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

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2006

Commission File No. 0-14710

XOMA Ltd.

(Exact name of registrant as specified in its charter)

Bermuda	**52-2154066**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
2910 Seventh Street, Berkeley, California 94710	**(510) 204-7200**
(Address of principal executive offices, including zip code)	**(Telephone Number)**

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:
Common Shares, U.S. $.0005 par value
Preference Share Purchase Rights

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one): Large Accelerated Filer ☐ Accelerated Filer ☒ Non-Accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act of 1934). Yes ☐ No ☒

The approximate aggregate market value of voting shares held by non-affiliates of the registrant is $164,780,665 as of June 30, 2006.

Number of Common Shares outstanding as of March 5, 2007: 129,967,472

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Company's Proxy Statement for the Company's 2007 Annual General Meeting of Shareholders are incorporated by reference into Part III of this Report.

XOMA Ltd.

2006 Form 10-K Annual Report

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PART I

Item 1. Business

Overview

XOMA Ltd. ("XOMA"), a Bermuda company, is a leading biopharmaceutical company in the field of therapeutic antibody discovery and development. XOMA's pipeline includes both proprietary products and collaborative programs at various stages of preclinical and clinical development primarily directed toward treatments for cancer and immune disorders. XOMA possesses a broad technology platform for the discovery, optimization and manufacture of therapeutic antibodies as well as a fully integrated product development infrastructure for antibodies and other biologics. We receive royalties from Genentech, Inc. ("Genentech") on two approved products, RAPTIVA®, which is marketed in the United States, Europe and elsewhere, for the treatment of moderate-to-severe plaque psoriasis, and LUCENTIS®, a new drug for the treatment of neovascular (wet) age-related macular degeneration, which is marketed in the United States and Europe. We also have future royalty interests in additional therapeutic antibody product candidates being developed by others as a result of licensing our technologies. In addition to supporting our product pipeline, we use our infrastructure to provide process development and manufacturing services on a fee-for-service basis.

Strategy

Our strategy is to develop, manufacture and gain licensure for antibodies and other recombinant protein products to treat cancer, immunological and inflammatory disorders, and infectious diseases. In addition to our own proprietary products, we broaden our pipeline by leveraging our development and manufacturing infrastructure through collaborations with other companies and research institutions. Our goal is to reduce our cash burn and drive towards profitability while continuing to strengthen our product pipeline. We recognize the challenging nature of this goal, and the principal elements of our strategy are to:

- *Continue to build a diverse portfolio of product candidates.* We are developing a pipeline of product candidates in a variety of therapeutic areas at various stages of clinical and preclinical development. We believe this strategy may increase the likelihood of successful product approval and commercialization, while reducing our exposure to the risk inherent in developing any one drug or focusing on a single therapeutic area.
- *Seek to license or acquire complementary products and technologies.* We intend to supplement our internal drug discovery efforts through the acquisition of products and technologies that complement our internal product development strategy. We intend to continue to identify, evaluate and pursue the licensing or acquisition of other strategically valuable products and technologies.
- *Leverage our core competencies.* We believe that we have significant expertise in recombinant protein development and production, which we have used to establish a strong platform for the development of antibody and other protein-related pharmaceutical products. We intend to leverage these competencies to develop valuable products for markets with important unmet medical needs. When strategically advantageous, we may seek marketing arrangements with other pharmaceutical companies for the further advancement of our product candidates.
- *Outlicense select product candidates.* We have additional internally developed product candidates, which we will consider outlicensing, if we believe that it will bring us additional financial resources and increase the likelihood of regulatory approval and successful commercialization of such products within the United States and internationally.
- *Leverage our manufacturing infrastructure.* Because of our experience generating and manufacturing antibodies and other recombinant proteins, we have entered into several contract production services relationships to generate revenue and utilize our infrastructure. We have also entered into multiple government contracts to develop antibody products of interest to the United States Government, particularly in the area of BioDefense. The United States Government contracts are for multiple years and are intended to rapidly further the development of key product development programs for the government.

Products

Below is a summary of our current products and stages of clinical development:

XOMA has a financial interest in two marketed antibody products and a third that has been submitted for regulatory approval, and is developing other antibody and protein therapeutic products. These products are listed below in order of their development status, beginning with the most advanced:

- **RAPTIVA® (Efalizumab) with Genentech:** RAPTIVA® is a humanized therapeutic monoclonal antibody developed to treat immune system disorders. RAPTIVA® is the first biologic therapy designed to provide long-term control of chronic moderate-to-severe plaque psoriasis and can be self-administered by patients as a single, once-weekly subcutaneous injection. On October 27, 2003, the Food and Drug Administration ("FDA") approved RAPTIVA® for the treatment of adults with chronic moderate-to-severe plaque psoriasis who are candidates for systemic therapy or phototherapy. Genentech has been marketing RAPTIVA® in the United States since November of 2003. In September of 2004, Merck Serono S.A. ("Serono"), Genentech's international marketing partner for RAPTIVA®, announced that RAPTIVA® had received approval for use in the European Union. By the end of 2006, Serono had launched RAPTIVA® in over fifty countries worldwide.

  In 2006, Serono announced the results of the 24-week Clinical Experience Acquired with RAPTIVA® ("CLEAR") study to evaluate RAPTIVA® in moderate-to-severe psoriasis patients and refractory patients. The CLEAR study confirmed the efficacy and safety of RAPTIVA® during the initial 12-week treatment period and demonstrated a continued improvement in clinical response for patients following an extended treatment. RAPTIVA® was also found to be equally effective in the subgroup of patients refractory to at least two systemic therapies. In 2006, Serono also initiated CLEAREST™ in Europe with a seven year trial, the first large-scale pharmaco-epidemiological study of RAPTIVA® in psoriasis in Europe. The primary objective of this prospective, seven year cohort study is to gather additional long-term safety data of RAPTIVA® in 7,000 adult patients with moderate-to-severe plaque psoriasis over approximately 18,000 patient years of clinical treatment. In February of 2007, Genentech announced results from a 12-week Phase IV study of RAPTIVA® that showed statistically significant improvement in patients with chronic moderate-to-severe plaque psoriasis involving the hