOMA's additional production requirements
for Ascitic Fluid, CRL will not be required to accelerate its production process
or increase the concentration of animals located in the Reserved Space or the
Expansion Space in a manner which CRL determines, in its reasonable business
judgment following consultation with XOMA, would likely impair CRL's ability to
maintain applicable health and safety standards including, without limitation,
health and safety standards applicable to the production of Ascitic Fluid, the
operation of the Facility, the well-being of persons in the facility or any
other health and safety standards imposed by law.

5. Maintenance of Core Staff. CRL hereby agrees to maintain a core staff of
trained production, quality assurance and other key personnel at the Raleigh
Facility sufficient to (i) ensure the timely delivery of the 1992 Minimum
Requirement and (ii) meet any reasonable requests from XOMA for the production
of additional quantities of Ascitic Fluid in compliance with "Good Manufacturing
Procedures" as set forth in CRL's License Applications to the FDA.

6. Segregation of E5 Product. If requested by XOMA, CRL will, subject to
reasonable space limitations, segregate but not ship E5 Product which is already
tested for, and has passed, release specifications (the "Segregated Inventory").
Title to and risk of loss of the Segregated Inventory shall pass to XOMA upon
segregation of the Segregated Inventory. When such Segregated Inventory is
subsequently shipped, CRL agrees to insure such Segregated Inventory during
shipment in accordance with CRL's customary practice of insuring Ascitic Fluid
in transit.

7. Guarantee. XOMA shall be obligated to purchase [*] Products (i) to be
supplied by CRL in calendar year 1991 and (ii) delivered in calendar year 1992
which are necessary to ensure that XOMA will pay the 1992 Minimum Payment, as
specified in the Modified 1991 Purchase Order and 1992 Purchase Order,
respectively, and CRL shall be obligated to produce and deliver said guaranteed
amount. XOMA shall be obligated to purchase [*] to be supplied by CRL in
calendar year 1992 in excess of the amount

necessary to ensure that XOMA will pay the 1992 Minimum Payment and CRL shall be
obligated to produce and deliver such excess amount.

8. Extension of Supply Agreement. Pursuant to Section 1.2 of the Supply
Agreement, the Supply Agreement shall be extended through December 31, 1992, to
include coverage of the deliveries scheduled for calendar year 1992.

9. Other Terms. All other terms and conditions of the Supply Agreement
shall remain in full force and effect, except to the extent that modification is
necessary to reflect the nullification of the Expansion Amendment as of December
31, 1991 and the agreements set forth herein.

10. Long-Term Agreement. The parties agree that, following FDA approval of
the E5 Product, the current supply arrangement evidenced by the Supply Agreement
will be extended for an additional period of not less than [*], and also
modified so as to [*].

11. Notwithstanding anything to the contrary in the Supply Agreement, all
notices to be delivered to XOMA shall be directed to the attention of XOMA's
Legal Department.

IN WITNESS WHEREOF, CRL and XOMA have caused this Amendment Agreement to be
executed by their duly authorized officers as of the day and year first above
written.

CHARLES RIVER LABORATORIES, INC.
By: /s/ James C. Foster 10/21/91
James C. Foster
President and Chief Operating
Officer

XOMA CORPORATION
By: /s/ Clarence L. Dello 10/17/91
Clarence L. Dello
Senior Vice President
Ship to  XOMA II Receiving Dock  
XOMA Corporation  
890 Heinz Street  
Berkeley, CA  94710  x2021

Vendor  Charles River Biotechnical  
251 Ballardvale Street  
Wilmington, MA  01887  
Phone  617 657-6500

Requestor  B. Dellio  
Order date  10/17/91  
Vendor Code  2222  
Terms  Net 30  
Ship via  O/N  
F.O.B.  FACT  
Freight  PPD  
Taxable  NO  
P.O. Type  REG  
Account Number  See Below  
Confirm to  J. Wheeler

ITEM  PART NUMBER/DESCRIPTION  DELIVERY DATE
1  101209  Ascites, E5, Purchased  12/31/91  
ACCOUNT:  1200-100
2  101204  Ascites, H65, Purchased  CLOSED  
ACCOUNT:  1200-100
3  101209  Ascites, E5, Purchased  CLOSED  
ACCOUNT:  1200-100
4  101204  Ascites, H65, Purchased  04/10/91  
ACCOUNT:  1200-100
5  MISC- 5-31100  EDIM Adjustment  CLOSED  
ACCOUNT:  1-5235-210

AMENDMENT TO PURCHASE ORDER 31100-2
XOMA guarantees to purchase 100% of PO#31100-4 requirements. Deliveries to be made in accordance with the attached delivery schedule. Terms and conditions of this purchase per supply agreement dated February 27, 1989, as amended from time to time.

TOTAL ORDER $9,412,115.80

/s/Paul Bouchard  
Authorized Agent

EXHIBIT "B1"  
XOMA PRODUCTION

EXHIBIT "B2"  
XOMA PRODUCTION

Facsimile of XOMA Purchase Order follows:

Ship to  XOMA II Receiving Dock  
XOMA Corporation  
890 Heinz Street  
Berkeley, CA  94710  x2021

Bill to  XOMA II Receiving Dock  
XOMA Corporation  
890 Heinz Street  
Berkeley, CA  94710  x2021

Vendor  Charles River Biotechnical  
251 Ballardvale Street  
Wilmington, MA  01887  
Phone  617 657-6500

Requestor  B. Dellio  
Order date  10/17/91
Vendor Code       2222
Terms             Net 30
Ship via          O/N
F.O.B.            FACT
Freight           PPD
Taxable           NO
P.O. Type         REG
Account Number    1200-100
Confirm to        J. Wheeler

ITEM              PART NUMBER/DESCRIPTION
1                 101209
Ascites, E5, Purchased

Any incremental quantities ordered by XOMA shall result in a negotiation of a new, lower price based on volume for the full year. XOMA guarantees to purchase 100% of PO#35753 requirements in 1992. Any incremental quantities of E5 or H65 ascites purchases will be guaranteed at 50% level. Deliveries to be made in accordance with the attached delivery schedule. Additional terms and conditions supply agreement dated February 27, 1989.

TOTAL ORDER $2,964,144.00

/s/Paul Bouchard
Authorized Agent
AGREEMENT

This Agreement is made as of the 31 day of August 1988 by and between XOMA CORPORATION ("XOMA") a Delaware Corporation with its principal place of business located at 2910 Seventh street, Berkeley, California, 94700, USA and SANOFI, a French Corporation, with its principal place of business located 40, Avenue George V, 75008 - Paris, France.

WITNESSETH:

WHEREAS, Sanofi is a pharmaceutical company which has great experience in the immunology field and which is a pioneer in the immunotoxins field, and is the owner of various patents for Immunotoxins, and

WHEREAS, Xoma is a corporation which has performed innovative work in that field and has already developed, among other things, H65 RTA a product currently used in vivo bone marrow treatment, and

WHEREAS, Xoma is desirous of obtaining a license under Sanofi's patents referred to above, and

WHEREAS, Sanofi has accepted to license said patents to Xoma under the terms and conditions contained herein, and

WHEREAS, the purpose of this Agreement is to define Xoma's and Sanofi's rights and obligations with respect to the granted rights.

NOW, THEREFORE, in consideration of the above stated premises and the promises contained herein, it has been agreed as follows between Xoma and Sanofi.

-2-

ARTICLE 1 - DEFINITIONS

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

1. Party or Parties shall mean respectively either Xoma or Sanofi as the context requires, or both Xoma and Sanofi.

2. Affiliate(s) shall mean either a corporation or other business entity which, directly or indirectly, controls or is controlled by one of the Parties, or a company in which majority of the capital is owned by one of the Parties.

3. Immunotoxin shall mean any preparation containing an antibody or fragment to which ricin A chain or any derivative is conjugated.

4. Product shall mean any pharmaceutical preparation or formulation that includes an Immunotoxin.

5. Selected Indications shall mean any preventive or curative therapeutic human treatment in any field except ophthalmology.

6. Date of Commercialization shall mean the date after government general marketing approval has been given in a Country when any Product is first offered for sale by Xoma or one of its Affiliates in that Country.

7. Net Sales shall mean the invoiced sales to a non Affiliate Party after the Date of Commercialization and after deducting:

   (a) customary trade discounts; reasonable quantity and cash discounts;

   (b) freight, delivery and insurance if included in the price;

   (c) value added, sales, use or turnover taxes, and exercise taxes or customs duties included in the invoiced amount;

   (d) rebates allowed to the purchaser of the Product pursuant to government regulations under any national health insurance program.

   (e) returns
8. Territory shall mean the whole world

9. Patents shall mean all pending and issued patents filed by Sanofi or its Affiliates as of the date hereof relating to Immunotoxins. Exhibits 1 and 2 sets forth, to the best of Sanofi's knowledge, a complete list thereof. The term Patents shall include any extensions, amendments, continuations, continuations in-part, foreign equivalents, divisional and reissue applications and reissue patents thereof, having claims directed to an Immunotoxin or directed to a method of making or using it.

10. Patents rights shall mean all rights derived from a Patent.

ARTICLE 2 - SUBJECT MATTER OF THE AGREEMENT:

Sanofi hereby grants to Xoma for the term of this Agreement a semi-exclusive license under the Patents to use, develop, manufacture, sell and otherwise to commercialize Products in the Territory for the Selected Indications.

Semi-exclusive means that Sanofi retains its rights under the Patents to develop its own Products in its discretion and using the means it will elect to apply to that development, to market its own Products through its subsidiaries, but Sanofi will not give a license to a third party under any of the Patents for the Selected Indications in the Territory except in one case: Sanofi may market its own Products through a third party but in that case Xoma will be granted a right of first refusal to the commercialization of such Products with respect to any third parties.

The license to Xoma includes the right to sublicense to both affiliates and non affiliates in whole or in part of the rights licensed to it under this Agreement provided that any sublicense granted by Xoma shall substantially conform to the provisions of this Agreement. Xoma shall inform Sanofi before negotiating any sublicense with a non affiliate for the sole purpose of providing Sanofi with this information. Xoma shall also promptly inform Sanofi when Xoma concludes an agreement with another.

ARTICLE 3 - TERM:

This Agreement shall enter into effect as of the date of its execution. For each Product, in each country of commercialization, Xoma retains a royalty free right to commercialize the Product after the end of the period of commercialization which is subject to royalties according to article 4 of this Agreement.

ARTICLE 4 - ROYALTIES:

a) So long as an issued Patent is in force in a country and covers a Product, whenever Xoma manufactures or sells the Product for a Selected Indication by itself or through an Affiliate to a non-affiliated third party it shall pay Sanofi a [*] royalty of Xoma's Net Sales for that country. If instead Xoma merely licenses a non-affiliated third party to commercialize the Product for a Selected Indication in such country, it shall pay Sanofi [*] of the net royalties it receives.

b) Royalties payable by Xoma shall be reduced by any amounts reasonably paid (including license and legal fees) to third parties in connection with any claim that Xoma’s sale of Products covered by the Patents infringes the rights of another in a manner within the scope of the Patents.

c) If Sanofi licenses a third party to market Sanofi’s own Products in a country in the Territory and Xoma does not exercise its right of first refusal and if the Sanofi Products are competitive with Xoma Products then being marketed or then under research and development by Xoma, then the royalty rate hereunder in those countries in which the Sanofi Products are introduced shall be reduced [*].

d) Xoma agrees to pay Sanofi the total minimum annual royalties set forth below, which royalties shall be a credit against the royalty obligations incurred for any Products during the applicable year. The minimum royalties shall begin in the first fiscal year which is at least 12 months after the Date of Commercialization of the first Product:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>25,000 $</td>
</tr>
<tr>
<td>Years 2-3</td>
<td>40,000 $</td>
</tr>
<tr>
<td>Years 4-7</td>
<td>50,000 $</td>
</tr>
</tbody>
</table>

ARTICLE 5 - PAYMENT OF ROYALTIES:

(i) Royalty payments made by Xoma to Sanofi shall be made at Sanofi’s office
referred to above or such other place as Sanofi may designate in writing, within ninety (90) days after the close of each sixmonth period. Payment will continue on a semi-annual basis.

Each payment shall be accompanied by a true and complete statement of Product sold by country, during the relevant period, showing the manner the royalties were computed. Xoma shall maintain a special accounting procedure incorporating all entries required for the accurate assessment of trading transactions made by itself, its subsidiaries and licensees. This special account shall be made available to Sanofi annually and in confidence until four years from the year of

(ii) All royalties made in countries other than the United States shall accrue in the currency of the country in which the sales are made. Xoma shall convert payments hereunder into U.S. dollars as long as permissible under local law, at the exchange rate used by Xoma, in accordance with generally accepted accounting principles for purposes of its certified financial statements.

Xoma will use its best efforts to secure U.S. dollar transfers in respect of such royalty payments. In the event U.S. dollars are for any reason legally not available for transfer, Xoma may discharge its royalty payment obligations by depositing said royalty payments to the credit of Sanofi, or its nominee, in any recognized banking institution to be designated by Sanofi in the country in which the sales are made and in the currency of that country.

ARTICLE 6 - COMMERCIALIZATION - MAINTENANCE OF PATENTS:

a) Xoma will use its commercially reasonable best efforts to develop and to commercialize as promptly and as efficiently as possible after the necessary governmental approvals have been obtained.

b) Sanofi agrees to maintain the Patents in each country in which they are filed and to pursue diligently the issuance of any Patents filed but not yet issued. Sanofi will consult with Xoma on Patents not yet issued, or the extension, reissuance or amendment of the Patents and will give Xoma the opportunity, at its expense to advise in the scope and pursuit thereof.

c) If either party learns of an infringement of, or other challenge to, the Patents by a third party, they shall consult on the proper course of action. If Sanofi elects not to defend, Xoma may discharge its royalty payment obligations by depositing said royalty payments to the credit of Sanofi, or its nominee, in any recognized banking institution to be designated by Sanofi in the country in which the sales are made and in the currency of that country.

ARTICLE 7 - CONFIDENTIALITY:

Subject as herein provided, it is expressly agreed that any confidential information, where applicable, received by either party under this Agreement is submitted for use in strict confidence and that during the term of this Agreement and for a period of 5 years thereafter, the receiving party shall not disclose any such confidential information to any third party without the other's prior written consent; disclosure shall be exempt from this article to extent that either party is able to prove that:

(a) at the time of the communication the receiving Party previously had the information as evidenced by written documents;

(b) the information is publicly divulged through no fault of the receiving party;

(c) the information is supplied to receiving party by a third party who is under no obligation to the disclosing party to maintain such information in confidence; or

(d) the information is developed by or for the receiving party independently of the disclosure made under this Agreement.

All such information shall be disclosed in writing and designated confidential or, if disclosed orally, shall be confirmed in writing and designated confidential within thirty (30) days of disclosure.
Each party shall make all necessary arrangements to cause its Affiliates and
their employees to comply with this obligation of secrecy.

ARTICLE 8 - RIGHT OF FIRST REFUSAL:

The right of first refusal given to Xoma for the commercialization of Sanofi's
Product will be exercised by Xoma on the following conditions:

Upon approval to commence Phase III efficacy human clinical trials or after
receipt of approval for general commercialization, Sanofi shall inform Xoma by
registered mail of Sanofi's intention to license a third party to market one of
Sanofi's own Products, in some portion of the Territory, the terms of the
proposed license and the identity of the licensee. Within 60 days of receipt of
this letter, Xoma shall respond whether it agrees to act as Sanofi's licensee
for that Product on terms which in material respects are equivalent to the
financial terms described by Sanofi. In its response, Xoma must set forth its
reasonable basis for believing it can effectively serve as Sanofi's licensee for
this Product. Sanofi and Xoma wish to cooperate in this regard and agree to use
their good faith, commercially reasonable best efforts to establish Xoma as the
licensee. If Sanofi nonetheless concludes in good faith that Xoma cannot
effectively perform the licensee responsibility or if Xoma does not exercise its
first refusal right, Sanofi may elect to conclude within 180 days of Xoma's
response an agreement with the original party on the specified terms. Sanofi
cannot materially change any of these terms in a manner adverse to it without
first so notifying Xoma and giving it the opportunity, for 30 days after receipt
of such information, to reconsider its decision. If Sanofi does not conclude its
agreement within such 180 days period (or 90 days after any Xoma opportunity for
reconsideration) Xoma's right of first refusal shall be reviewed on the same
terms as provided above.

If Xoma exercises its right of first refusal and becomes licensee of that Sanofi
Product, Sanofi agrees it will not market, directly or through another in that
part of the Territory a Product which addresses the same disease unless such
other Product demonstrates substantially improved performance from the Product
then marketed by Xoma.

Notwithstanding the foregoing, the Parties may mutually agree that it is
desirable for Sanofi to discuss possible licensing arrangements with Xoma prior
to entering discussions with others. The Parties will review this when the case
arises.

ARTICLE 9:

This Agreement does not preclude Xoma and Sanofi to conclude case by case
specified agreements related to, for example, research services or production of
Sanofi's own Products.

ARTICLE 10:

If, in the future, Sanofi for the commercialization of one of its Products needs
to have the license of one or several of Xoma's patents, Xoma will use its best
efforts to negotiate with Sanofi at that time in good faith.

ARTICLE 11:

Upon execution of the present Agreement, the legal proceedings between Sanofi
and Xoma will be terminated without prejudice.

ARTICLE 12 - TERMINATION:

12.1 In addition to pursuing all other remedies, either Party may terminate
this Agreement on notice to the other Party if the other Party
materially breaches any material obligation or representation under this
Agreement and does not cure such breach and provide notice thereof to
the other Party (i) within ninety days after written notice to the
breaching Party setting forth, in reasonable detail, the nature of the
alleged breach or (ii) if the alleged breach is contested in good faith,
within 30 days of the resolution of such dispute in accordance with this
Agreement.

12.2 This Agreement shall be terminated by operation of law in the event of
suspension of activities because of the bankruptcy of Sanofi and/or
Xoma.

12.3 Upon termination of this Agreement, its Articles 4 and 5 with respect to
prior sales and 7 shall survive.

ARTICLE 13 - MISCELLANEOUS:

13.1 No agency
The status of the Parties under this Agreement shall be that of independent contractors and neither Party shall be deemed or construed to be an employee, agent, partner or legal representative of the other Party for any purpose whatsoever. Neither Party shall have the right or authority to assume or otherwise create any obligation or responsibility, express or implied, on behalf or in the name of the other Party or to bind the other Party in any manner or thing whatsoever.

13.2 Entire Agreement

This Agreement embodies the entire understanding of the Parties as it relates to the subject matter hereof, and this Agreement supersedes any prior agreements or understandings between the Parties with respect to such subject matter. No amendment or modification of this Agreement shall be valid and binding upon the Parties unless in writing and signed on behalf of each Party by its duly authorized officers.

13.3 Waiver

Should either Party fail to enforce any provision of this Agreement, or fail to exercise, or waive, any right in respect thereto, such failure or waiver shall not be construed as constituting a waiver or continuing waiver of its rights to enforce such provision or right or any other provision or right.

13.4 Assignment

This Agreement shall be binding upon and inure to the benefit of the Parties hereto and their respective heirs, successors and assigns; provided, however, that except as provided herein neither Party shall assign any of its rights or privileges hereunder without the prior written consent of the other Party, except to an Affiliate or to a successor in interest (or its equivalent) or in case of acquisition or merger of Xoma.

13.5 Notices

Any notice, payment or report required or permitted under this Agreement shall be delivered by hand or by registered or certified mail to the following addresses:

(a) if to Xoma:
Xoma Corporation
att. Steven C. Mendell
Chairman and Chief Executive Officer
2910 Seventh Street
Berkeley - CA 94710 - U.S.A.

(b) if to Sanofi:
Sanofi
Att. Michel de Haas
Vice-President and General Counsel
40, Avenue George V
75008 - Paris - FRANCE

or to such other person or address as shall hereafter furnished by written notice to the other Party.

13.6 Force majeure

Each party shall be excused for failures and delays in performance caused by war, governmental proclamations, ordinances or regulations, or strikes, lockouts, floods, fires, explosions or other catastrophes beyond the reasonable control and without the fault of such Party. This provision shall not, however, release such Party from using its reasonable best efforts to avoid or remove all such causes, and such Party shall continue performance hereunder with the utmost dispatch whenever such causes are removed. Any Party claiming such excuse for failure or delay in performance shall give prompt notice thereof to the other Party, and neither Party shall be required to perform hereunder during the period of such excused failure or delay in performance except as otherwise provided herein.

13.7 Invalidity

If any provision of this Agreement, or the application thereof to any situation or circumstance, shall be invalid or unenforceable, the remainder of this Agreement or the application of such provision to situations or circumstances other than those as to which it is invalid or unenforceable, shall not be affected; and each remaining provision
of this Agreement shall be valid and enforceable to the fullest extent permitted by applicable laws. In the event of such partial invalidity, the Parties shall seek in good faith to agree on replacing any such legally invalid provisions by provisions which, in effect, will, from an economic viewpoint, most nearly and fairly approach the effect of the invalid provision.

13.8 Xoma indemnifies and holds harmless Sanofi and its agents, servants, and employees from and against any and all claims, demands, suits, or actions of any character presented or brought by third parties for injuries or death to persons and damages to property caused by or arising out of the testing, manufacture, sale or use by products by Xoma covered by the Patents, including any defects in such subject matter. This indemnity shall include, but not be limited to, court costs, attorneys' fees, costs of investigations and cost of defense associated with such demands, claims suits or actions. Sanofi shall promptly notify Xoma of any such claim which comes to its attention.

ARTICLE 14 - APPLICABLE LAW - ARBITRATION

This Agreement and matters in connection with the performance hereof shall be construed, interpreted, applied and governed in all respects in accordance with the laws of New York. Any disputes arising in connection with this Agreement shall be finally settled under the Rules of Conciliation and Arbitration of the International Chamber of Commerce in New York by one arbitrator mutually agreeable to Xoma and Sanofi or by three arbitrators, one selected by each Party and the third selected by these two. The prevailing party, as designated by the arbitrator shall bear the other party's legal fees and costs of arbitration.

ARTICLE 15 - DISCLOSURE

The Parties agree to keep the terms hereof confidential. This Agreement will not be filed with any governmental entity by any Party unless legally required and then only after it has provided the other Party with a 10 days opportunity to review the need for filing. Any filing will be made with requests for confidentiality to the extent permitted by law.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed in three originals by their duly authorized representatives on the date first written above.

XOMA CORPORATION                            SANOFI

/s/ Richard C. Spalding                     /s/ Michel de Haas
By: Richard C. SPALDING                     By: Michel de HAAS
Attorney in fact                       Vice-President
For: Steven C. MENDELL                      and General Counsel
Chairman and
Chief Executive Officer

EXHIBIT 1 : LICENSED PATENTS

<table>
<thead>
<tr>
<th>Ref.</th>
<th>FILING NUMBER</th>
<th>PUBLICATION NUMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 167 C</td>
<td>78 27838</td>
<td>27557 C</td>
</tr>
<tr>
<td>+ 79 24655</td>
<td>44529 D</td>
<td></td>
</tr>
<tr>
<td>30 208 C</td>
<td>81 07596</td>
<td>95455 E</td>
</tr>
<tr>
<td>30 229 C</td>
<td>81 21836</td>
<td>54424 L</td>
</tr>
<tr>
<td>339 C</td>
<td>83 13604</td>
<td>85 082852</td>
</tr>
</tbody>
</table>

EXHIBIT - 2

EXTENSIONS OF THE LICENSED PATENTS INDICATED IN EXHIBIT - 1

REFERENCE: 30167C
ASSIGNEE(S): SANOFI
INVENTOR(S): VOISIN GA JANSEN FK GROS P

<TABLE>
<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>FILING</th>
<th>APPLICATION</th>
<th>GRANTING DATE</th>
<th>GRANTING NUMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;C&gt;</td>
<td>&lt;C&gt;</td>
<td>&lt;C&gt;</td>
<td>&lt;C&gt;</td>
<td>&lt;C&gt;</td>
</tr>
</tbody>
</table>
</CAPTION>
### European Patent Designated Country

**Patent Cooperation Treaty (PCT) Designated Country**

**Reference:** 30208C  
**Assignee(s):** SANOFI  
**Inventor(s):** JANSEN FK GROS P

<table>
<thead>
<tr>
<th>Country</th>
<th>Filing</th>
<th>Application</th>
<th>Granting</th>
<th>Granting</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Canada</strong></td>
<td>790926</td>
<td>336,385</td>
<td>850611</td>
<td>1188681</td>
</tr>
<tr>
<td><strong>France</strong></td>
<td>791003</td>
<td>79,24655</td>
<td>830801</td>
<td>79,24655</td>
</tr>
<tr>
<td><strong>France</strong></td>
<td>780828</td>
<td>78,27838</td>
<td>830426</td>
<td>78,27838</td>
</tr>
<tr>
<td><strong>German Federal Republic</strong></td>
<td>790927</td>
<td>29,39165.9</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td><strong>Italy</strong></td>
<td>790928</td>
<td>26118 A/79</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td><strong>Japan</strong></td>
<td>790928</td>
<td>54-125257</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td><strong>Netherlands</strong></td>
<td>790928</td>
<td>7907251</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td><strong>Spain</strong></td>
<td>790928</td>
<td>484591</td>
<td>801216</td>
<td>484591</td>
</tr>
<tr>
<td><strong>Sweden</strong></td>
<td>790926</td>
<td>7907994-3</td>
<td>861211</td>
<td>7907994-3</td>
</tr>
<tr>
<td><strong>Switzerland</strong></td>
<td>790926</td>
<td>864479-7</td>
<td>850131</td>
<td>647411</td>
</tr>
<tr>
<td><strong>United Kingdom</strong></td>
<td>790928</td>
<td>7933670</td>
<td>840104</td>
<td>2,034,324</td>
</tr>
<tr>
<td><strong>United States</strong></td>
<td>790927</td>
<td>79,441</td>
<td>820720</td>
<td>4,340,535</td>
</tr>
</tbody>
</table>

**European Patent Designated Country**

**Patent Cooperation Treaty (PCT) Designated Country**

**Reference:** 30208C  
**Assignee(s):** SANOFI  
**Inventor(s):** JANSEN FK GROS P

<table>
<thead>
<tr>
<th>Country</th>
<th>Filing</th>
<th>Application</th>
<th>Granting</th>
<th>Granting</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Canada</strong></td>
<td>820407</td>
<td>400,606</td>
<td>851015</td>
<td>1195248</td>
</tr>
<tr>
<td><strong>Czechoslovakia</strong></td>
<td>820409</td>
<td>2564-82</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td><strong>Denmark</strong></td>
<td>820414</td>
<td>82.1674</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td><strong>Egypt</strong></td>
<td>820414</td>
<td>205/82</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td><strong>European Patent</strong></td>
<td>820409</td>
<td>82400651.4</td>
<td>860129</td>
<td>0063988</td>
</tr>
<tr>
<td><strong>Finland</strong></td>
<td>820414</td>
<td>821304</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td><strong>France</strong></td>
<td>810415</td>
<td>81,07596</td>
<td>851014</td>
<td>81,07596</td>
</tr>
<tr>
<td><strong>German Democratic Republic</strong></td>
<td>820414</td>
<td>60694</td>
<td>831214</td>
<td>204849</td>
</tr>
<tr>
<td><strong>German Federal Republic</strong></td>
<td>820409</td>
<td>67862</td>
<td>820506</td>
<td>69199</td>
</tr>
<tr>
<td><strong>Hungary</strong></td>
<td>820414</td>
<td>1135/82</td>
<td>850826</td>
<td>188314</td>
</tr>
<tr>
<td><strong>Indonesia</strong></td>
<td>820415</td>
<td>8624</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td><strong>Ireland</strong></td>
<td>820406</td>
<td>815/82</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td><strong>Israel</strong></td>
<td>820406</td>
<td>65441</td>
<td>851231</td>
<td>65441</td>
</tr>
<tr>
<td><strong>Italy</strong></td>
<td>850522</td>
<td>67710/BE/85</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td><strong>Japan</strong></td>
<td>820415</td>
<td>97-061857</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td><strong>Liechtenstein</strong></td>
<td>820415</td>
<td>19633</td>
<td>821231</td>
<td>19429</td>
</tr>
<tr>
<td><strong>Luxembourg</strong></td>
<td>820401</td>
<td>200302</td>
<td>850909</td>
<td>200302</td>
</tr>
<tr>
<td><strong>Morocco</strong></td>
<td>820414</td>
<td>19633</td>
<td>821231</td>
<td>19429</td>
</tr>
<tr>
<td><strong>Netherlands</strong></td>
<td>820414</td>
<td>821198</td>
<td>870114</td>
<td>154905</td>
</tr>
<tr>
<td><strong>Panama</strong></td>
<td>820623</td>
<td>27142</td>
<td>875080</td>
<td>20846</td>
</tr>
<tr>
<td><strong>Philippines</strong></td>
<td>820415</td>
<td>74741</td>
<td>831109</td>
<td>74741</td>
</tr>
<tr>
<td><strong>Poland</strong></td>
<td>820415</td>
<td>7113360</td>
<td>830516</td>
<td>18422</td>
</tr>
<tr>
<td><strong>Portugal</strong></td>
<td>820414</td>
<td>82/2525</td>
<td>830223</td>
<td>82/2528</td>
</tr>
<tr>
<td><strong>Rep. of China (Taiwan)</strong></td>
<td>820414</td>
<td>1664/1982</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td><strong>Spain</strong></td>
<td>820414</td>
<td>511433</td>
<td>821204</td>
<td>511433</td>
</tr>
<tr>
<td><strong>Sweden</strong></td>
<td>820413</td>
<td>14828</td>
<td>830130</td>
<td>14828</td>
</tr>
</tbody>
</table>

**European Patent Designated Country**

**Patent Cooperation Treaty (PCT) Designated Country**

**Reference:** 30208C  
**Assignee(s):** SANOFI  
**Inventor(s):** JANSEN FK GROS P
<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>FILING</th>
<th>APPLICATION</th>
<th>GRANTING</th>
<th>GRANTING</th>
</tr>
</thead>
<tbody>
<tr>
<td>AUSTRALIA</td>
<td>821110</td>
<td>90334/82</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>AUSTRIA</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>BELGIUM</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>CANADA</td>
<td>821103</td>
<td>414,789</td>
<td>860812</td>
<td>1209472</td>
</tr>
<tr>
<td>EUROPEAN PATENT</td>
<td>821115</td>
<td>82402078.8</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>FRANCE</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>FRANCE</td>
<td>811120</td>
<td>81 21836</td>
<td>851014</td>
<td>81 21836</td>
</tr>
<tr>
<td>GERMAN FEDERAL REPUBLIC</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>ITALY</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>JAPAN</td>
<td>821120</td>
<td>57-202905</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>LIECHTENSTEIN</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>LUXEMBOURG</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>NETHERLANDS</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>NEW ZEALAND</td>
<td>821119</td>
<td>202563</td>
<td>860924</td>
<td>202563</td>
</tr>
<tr>
<td>SOUTH AFRICA</td>
<td>821103</td>
<td>82/8048</td>
<td>830831</td>
<td>82/8048</td>
</tr>
<tr>
<td>SWEDEN</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>SWITZERLAND</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>UNITED KINGDOM</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>UNITED STATES</td>
<td>821103</td>
<td>438,037</td>
<td>870217</td>
<td>4,643,895</td>
</tr>
</tbody>
</table>

EUROPEAN PATENT DESIGNATED COUNTRY
PATENT COOPERATION TREATY (PCT) DESIGNATED COUNTRY

REFERENCE:  30229C
ASSIGNEE(S):  SANOFI
INVENTOR(S):  CASELLAS P GROS P JANSEN F

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>FILING</th>
<th>APPLICATION</th>
<th>GRANTING</th>
<th>GRANTING</th>
</tr>
</thead>
<tbody>
<tr>
<td>BELGIUM</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>EUROPEAN PATENT</td>
<td>840821</td>
<td>84401694.9</td>
<td>880107</td>
<td>0140728</td>
</tr>
<tr>
<td>FRANCE</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>FRANCE</td>
<td>850823</td>
<td>83 13604</td>
<td>851125</td>
<td>83 13604</td>
</tr>
<tr>
<td>GERMAN FEDERAL REPUBLIC</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>ITALY</td>
<td>0</td>
<td>67176/BE/88</td>
<td>870217</td>
<td>4,643,895</td>
</tr>
<tr>
<td>JAPAN</td>
<td>840823</td>
<td>59-175800</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>LIECHTENSTEIN</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>LUXEMBOURG</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>NETHERLANDS</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>SWEDEN</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>SWITZERLAND</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>UNITED KINGDOM</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>UNITED STATES</td>
<td>840817</td>
<td>641,582</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>UNITED STATES</td>
<td>880115</td>
<td>144,126</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>

EUROPEAN PATENT DESIGNATED COUNTRY
PATENT COOPERATION TREATY (PCT) DESIGNATED COUNTRY

REFERENCE:  3390
ASSIGNEE(S):  SANOFI
INVENTOR(S):  JANSEN F GROS P
INDEX

Section 1. Definitions                                      page 3
Section 2. Effective Date                                  page 10
Section 3. Performance of the NYU Research Project         page 10
Section 4. Funding of the NYU Research Protect             page 12
Section 5. Title                                          page 13
Section 6. Patents and Patent Applications                page 14
Section 7. Grant of License                               page 16
Section 8. Development and Commercialization              page 18
Section 9. Payments for License                           page 20
Section 10. Method of Payment                              page 27
Section 11. Publication                                   page 28
Section 12. Infringement of NYU Patent                    page 29
Section 13. Term and Termination                          page 33
Section 14. CORPORATION's Contingent Right to Royalties   page 34
Section 15. CORPORATION's Indemnification                  page 35
Section 16. Security for Indemnification                   page 36
Section 17. Confidential Information                      page 40
Section 18. Representations and Covenants                 page 41
Section 19. No Assignment                                 page 42
Section 20. Use of Name                                   page 43
Section 21. Miscellaneous                                page 44

Appendix I - Pre-Existing Inventions
Appendix II - Research Project
Appendix III - Development Plan
Appendix IV - Schedule of Research Payments
NYU/XOMA RESEARCH AND LICENSE AGREEMENT

This Agreement, dated as of September 1, 1993, is by and between:

NEW YORK UNIVERSITY a corporation organized and existing under the laws of the State of New York and having a place of business at 70 Washington Square South, New York, New York 10012 (hereinafter "NYU")

AND

XOMA Corporation a corporation organized and existing under the laws of the State of Delaware having its principal office at 2910 Seventh Street, Berkeley, California 94710 (hereinafter "CORPORATION").

WITNESSETH:

WHEREAS, CORPORATION and NYU are parties to that certain Agreement dated August 6, 1990 ("the Original Agreement") and each of them desires to amend and restate the Original Agreement in its entirety;

NOW, THEREFORE, in consideration of the mutual promises and agreements contained herein, CORPORATION and NYU mutually covenant and agree that the terms of the Original Agreement shall be cancelled and that, effective August 6, 1990 ("the Effective Date") the following recitals and terms shall be substituted therefore:

RECITALS

WHEREAS, Drs. Peter Elsbach and Jerrold Weiss of NYU (hereinafter "the NYU Scientists") have made certain inventions relating to Bactericidal/Permeability Increasing Protein (hereinafter "the BPI Pre-Existing Inventions"), and also certain inventions relating to 15KD proteins purified from mammalian polymorphonuclear leukocytes and having anti-bacterial or lipopolysaccharide neutralizing properties ("the P15 Pre-Existing Inventions") all as more particularly described in pending U.S. patent application and counterpart foreign patent applications owned by NYU, identified, respectively, in annexed Appendix I and Appendix II forming an integral part hereof;

WHEREAS, NYU is willing to perform the NYU Research Project (as hereinafter defined);

WHEREAS, CORPORATION is prepared to sponsor the NYU Research Project (as hereinafter defined) at the facilities of NYU;

WHEREAS, subject to the terms and conditions hereinafter set forth, NYU is willing to grant to CORPORATION and CORPORATION is willing to accept from NYU a license to use and practice the Research Technology (as hereinafter defined) for the manufacturing and marketing of the Licensed Products (as hereinafter defined);

NOW, THEREFORE, IT IS HEREBY DECLARED AND AGREED BETWEEN THE PARTIES AS FOLLOWS:

1. Definitions.

Whenever used in this Agreement, the following terms shall have the following meanings:

a. "Affiliate" shall mean any company or other legal entity which controls, or is controlled by, or is under common control with, a sublicensee of CORPORATION; control means the holding of fifty and one tenth percent (50.1%) or more of (i) the capital and/or (ii) the voting rights and/or (iii) the right to elect or appoint directors or such lower maximum amount allowed by the law governing the ownership of said organization.

b. "Agreement Year" shall mean any consecutive period of twelve months commencing on the Effective Date or an annual anniversary of the Effective Date.

c. "BPI" shall mean Bactericidal/Permeability Increasing protein, purified from mammalian polymorphonuclear leukocytes.

d. "BPI Biological Material" shall mean the cDNA encoding for human BPI that NYU has in its possession on the Effective Date.

e. "BPI Products" shall mean:
f. "BPI Combination Product" shall mean a product comprising a BPI Product(s) and at least one other ingredient which is therapeutically or prophylactically active.

g. "CORPORATION Entity" shall mean any company or other legal entity which controls, or is controlled by, or is under common control with, CORPORATION; control means the holding of fifty and one tenth percent (50.1%) or more of (i) the capital and/or (ii) the voting rights and/or (iii) the right to elect or appoint directors or such lower maximum amount allowed by the law governing the ownership of said organization.

h. "CORPORATION PATENTS" shall mean all United States and foreign patents and reissues, renewals and extensions thereof, and patent applications, and any divisions, continuations, in whole or in part therefor, which name only employee(s) of CORPORATION and not any NYU employee as an inventor(s) thereon and relate to the BPI Products, as defined herein.

i. "Development Plan" shall mean the preclinical plan and estimated time frame for clinical program, through final approval by the United States Food and Drug Administration ("FDA") for the BPI Products, as set forth in Appendix III, attached hereto and made an integral part hereof.

j. "JOINT Patents" shall mean all United States and foreign patents and reissues, renewals and extensions thereof, and patent applications, and any divisions, continuations, in whole or in part therefor, which name at least one employee of CORPORATION and one employee or student of NYU as inventors thereon and which disclose and claim inventions which are based on, use or comprise biological material provided to CORPORATION by NYU or disclosed in the NYU Patents or which relate to the BPI Products.

k. "License" shall mean the exclusive worldwide license to practice the Research Technology for the development, manufacture, use and sale of the Licensed Products.

l. "Licensed Product" shall mean (aa) any BPI Product; or (bb) any BPI Combination Product; or (cc) any P15 Product (as hereinafter defined); or (dd) any P15 Combination Product (as hereinafter defined). The production, use or sale of which is covered by a claim of any unexpired NYU Patent and/or JOINT Patent and/or CORPORATION Patent which has not been disclaimed or held invalid by a court of competent jurisdiction from which no appeal can be taken.

m. "Net Sales" shall mean the total amount invoiced in connection with sales of the Licensed Products, in any arm's length transaction, after deduction of all the following to the extent applicable to such sales;

   i) all trade, case and quantity credits, discounts, refunds or rebates;
   ii) allowances or credits for returns;
   iii) sales commissions; and iv) sales taxes (including value added tax), provided that in respect of sales which are not "at arm's length" sales, the Net Sales shall be deemed to be the total sales price invoiced at the time of such sales for sales of Licensed Products which are "at arm's length" sales after the aforementioned deductions.

n. "NYU Know-How" shall mean the BPI and P15 Pre-Existing Inventions and any information and materials, including the BPI Biological Material and the P15 Biological Material and also, but not limited to, pharmaceutical, chemical, biological and biochemical products, information, trade secrets, know-how, technical and non-technical data, methods and processes and any drawings, plans, diagrams, specifications and/or other documents containing such information, discovered, developed or acquired by, or on behalf of, students or employees of NYU during the Research Period (as hereinafter defined) and in the course of the NYU Research Project.

o. "NYU Patents" shall mean all United States and foreign patents and reissues, renewals and extensions thereof, and patent applications,
and any divisions, continuations, in whole or in part, therefor:

-7-
(1) which claim Pre-Existing Inventions and which are identified on annexed Appendix I; or

(2) which claim inventions that are made by students or employees of NYU during the term and in the course of the NYU Research Project.

p. "NYU Research Project" shall mean the investigations during the Research Period (as hereinafter defined) into the field of BPI and P15 (as hereinafter defined) under the supervision of the NYU Scientists at NYU in accordance with the research program, described in annexed Appendix III, which forms an integral part hereof.

q. "PLA" shall mean 15KD proteins purified from mammalian polymorphonuclear leukocytes and having anti-bacterial or lipopolysaccharide neutralizing properties.

r. "P15 Products" shall mean:

[*]

s. "P15 Biological Material" shall mean the encoding for mammalian P15s that NYU had in its possession on September 1, 1993. t. "P15 Combination Product" shall mean a product comprising a P15 Product(s) and at least one other ingredient which is therapeutically or prophylactically active.

u. "PLA" shall mean a product license application filed with the FDA with respect to any BPI Product or P15 Product.

v. "Research Period" shall mean the six (6) year period commencing upon the Effective Date and any extension thereof as to which NYU and CORPORATION shall mutually agree in writing.

w. "Research Technology" shall mean all NYU Patents and NYU Know-How and NYU’s interest in JOINT Patents.

2. Effective Date.

This Agreement shall be effective as of August 6, 1990 (the "Effective Date") and shall remain in full force and effect until it expires or is terminated in accordance with Section 13 or Sections 8.e. or 9.f. hereof.

3. Performance of the NYU Research Project.

a. In consideration of the sums to be paid to NYU as set forth in Section 4 below, NYU undertakes to perform the NYU Research Project at NYU under the supervision of the NYU Scientists during the three year period commencing on the Effective Date, (hereinafter "the Research Period"). If, during the Research Period all of the NYU Scientists shall cease to supervise the NYU Research Project, then NYU shall provide notice to CORPORATION of such occurrence and shall endeavor to find from among the scientists of NYU a scientist or scientists acceptable to CORPORATION to continue the supervision of the NYU Research Project in place of the NYU Scientists. If NYU is unable to find such a scientist acceptable to CORPORATION, which acceptance shall not unreasonably be withheld, within three months after such notice to CORPORATION, CORPORATION shall have the option to terminate its funding of the NYU Research Project. CORPORATION shall promptly advise NYU in writing if CORPORATION so elects. Such termination of funding pursuant to this Section 3.a. shall not terminate this Agreement or the License granted herein. Nothing herein contained, however, shall be deemed to impose an obligation on NYU to find a replacement for the NYU Scientists.

b. Nothing contained in this Agreement shall be construed as a warranty on the part of NYU that any results or inventions will be achieved by the NYU Research Project, or that the Research Technology and/or any other results or inventions achieved by the NYU Research Project, if any, are or will be commercially exploitable and furthermore, NYU makes no warranties whatsoever as to the commercial or scientific value of the Research Technology.

c. Within sixty (60) days after each six months of the Research Period, NYU shall prepare a written report summarizing the results of the work conducted on the NYU Research Project during the preceding period.
d. NYU will have full authority and responsibility for the NYU Research Project. All students and employees of NYU who work on the NYU Research Project will do so as employees or students of NYU, and not as employees of CORPORATION.

-11-

e. Within seven (7) days after the Effective Date, NYU shall deliver to CORPORATION a sample of the Biological Material. CORPORATION shall use such Biological Material solely for performance of the CORPORATION's research and development obligations pursuant to Section 8 hereof, and CORPORATION shall not distribute or disclose the Biological Material to any person or entity outside CORPORATION without the prior written permission of NYU.

4. Funding of the NYU Research Project.

a. As compensation to NYU for work performed on the NYU Research Project during the Research Period, CORPORATION shall pay NYU a total of [*] payable in accordance with the Schedule annexed hereto as Appendix V, which is an integral part of this Agreement. NYU acknowledges that as of September 1, 1993, CORPORATION has paid NYU [*] of such amount.

b. Nothing in this Agreement shall be interpreted to prohibit NYU (or the NYU Scientists) from obtaining additional financing or research grants for the NYU Research Project from government agencies, which grants or financing may render all or part of the NYU Research Project and the results thereof subject to the patent rights of the U.S. government and its agencies, as set forth in Title 35 U.S.C. ss.200 et seq., and from non-commercial third parties, provided, however, that such grants shall not give such non-commercial third parties any rights to the results, use and/or commercialization of such research.

5. Title.

a. Subject to the License granted to CORPORATION hereunder and to the rights of the United States Government pursuant to Title 35 of the U.S.C. ss.200 et. sec. and 15 CFR ss.368 et. seq., it is hereby agreed that all right, title and interest, in and to the Research Technology, and in and to any drawings, plans, diagrams, specifications, and other documents containing any of the Research Technology shall vest solely in NYU including, but not limited to, the execution of any documents that may be required to record such right, title and interest of NYU including, but not limited to, the execution of any documents that may be required to record such right, title and interest with the appropriate agency or government office. If CORPORATION determines that a waiver is necessary with respect to the Research Technology, from the United States Government, CORPORATION shall so notify NYU and NYU shall assist CORPORATION in applying for such waiver.

b. Title to JOINT Patents shall vest jointly in NYU and CORPORATION, except as otherwise provided herein.

c. NYU and CORPORATION acknowledge that there is a possibility Genentech or an assignee thereof might claim certain rights to and/or interest in the BPI Pre-Existing Inventions.

-13-


a. CORPORATION has paid NYU the sum of U.S. [*] being the amount of all costs and fees incurred by NYU up to the Effective Date in connection with the patent applications identified in Appendix I hereto. Within thirty (30) days of final execution of this Agreement, CORPORATION shall pay NYU the sum of [*], being the amount of all costs and fees incurred by NYU after the Effective Date and with respect to the patent applications identified in Appendix II hereto.

b. NYU shall promptly disclose to CORPORATION in writing all inventions which comprise potential NYU Patents or JOINT Patents. CORPORATION shall promptly disclose to NYU in writing all inventions which comprise potential JOINT Patents or CORPORATION Patents.

c. At the initiative of CORPORATION or NYU, the parties shall consult with each other regarding the filing of patent applications in respect of any inventions which comprise potential NYU Patents or JOINT Patents, including but without limitation, the timing of the filing of such applications, the jurisdiction within which foreign counterparts of such applications should be filed and other details pertaining to the prosecution and maintenance of patent rights.
d. NYU and CORPORATION will negotiate in good faith to select patent counsel mutually acceptable to NYU and CORPORATION.

NYU and CORPORATION will file, prosecute and maintain through such patent counsel and in countries selected by NYU and CORPORATION, patent applications on any inventions which comprise potential JOINT Patents. NYU and CORPORATION shall each be solely responsible for the filing, prosecution and maintenance of NYU Patents and CORPORATION Patents respectively.

e. NYU and CORPORATION shall assist, and cause their respective employees and consultants to assist each other, in assembling inventorship information and data for the filing and prosecution of patent applications on inventions which comprise potential NYU Patents or JOINT Patents.

f. All NYU Patents and JOINT Patents shall be filed, prosecuted and maintained at the expense of CORPORATION.

g. If at any time during the term of this Agreement CORPORATION decides that it is undesirable as to one or more countries, to prosecute or maintain any potential or issued NYU Patents or JOINT Patents, CORPORATION shall give prompt written notice thereof to NYU, and upon receipt of such notice CORPORATION shall be released from its obligation to bear all of the expense to be incurred thereafter as to such countries in conjunction with such patent(s) or patent application(s), and NYU shall have the right to prosecute and maintain such patents at NYU's sole expense.

h. Nothing herein contained shall be deemed to be a warranty by NYU that

   i) NYU can or will be able to obtain any patent or patents on any patent application or applications in the NYU Patents or any portion thereof, or that any of the NYU Patents will afford adequate or commercially worthwhile protection, or

   ii) that the manufacture, use, or sale of any element of the Research Technology or any Licensed Product will not infringe any patent(s) of a third party.

7. Grant of License.

a. Subject to the terms and conditions hereinafter set forth, and subject to any rights of the United States Government pursuant to Title 35 of the United States Code ss.200 et seq., NYU hereby grants to CORPORATION and CORPORATION hereby accepts from NYU the License.

b. The period of the License shall be determined on a country-by-country basis and on a Licensed Product-by-Licensed Product basis and shall be for the longer of (i) fifteen (15) years after first commercial sale after regulatory approval in such country of the respective Licensed Product by CORPORATION, or CORPORATION's sublicensees, or (ii) until the last to expire of the NYU Patents or the JOINT Patents in such country, and, thereafter, in the case of (i) or (ii), CORPORATION's license hereunder with respect to the Licensed Product shall be a fully paid-up irrevocable license without payment of additional royalties. The CORPORATION shall inform NYU in writing of the date of first commercial sale after regulatory approval of each Licensed Product in each such country as soon as practicable after the making of such commercial sale.

c. CORPORATION shall be entitled to grant sublicenses under the License on terms and conditions in compliance and not inconsistent with the terms and conditions of this Agreement (i) to a CORPORATION Entity or (ii) to other third parties for consideration and in an arms-length transaction. All sublicenses shall only be granted by CORPORATION under a written agreement, a copy of which, with certain financial terms deleted, shall be submitted by CORPORATION to NYU as soon as practicable after the signing thereof. Each sublicense granted by CORPORATION hereunder shall be subject and subordinate to the terms and conditions of this Agreement and shall contain (inter-alia) the following provisions:

(1) the sublicense shall expire automatically on the termination of the License; provided, however that upon such termination, the sublicensee shall have the right to enter into a licensing agreement with NYU upon the same terms and conditions as in this Agreement.

(2) the sublicense shall not be assignable, in whole or in part
except to an Affiliate of the sublicensee;

(3) the sublicensee shall not grant further sublicenses except to an Affiliate of the sublicensee; and

(4) both during the term of the sublicense and thereafter the sublicensee shall be bound by a secrecy obligation similar to that imposed on CORPORATION in Section 17 below, and that the sublicensee shall bind its employees, both during the terms of their employment and thereafter, with a similar undertaking of secrecy.

(5) the sublicense agreement shall include the text of Section 15 and 16 of this Agreement and shall state that NYU is an intended third party beneficiary of such sublicense agreement for purposes of enforcing such indemnification and insurance provisions.


a. CORPORATION undertakes to use reasonable diligence to carry out the Development Plan, including but not limited to, the performance of all efficacy, pharmaceutical, safety, toxicological and clinical tests, trials and studies and all other activities necessary in order to obtain the approval of the FDA for the production, use and sale of the Licensed Products, all as set forth in the Development Plan and within all timetables set forth therein. CORPORATION further undertakes to exercise due diligence and to employ its reasonable diligence to obtain or to cause its sublicensees to obtain, the appropriate approvals of the health authorities for the production, use and sale of the Licensed Products, in each of the other countries of the world in which CORPORATION or its sublicensees intend to produce, use, and/or sell Licensed Products.

b. Provided that applicable laws, rules and regulations require that the performance of the tests, trials, studies and other activities specified in subsection a. above shall be carried out in accordance with FDA Good Laboratory Practices and in a manner acceptable to the relevant health authorities, CORPORATION shall carry out such tests, trials, studies and other activities in accordance with FDA Good Laboratory Practices and in a manner acceptable to the relevant health authorities. Furthermore, the Licensed Products shall be produced in accordance with FDA Good Manufacturing Practice ("GMP") procedures in a facility which has been certified by the FDA as complying with GMP, provided that applicable laws, rules and regulations so require.

c. CORPORATION undertakes to begin the regular commercial production, use, and sale of the Licensed Products in good faith in accordance with the Development Plan and to continue diligently thereafter to commercialize the Licensed Products.

d. CORPORATION shall provide NYU with written reports on all activities and actions undertaken by CORPORATION to develop and commercialize the Licensed Products; such reports shall be made within sixty (60) days after each six (6) months of the duration of this Agreement, commencing six months after the Effective Date.

e. If CORPORATION shall not commercialize the Licensed Products within a reasonable time frame, unless such delay is necessitated by FDA or other regulatory agencies or unless NYU and CORPORATION have mutually agreed to amend the Development Plan because of unforeseen circumstances, NYU shall notify CORPORATION in writing of CORPORATION's failure to commercialize and shall allow CORPORATION sixty (60) days to cure its failure to commercialize. If CORPORATION fails to cure such delay to NYU's reasonable satisfaction, NYU shall have the right, upon written notice to CORPORATION, solely at NYU's discretion, either to terminate this Agreement or to convert the License granted herein to a non-exclusive license.

f. CORPORATION shall deliver to NYU a sample of each BPI Product developed by CORPORATION promptly after its development. NYU shall use such samples only for research purposes and shall not give them to others, unless and until such BPI Products are in the public domain or unless authorized by CORPORATION in writing.

9. Payments for License.

a. In consideration for the grant of the License hereunder, CORPORATION shall pay to NYU
(1) A non-refundable, non-creditable license issue fee of [*] payable as follows: [*] on the date that is twenty-four months after the Effective Date or upon CORPORATION's first filing of an Investigational New Drug ("IND") in the United States with respect to the Licensed Products, whichever is earlier; and

(2) Non-refundable, milestone payments as follows: [*], which amount shall not be creditable against further royalties otherwise payable to NYU; and, on [*] of which amount shall be creditable against future royalties otherwise payable to NYU; and

(3) A royalty of [*] of the Net Sales of any Licensed Product sold by CORPORATION or its sublicensees (including CORPORATION Entity) for as long as CORPORATION maintains the License except as follows in i) and ii) below:

   (i) If a Licensed Product described in Section 1.1.(aa) or (bb) is covered solely by an NYU Patent having claims directed to the cDNA as described in subparagraph 1.e.(iv) then the royalty owed by CORPORATION shall be reduced by [*].

   (ii) If a Licensed Product described in Section 1.1.(aa) or (bb) is covered solely by an NYU Patent having claims directed to the cDNA as described in subparagraph 1.e.(i)(4) and a third party is producing and selling a BPI Product by a manufacturing process using means other than such claimed cDNA then CORPORATION shall have no royalty obligation with respect to such Licensed Product.

(4) A royalty of [*] of the Net Sales of any Licensed Product described in Section 1.1.(cc) or (dd) and sold by CORPORATION or its sublicensees (including CORPORATION Entity) for as long as CORPORATION maintains the License except as follows in i) and ii) below:

   (i) If a Licensed Product in Section 1.1.(cc) or (dd) is covered solely by a CORPORATION Patent having claims directed to the cDNA as described in Section 1.r.(i)(4) then the royalty owed by the CORPORATION to NYU shall be reduced by [*].

   (ii) If a Licensed Product in Section 1.1.(cc) or (dd) is covered solely by an NYU Patent having claims directed to the cDNA as described in Section 1.r.(i)(4) and a third party is producing and selling a P15 Product by a manufacturing process using means other than such claimed cDNA then CORPORATION shall have [*] with respect to such Licensed Product.

(5) If any Licensed Product is covered solely by a CORPORATION Patent then the royalty owed by the CORPORATION to NYU with respect to such Licensed Product shall be [*] of the Net Sales of such Licensed Product sold by CORPORATION or its sublicensees (including CORPORATION Entity) for as long as CORPORATION maintains the License.

b. For the purpose of computing the royalties due to NYU hereunder, the year shall be divided into two parts ending on June 30 and December 31. CORPORATION shall, within forty-five (45) days from the end of each December in each calendar year during the term of the License, submit to NYU a full and detailed report of royalties or payments due NYU under the terms of this Agreement for the preceding half year (hereinafter "the Part-Year Report"), setting forth the following:

i) gross sales of Licensed Products and Combination Products, i.e., the amount invoiced prior to any deductions,

ii) the deductions permitted under subsection 1.m. hereof to arrive at Net Sales, and

iii) the royalty computations and subject of payment.

In determining Net Sales of Combination Products, Net Sales will be multiplied by the percent value of BPI Product and/or the P15 Product contained in the Combination Product. Such percent value being the quotient obtained by dividing the costs of manufacturing the BPI
Product and/or the P15 Product by the sum of the cost of the manufacturing of the BPI Product and/or the P15 Product plus other biologically active ingredients. All such costs of manufacturing shall be calculated in accordance with generally accepted accounting practices and audited by an independent certified public accountant. If no royalties are due, a statement shall be sent to NYU stating such fact. The full amount of any royalties or other payments due to NYU for the preceding part of the year shall accompany each such report on royalties and payments. CORPORATION shall keep and shall cause its sublicensees to keep for a period of at least three (3) years after the date of entry, full, accurate and complete books and records consistent with sound business and accounting practices and in such form and in such detail as to enable the determination of the amounts due to NYU from CORPORATION pursuant to the terms of this Agreement.

c. On reasonable notice and during regular business hours, NYU shall have the right to have the books of accounts, records and other relevant documentation of CORPORATION or of Corporation Entity inspected by independent auditors as set forth herein. If NYU desires to perform such audit, NYU shall notify CORPORATION. Within fourteen (14) days after receipt of such notice, CORPORATION shall designate one of the "Big-6" accounting firms which does not have CORPORATION as a client and shall notify NYU of CORPORATION's designation and NYU shall engage such accounting firm to perform such audit on NYU's behalf. If CORPORATION fails to notify NYU of such designated accounting firm within such fourteen day period, NYU shall have the right to select and engage any accounting firm to perform such audit on NYU's behalf. If errors of five percent (5%) or more in NYU's favor are discovered as a result of such examination, CORPORATION shall reimburse NYU for the expense of such examination. CORPORATION shall undertake to have sublicensees of CORPORATION provide audited reports to NYU; if any sublicensee does not provide such reports to NYU, CORPORATION shall have conducted, at no expense to NYU, an audit of such sublicensee's records with respect to the production, marketing and sale of Licensed Products and Combination Products every two years, commencing two years after the effective date of such sublicensee's agreement with CORPORATION.

d. If a patent license from a third party is necessary for the manufacture or sale of a Licensed Product or Combination Product, CORPORATION shall be entitled to deduct from royalties which would otherwise be due to NYU under Section 9.a.(3) and/or 9.a.(4) hereof, the amount of royalties which CORPORATION must pay to such third party for such license. This deduction, however, shall not exceed [*] of the royalties otherwise due under this Agreement.

e. [*]

f. In the event that NYU exercises its right to convert the License granted herein to a non-exclusive license pursuant to Sections 8.e. or 9.f., the parties shall negotiate in good faith a reduction of the royalties stated in Sections 9.a.(3), 9.a.(4) and 9.e., at a rate commensurate with a non-exclusive license effective prospectively from the date such negotiated reduction is reduced to writing and signed by both parties.

g. In the event the License granted herein is converted to a non-exclusive license pursuant to Section 9.e. and NYU grants a nonexclusive license to practice the Research Technology to a third party, NYU shall advise CORPORATION as to those terms which are different in such other license agreement(s), whereupon CORPORATION may determine whether such terms are more favorable than those granted to CORPORATION. CORPORATION shall, at its election, be entitled upon written notice to NYU to have this Agreement amended to substitute all terms of such more favorable license for all terms of this Agreement as of the date upon which such more favorable license shall have become effective. Such amendment shall, as to royalty, apply only to prospective royalties.

10. Method of Payment.

a. Royalties and any other payments due to NYU hereunder shall be paid to NYU in United States dollars. Any royalties and such payments that accrue in foreign currency shall be converted into United States dollars based on the closing buying rate of the Morgan Guaranty Trust Company of New York applicable to transactions under exchange regulations for the particular currency on the last business day of the accounting period for which payment is due.

b. CORPORATION shall be responsible for payment to NYU of all royalties due on sale, transfer or disposition of Licensed Products by the
11. Publication.

a. Prior to submission of publication of a manuscript describing the results of any aspect of the NYU Research Project, NYU shall send CORPORATION a copy of the manuscript to be submitted, and shall allow CORPORATION sixty (60) days from the date of receipt to determine whether the manuscript contains such subject matter for which patent protection should be sought prior to publication of such manuscript, for the purpose of protecting an invention made by the NYU Scientists during the course and within the term of the NYU Research Protect. Should CORPORATION believe the subject matter of the manuscript contains a patentable invention, then prior to the expiration of sixty (60) days from the receipt date of such manuscript to CORPORATION by NYU, CORPORATION shall give written notification to NYU of its determination that such manuscript contains patentable subject matter for which patent protection should be sought.

b. After the expiration of sixty (60) days from the date of receipt such manuscript to CORPORATION, unless NYU has received the written notice specified above from CORPORATION, NYU shall be free to submit such manuscript for publication to publish the disclosed research results in any manner consistent with academic standards.

c. Upon receipt of such written notice from CORPORATION, NYU will thereafter delay submission of the manuscript for an additional period of up to ninety (90) days to permit preparation and filing of U.S. patent application by NYU on the subject matter to be disclosed in such manuscript. After expiration of such 90-day period, or the filing of a patent application on each such invention, whichever shall occur first, NYU shall be free to submit the manuscript and to publish the disclosed results.


a. In the event a party to this Agreement acquires information that a third party is infringing one or more of the NYU Patents and/or the JOINT Patents and CORPORATION Patents, the party acquiring such information shall promptly notify the other party to the Agreement in writing of such infringement.

b. In the event of an infringement of the NYU Patents and/or the JOINT Patents, CORPORATION shall be privileged but not required to bring suit against the infringer, and to join NYU as a party plaintiff in such suit. Should CORPORATION elect to bring suit against an infringer and NYU is joined as a party plaintiff in any such suit, NYU shall have the right to approve the counsel selected by CORPORATION to represent CORPORATION. The expenses of such suit or suits that CORPORATION elects to bring, including any expenses of NYU incurred in conjunction with the prosecution of such suit or the settlement thereof, shall be paid for entirely by CORPORATION and CORPORATION shall hold NYU free, clear and harmless from and against any and all costs of such litigation, including attorneys' fees. CORPORATION shall not compromise or settle such litigation in which NYU is joined as a party plaintiff without the prior written consent of NYU which shall not be unreasonably withheld.

c. In the event CORPORATION exercises the right to sue herein conferred, it shall have the right to first reimburse itself out of any sums recovered in such suit or in settlement thereof for all costs and expenses of every kind and character, including reasonable attorneys' fees, necessarily involved in the prosecution of any such suit, and if after such reimbursement, any funds shall remain from said recovery, CORPORATION shall have the right to deduct from royalties otherwise due to NYU, an amount equal to fifty percent (50%) of such unreimbursed costs and expenses, provided, however, that such deduction when combined with any other deduction against royalties permitted under this Agreement, shall not at any time exceed fifty percent (50%) of the royalties payable to NYU on each payment date.
d. If CORPORATION does not bring suit against said infringer pursuant to Section 12.b. herein, or has not commenced negotiations with said infringer for discontinuance of said infringement, within 90 days after receipt of such notice, NYU shall have the right, but shall not be obligated, to bring suit for such infringement and to join CORPORATION as a party plaintiff, in which event NYU shall hold CORPORATION free, clear and harmless from and against any and all costs and expenses of such litigation, including attorneys' fees. If CORPORATION has commenced negotiations with an alleged infringer of the NYU Patent and/or the JOINT Patents for discontinuance of such infringement within such 90-day period, CORPORATION shall have an additional ninety (90) days from the termination of such initial 90-day period to conclude its negotiations before NYU shall bring suit for such infringement. In the event NYU brings suit for infringement of the NYU Patents and/or the JOINT Patents, NYU shall have the right to first reimburse itself out of any sums recovered in such suit or settlement thereof for all costs and expenses of every kind and character, including reasonable attorneys' fees necessarily involved in the prosecution of such suit, and if after such reimbursement, any funds shall remain from said recovery, NYU shall promptly pay to CORPORATION an amount equal to fifty percent (50%) of such remainder and NYU shall be entitled to receive and retain the balance of the remainder of such recovery.

e. Each party shall always have the right to be represented by counsel of its own selection in any suit for infringement of the NYU Patents and/or the JOINT Patents instituted by the other party to this Agreement under the terms hereof. The expense of such counsel shall be borne by the party initiating such infringement suit.

f. CORPORATION agrees to cooperate fully with NYU at the request of NYU, including, by giving testimony and producing documents lawfully requested in the course of a suit prosecuted by NYU for infringement of the NYU Patents and/or the JOINT Patents provided NYU shall pay all reasonable expenses (including attorneys' fees) incurred by CORPORATION in connection with such cooperation. NYU shall cooperate and shall endeavor to cause the NYU Scientists to cooperate with CORPORATION in the prosecution of a suit by CORPORATION for infringement of the NYU Patents and/or the JOINT Patents, provided that CORPORATION shall pay all reasonable expenses (including attorneys' fees) involved in such cooperation.

g. In the event that there is infringement of the NYU Patents and/or the JOINT Patents on a commercial scale and neither NYU nor CORPORATION desire to prosecute an action for infringement and an independent patent attorney selected upon mutual agreement of NYU and CORPORATION recommends that an action for infringement not be brought, NYU and CORPORATION shall negotiate in good faith a reduction to the royalties stated in Sections 9.a.(3) and 9.f., which reduction shall be effective prospectively, from the date such negotiated reduction is reduced to writing and signed by both parties.

13. Term and Termination.

a. Unless terminated pursuant to this Section 13 or Sections 8.e. or 9.f. hereof, this Agreement shall expire on the expiration of the period of the License as set forth in Section 7.b. above.

b. Six months after the Effective Date, CORPORATION shall have the right to terminate this Agreement at any time upon six month's prior written notice to NYU

c. At any time prior to expiration either party may terminate this Agreement forthwith for cause by giving written notice to the other party. Cause for termination of this Agreement shall be deemed to exist if either NYU or CORPORATION materially breaches or defaults in the performance or observance of any of the provisions of this Agreement and such breach or default is not cured within sixty (60) days or, in the case of failure to pay any amounts due hereunder, thirty (30) days (unless otherwise specified herein) after the giving of notice by the other party specifying such breach or default, or if either NYU or CORPORATION discontinues its business or becomes insolvent or bankrupt.

d. Upon termination of this Agreement for any reason prior to expiration as set forth in Section 13.a. hereof, all rights in and to the Research Technology shall revert to NYU, and CORPORATION shall not be entitled to make any further use whatsoever of the Research Technology and shall not make, use or sell BFI Products and P15 Products.
e. Upon termination of this Agreement for any reason prior to expiration of the License as set forth in Section 13.a., CORPORATION shall promptly grant to NYU, without consideration, an exclusive license, with the right to sublicense, all of the right, title and interest of CORPORATION in and to any JOINT Patents and CORPORATION Patents and the provisions of Section 14 shall apply.

f. Any amount payable hereunder by one of the parties to the other, which has not been paid by its due date of payment shall bear interest from its due date of payment until the date of actual payment, at the rate of two percent (2%) per annum in excess of the Prime Rate prevailing at the Citibank, Inc., New York, New York, during the period of arrears and such amount and the interest thereon may be set off against any amount due, whether in terms of this Agreement or otherwise, to the party in default by any non-defaulting party.

g. Termination of this Agreement shall not relieve the parties of any obligation occurring prior to such termination.

h. Sections 1, 9, 13, 14, 15, 16, 17.b., and 17.c. hereof shall survive and remain in full force and effect after any termination, cancellation or expiration of this Agreement.

14. CORPORATION's Contingent Right to Royalties.

Upon termination of this Agreement pursuant to Section 13., the following provisions shall apply:

a. NYU and CORPORATION shall continue to file, prosecute and maintain the JOINT Patents and NYU and CORPORATION shall share the expenses associated with such filing, prosecution and maintenance of such patent. NYU shall not abandon NYU Patents and CORPORATION shall not abandon CORPORATION Patents without first providing notice and an opportunity to the other party to assume prosecution or maintenance of such patents.

b. NYU shall have the right, but shall not be obligated, to license one or more third parties the JOINT Patents and CORPORATION Patents, subject to CORPORATION's rights as defined below.

c. With respect to any JOINT Patent and/or CORPORATION Patent which NYU licenses to a third party, CORPORATION shall be entitled to receive [*] of any royalties or other consideration received by NYU and attributable to the JOINT Patents and CORPORATION Patent from such third party in consideration of a license to practice such Patents.

15. CORPORATION's Indemnification.

a. CORPORATION shall, at all times during the term of this Agreement and thereafter, defend, indemnify and hold harmless NYU and its trustees, officers, agents, employees, faculty and students from and against any and all liability, loss, damages and expenses (including attorneys' fees), they may suffer as the result of claims, demands, costs or judgments which may be made or instituted against them or any of them arising out of the manufacture, distribution, use, testing, sale or other disposition by CORPORATION or any Corporation Entity, distributor, customer, sublicensee or representative of CORPORATION or anyone in privity therewith, of any BPI Products, or any method or process licensed by NYU to CORPORATION hereunder or out of any representation made by CORPORATION pursuant to Section 19 of this Agreement. CORPORATION's obligation to defend, indemnify and hold harmless shall include, but not be limited to, claims, demands, costs or judgments, whether for money damages or equitable relief by reason of: alleged personal injury (including death) to any person; alleged property damage; alleged infringement of any United States or foreign patent, copyright or other proprietary rights. b. NYU agrees to notify CORPORATION as soon as NYU becomes aware of a claim or action for which indemnification may be sought pursuant to this Section 15. At NYU's request, CORPORATION shall provide attorneys to defend against any claim or action with respect to the subject of indemnity contained herein, whether or not such claims are rightfully brought or filed.


a. CORPORATION shall not sell any BPI products nor manufacture, have manufactured, market or distribute, any BPI Products for commercial sale, nor grant any rights to a third party to sell BPI Products or to make, have made, distribute
or market any BPI Products for commercial sale unless CORPORATION shall have first:

i) provided NYU with a certificate of insurance proving the CORPORATION or such third party has in force, during the term of this Agreement, a policy of insurance acceptable to NYU which:

(a) is drawn in an amount not less than five million dollars ($5,000,000) for each occurrence as a combined single limit for bodily injury including personal injury and death and property damage; and

(b) is endorsed to name NYU, CORPORATION, CORPORATION's sublicensees and their respective partners, trustees, officers, directors, employees, agents and students as additional insureds under such policy of insurance with respect to CORPORATION's obligations to indemnify pursuant to Section 15; and

(c) which contains a stipulation that the required coverage will not be reduced, materially altered or cancelled without first giving sixty (60) days prior written notice to NYU's Director of Insurance at NYU;

ii) provided NYU written evidence acceptable to NYU (at the individual full discretion of NYU) that CORPORATION has sufficient financial resources to support meaningfully the indemnification obligations undertaken in Section 15; or

iii) provided NYU with CORPORATION's warranty and representation (and upon request by NYU, evidence acceptable to NYU) that CORPORATION's net worth (excluding intangible assets) during the term of this Agreement is in excess of five million dollars ($5,000,000), as determined in accordance with accounting principles generally accepted in the United States and consistently applied; or

iv) provided NYU, with a written guarantee and undertaking in form satisfactory, on a reasonable basis, to NYU by a party having sufficient financial resources to support the indemnification obligations undertaken in Section 15. Such party shall be required to execute in form satisfactory, on a reasonable basis, to NYU a guarantee and undertaking to:

(a) provide defense and indemnification to NYU pursuant to Section 15 hereof;

(b) maintain at all times required by Section 16.b. hereof sufficient insurance or self-insurance to indemnify NYU pursuant to Section 15;

(c) upon written request of NYU provide evidence satisfactory, on a reasonable basis, to NYU that such party maintains such insurance or self-insurance, and (d) appoint an agent for service of process in the United States and consent to jurisdiction in the federal and state courts of New York. With respect to such third parties in each instance, NYU and CORPORATION shall negotiate in good faith to determine the nature and extent of the financial resources necessary to constitute "sufficient financial resources" for purposes of this Section 16.a.(iv).

b. Unless waived in writing by NYU, CORPORATION agrees that the liability insurance policy or policies referred to in Section 16.a. above shall be maintained in force for so long as this Agreement remains in force and for six (6) years thereafter or as long as CORPORATION or such third party shall make, use or sell BPI Products, and for six (6) years thereafter, whichever shall be longer. Neither CORPORATION nor any third party shall terminate, reduce the face value of, or otherwise materially modify such insurance coverage during the aforementioned period of time, unless equal or greater coverage is provided under another policy in compliance with the foregoing provisions and without a gap in coverage.

17. Confidential Information.

a. Except as otherwise provided in Section 11 above and in Section 17.c. below, NYU shall maintain any and all of the Research Technology and the JOINT Patents in confidence and shall not release or disclose any tangible or intangible component thereof to any third party without
18. Representation and Covenants.

a. CORPORATION hereby represents and warrants to NYU as follows:

i) CORPORATION is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. CORPORATION has been granted all requisite power and authority to carry on its business and to own and operate its properties and assets. The execution, delivery and performance of this Agreement have been duly authorized by the Board of Directors of CORPORATION.

ii) There is no pending or threatened litigation involving CORPORATION which would have any effect on this Agreement or on CORPORATION's ability to perform its obligations hereunder; and

iii) There is no indenture, contract, or agreement to which CORPORATION is a party or by which CORPORATION is bound which prohibits or would prohibit the execution and delivery by CORPORATION of this Agreement or the performance or observance by CORPORATION of any term or condition of this Agreement.

b. NYU hereby represents and warrants to CORPORATION as follows:

i) Subject to Sections 4.c. and 5.c. above, NYU has the entire right, title and interest in and to the NYU Patents identified on Appendix I;

ii) NYU does not own or control any patent or patent application which covers the making, using or selling of BPI Product and/or Combination Product other than as identified on Appendix I;

iii) NYU has not granted any rights to third parties (including Genentech, Inc.) in and to the Pre-Existing Inventions, or the BPI Products. NYU has obtained from Dr. Peter Elsbach his representation that he has not entered into or is not presently a party to an agreement with any third party, including Genentech, Inc. relating to BPI.

iv) NYU is a corporation duly organized, validly existing and in good standing under the laws of the State of New York. NYU has been granted all requisite power and authority to carry on its business and to own and operate its properties and assets. The execution, delivery and performance of this Agreement have been duly authorized by the Board of Trustees of NYU.

19. No Assignment.

CORPORATION shall not have the right to assign, delegate or transfer at any time to any party, in whole or in part, any or all of the rights, duties and interest herein granted without first obtaining the written consent of NYU to such assignment, except that CORPORATION shall have the right to assign this Agreement subject to all the terms and conditions set forth herein to a person or entity which acquires control of CORPORATION.

20. Use of Name.
Without the prior written consent of NYU, CORPORATION shall not use the name of NYU or of any NYU staff member, employee or student, or any adaptation thereof;

i) in any advertising, promotional or sales literature;

ii) in connection with any public or private offering or in conjunction with any application for regulatory approval, unless disclosure is otherwise required by law, in which case CORPORATION may make factual statements concerning the Agreement or file copies of the Agreement after providing NYU with an opportunity to comment and reasonable time within which to do so on such statement in draft.

Except as provided herein, neither NYU or CORPORATION will issue public announcements about this Agreement or the status or existence of the NYU Research Project without prior written approval of the other party.


a. In carrying out this Agreement the parties shall comply with all local, state and federal laws and regulations including but not limited to, the provisions of Title 35 United States Code ss.200 et seq. and 15 CFR ss.368 et seq.

b. If any provision of this Agreement is determined to be invalid or void, the remaining provisions shall remain in effect.

c. This Agreement shall be governed and interpreted in all respects under the laws of the State of Illinois. Any dispute arising under this Agreement between the parties requiring resolution by legal proceedings shall be resolved in an action in the state courts or in the federal courts; if CORPORATION initiates the legal proceedings, they shall be commenced within the State of New York; if NYU initiates the legal proceedings, they shall be commenced within the State of California; the defendant in either such proceeding shall be entitled to bring a counterclaim and join other parties as a part of that proceeding. d. All payments or notices required or permitted to be given under this Agreement shall be given in writing and shall be effective when either personally delivered or deposited, postage prepaid, in the United States registered or certified mail, addressed as follows:

To NYU:  New York University Medical Center
550 First Avenue
New York, NY 10016
Attention: Isaac T. Kohlberg
Vice President for Industrial Liaison

Office of Legal Counsel
New York University
Bobst Library - 11th Floor
70 Washington Square South
New York, NY 10012
Attention: Annette B. Johnson, Esq.
Associate General Counsel

To CORPORATION: XOMA CORPORATION
2910 Seventh Street
Berkeley, CA 94710
Attention: Office of the Chief Executive Officer

XOMA CORPORATION
2910 Seventh Street
Berkeley, CA 94710
Attention: Corporate Secretary

or such other address or addresses as either party may hereafter specify by written notice to the other. Such notices and communications shall be deemed to have been received by the addressee on the date of delivery or fourteen (14) days after having been sent by registered mail.

e. This Agreement (and the annexed Appendices) constitute the entire Agreement between the parties and no variation, modification or waiver of any of the terms or conditions hereof shall be deemed valid unless
made in writing and signed by both parties hereto. This Agreement supersedes any and all prior agreements or understandings, whether oral or written, between CORPORATION and NYU.

f. No waiver by either party of any non-performance or violation by the other party of any of the covenants, obligations or agreements of such other party hereunder shall be deemed to be a waiver of any subsequent violation or non-performance of the same or any other covenant, agreement or obligation, nor shall forbearance by any party be deemed to be a waiver by such party of its rights or remedies with respect to such violation or non-performance.

g. The descriptive headings contained in this Agreement are included for convenience and reference only and shall not be held to expand, modify or aid in the interpretation, construction or meaning of this Agreement.

-45-

h. It is not the intent of the parties to create a partnership or joint venture or to assume partnership responsibility or liability. The obligations of the parties shall be limited to those set out herein and such obligations shall be several and not joint.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement the date and year first above written.

NEW YORK UNIVERSITY
By: /s/Isaac T. Kohlberg
Isaac T. Kohlberg
Title:   Vice President for
Industrial Liaison
Date:    Sept 21st, 1993

XOMA CORPORATION
By:  /s/Christopher J. Margolin
Christopher J. Margolin
Title:   Vice President and
General Counsel
Date:    September 21, 1993

APPENDIX I

<table>
<thead>
<tr>
<th>Title</th>
<th>Serial No.</th>
<th>Date</th>
<th>Priority</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Applications</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I. Biologically Active</td>
<td>07/084,335</td>
<td>8/11/97</td>
<td>None</td>
</tr>
<tr>
<td>Abandoned in Bactericidal/Permeability of Ser.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increasing Protein Fragments</td>
<td>07/228,335</td>
<td>8/5/88</td>
<td>Ser. No.</td>
</tr>
<tr>
<td>II. Biologically Active</td>
<td>07/228,035</td>
<td>8/5/88</td>
<td>Ser. No.</td>
</tr>
<tr>
<td>Abandoned in Bactericidal/Permeability of Ser.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increasing Protein</td>
<td>07/084,335</td>
<td>8/5/88</td>
<td>Ser. No.</td>
</tr>
<tr>
<td>III. Pending</td>
<td>07/762,730</td>
<td>9/17/91</td>
<td>Ser. Nos.</td>
</tr>
<tr>
<td>Bactericidal/Permeability Increasing Protein</td>
<td>07/084,335</td>
<td>8/5/88</td>
<td>Ser. No.</td>
</tr>
<tr>
<td>Fragments (Continuation of Ser. No. 228,035)</td>
<td>07/228,035</td>
<td>8/5/88</td>
<td>Ser. No.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Issued</td>
</tr>
</tbody>
</table>
APPENDIX I (Cont'd.)

<table>
<thead>
<tr>
<th>Title</th>
<th>Serial No.</th>
<th>Date</th>
<th>Priority</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bactericidal/Permeability</td>
<td>07/084,335</td>
<td>as</td>
<td></td>
</tr>
<tr>
<td>U.S. Patent</td>
<td>07/228,035</td>
<td>No.</td>
<td></td>
</tr>
<tr>
<td>Increasing Proteins</td>
<td>07/762,730</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

V. Biologically Active

- **Fragments (C-I-P of Ser. No. 762,730)**
  - **Pending**

VI. DNA Encoding

- **Fragments (Continuation of Ser. No. 805,814)**
  - **Pending**
    - 08/007,837 1/22/93 Ser. Nos.

APPENDIX II

<table>
<thead>
<tr>
<th>Title</th>
<th>Serial No.</th>
<th>Date</th>
<th>Priority</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Applications</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Abandoned in Bactericidal/Permeability</td>
<td>07/084,335</td>
<td>favor</td>
<td></td>
</tr>
<tr>
<td>Increasing Protein</td>
<td>07/228,035</td>
<td>No.</td>
<td></td>
</tr>
<tr>
<td>754,204</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PCT National and Regional Phase</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pending</td>
<td>07/804,335</td>
<td>07/228,035</td>
<td></td>
</tr>
<tr>
<td>Pending</td>
<td>07/804,335</td>
<td>07/228,035</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Title</th>
<th>Serial No.</th>
<th>Date</th>
<th>Priority</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Applications</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I. Polypeptides that</td>
<td>07/502,560</td>
<td>3/30/90</td>
<td></td>
</tr>
<tr>
<td>Abandoned in</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bactericidal/Permeability</td>
<td>07/084,335</td>
<td>as</td>
<td></td>
</tr>
<tr>
<td>Increasing Proteins</td>
<td>07/228,035</td>
<td>No.</td>
<td></td>
</tr>
<tr>
<td>Fragments (C-I-P of Ser. No. 228,035 and 502,560)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PCT National and Regional Phase</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pending</td>
<td>07/804,335</td>
<td>07/228,035</td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>07/506,560</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>United Kingdom</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
APPENDIX III-A

Amended and Restated Research and License Agreement
Elsbach/Weiss Research Project for Years 1-3

Objectives:

1

2

3

APPENDIX III-B

NYU RESEARCH PROJECT - FOR YEARS 4-6

4

5

6

7

8
APPENDIX IV

Amended and Restated Research and License Agreement
Development Plan

[ ]

10

[ ]

11

Appendix V

NYU/XOMA
AMENDED AND RESTATED RESEARCH AND LICENSE AGREEMENT
RESEARCH PAYMENT SCHEDULE

XOMA shall pay NYU for work performed on the NYU Research Project during the fourth through six years of the Research Period the total of [ ] in six installments of [ ] each.

The first such payment shall be due within fifteen (15) days after the signature of this Agreement by the last party to sign ("the Execution Date"). Subsequent payments shall be made every six months after the Execution Date until the total of [ ] is paid.

XOMA may retain [ ] of each payment until XOMA receives the written six month research report provided in accordance with Section 3.c.
THIRD AMENDMENT TO LICENSE AGREEMENT

This Third Amendment to License Agreement (hereinafter the "Amendment"), is made and effective on June 12, 1997, by and between XOMA CORPORATION, a corporation organized and existing under the laws of the State of Delaware and having a place of business at 2910 Seventh Street, Berkeley, California 94710 (hereinafter "CORPORATION"), and NEW YORK UNIVERSITY, a corporation organized and existing under the laws of the State of New York and having a place of business at 70 Washington Square South, New York, New York, 10012 (hereinafter "NYU").

WHEREAS, CORPORATION and NYU have entered into a certain agreement (the "Agreement") made and effective as of August 6, 1990 (the "Effective Date"), as amended and restated on September 1, 1993, pursuant to which, inter alia, CORPORATION undertook to sponsor the NYU Research Project (as such term is defined in the Agreement) and NYU granted to CORPORATION the License (as such term is defined in the Agreement); and

WHEREAS, CORPORATION and NYU wish to amend and extend the Agreement under certain terms as specified herein;

NOW, THEREFORE, in consideration of the premises and the covenants, conditions and promises set forth below, the parties hereto hereby agree as follows:

1. Except as expressly provided for herein, all terms and conditions of the Agreement shall remain in full force and effect.

2. Terms which are defined in the Agreement shall have the same meanings when used in this Amendment, unless a different definition is given herein.

3. The second line of Subsection 1.d. of the Agreement shall be, and hereby is, amended to read as follows:

BPI that NYU had in its possession on the Effective Date

4. The first line of Subsection 1.e.i) of the Agreement shall be, and hereby is, amended to read as follows:

any product for therapeutic or prophylactic use.

5. The first line of Subsection 1.r.i) shall be, and hereby is, amended to read as follows:

any product for therapeutic or prophylactic use.

6. Section 1.v. of the Agreement shall be, and hereby is, amended in its entirety so that, as amended, said Section 1.v. shall read as follows:

v. "Research Period" shall mean the eight (8) year period commencing upon the Effective Date and any extension thereof as to which NYU and CORPORATION shall mutually agree in writing.

7. Section 4.a. of the Agreement shall be, and hereby is, amended in its entirety so that, as amended, said Section 4.a. shall read as follows:

a. As compensation to NYU for work performed on the NYU Research Project during the Research Period, CORPORATION shall pay NYU (i) the sum of [*] payable in accordance with the Schedule annexed to the Agreement as Appendix V, which forms an integral part thereof; NYU acknowledges that as of June 12, 1997, CORPORATION has paid NYU this amount in full; and (ii) the sum of [*] in two equal, consecutive, semi-annual installments, the first of which shall be due on or before August 31, 1997.

8. The ninth line of Subsection 9.a.(i) of the Agreement shall be, and hereby is, amended by adding a comma and the following language after the word earlier and before the semicolon:
9. The ninth line of Subsection 9.a.(2) of the Agreement shall be, and hereby is, amended by adding the following language after the word and:

[*]

10. The third line of Subsection 9.a.(3) of the Agreement shall be, and hereby is, amended by adding the following language after the word Entity):

[*]

11. The third line of Subsection 9.a.(4) of the Agreement shall be, and hereby is, amended by adding the following language after the word Entity):

[*]

12. The sixth line of Subsection 9.a.(5) of the Agreement shall be, and hereby is, amended by adding the following language after the word Entity):

[*]

13. The second line of Subsection 9.e. of the Agreement shall be, and hereby is, amended by the addition of the following language after the word "Product" and the deletion of the comma after such word:

for any human diagnostic, prophylactic or therapeutic use

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as follows:

NEW YORK UNIVERSITY                                  XOMA CORPORATION

By:      /s/ Isaac T. Kohlberg              By:      /s/Christopher J. Margolin
Isaac T. Kohlberg                           Christopher J. Margolin
Associate Dean and Vice                  Vice President, General
President for Industrial               Counsel and Secretary
Liaison

Date: 6/20/97                                        Date: 6/17/97
CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports included in this Form 10-K into the Company's previously filed Registration Statements on Form S-3 (File Nos. 333-02493, -07263, -34907 and 33-59379) and on Form S-8 (33-39155).

San Francisco, California                        ARTHUR ANDERSEN LLP
March 18, 1998
<table>
<thead>
<tr>
<th>PERIOD-TYPE:</th>
<th>YEAR</th>
</tr>
</thead>
<tbody>
<tr>
<td>FISCAL-YEAR-END:</td>
<td>Dec-31-1997</td>
</tr>
<tr>
<td>PERIOD-END:</td>
<td>Dec-31-1997</td>
</tr>
<tr>
<td>CASH:</td>
<td>37,225</td>
</tr>
<tr>
<td>SECURITIES:</td>
<td>17,921</td>
</tr>
<tr>
<td>RECEIVABLES:</td>
<td>0</td>
</tr>
<tr>
<td>ALLOWANCES:</td>
<td>0</td>
</tr>
<tr>
<td>INVENTORY:</td>
<td>0</td>
</tr>
<tr>
<td>CURRENT-ASSETS:</td>
<td>55,639</td>
</tr>
<tr>
<td>PP&amp;E:</td>
<td>30,478</td>
</tr>
<tr>
<td>DEPRECIATION:</td>
<td>25,914</td>
</tr>
<tr>
<td>TOTAL-ASSETS:</td>
<td>64,776</td>
</tr>
<tr>
<td>CURRENT-LIABILITIES:</td>
<td>8,763</td>
</tr>
<tr>
<td>BONDS:</td>
<td>0</td>
</tr>
<tr>
<td>COMMON:</td>
<td>20</td>
</tr>
<tr>
<td>PREFERRED-MANDATORY:</td>
<td>0</td>
</tr>
<tr>
<td>PREFERRED:</td>
<td>0</td>
</tr>
<tr>
<td>OTHER-SE:</td>
<td>31,220</td>
</tr>
<tr>
<td>TOTAL-LIABILITY-AND-EQUITY:</td>
<td>64,776</td>
</tr>
<tr>
<td>SALES:</td>
<td>0</td>
</tr>
<tr>
<td>TOTAL-REVENUES:</td>
<td>18,383</td>
</tr>
<tr>
<td>CGS:</td>
<td>0</td>
</tr>
<tr>
<td>TOTAL-COSTS:</td>
<td>0</td>
</tr>
<tr>
<td>OTHER-EXPENSES:</td>
<td>35,552</td>
</tr>
<tr>
<td>LOSS-PROVISION:</td>
<td>0</td>
</tr>
<tr>
<td>INTEREST-EXPENSE:</td>
<td>1,101</td>
</tr>
<tr>
<td>INCOME-PRE TAX:</td>
<td>(15,765)</td>
</tr>
<tr>
<td>INCOME-TAX:</td>
<td>0</td>
</tr>
<tr>
<td>INCOME-CONTINUING:</td>
<td>(15,765)</td>
</tr>
<tr>
<td>DISCONTINUED:</td>
<td>0</td>
</tr>
<tr>
<td>EXTRAORDINARY:</td>
<td>0</td>
</tr>
<tr>
<td>CHANGES:</td>
<td>0</td>
</tr>
<tr>
<td>NET-INCOME:</td>
<td>(15,765)</td>
</tr>
<tr>
<td>EPS-PRIMARY:</td>
<td>(0.44)</td>
</tr>
<tr>
<td>EPS-DILUTED:</td>
<td>(0.44)</td>
</tr>
</tbody>
</table>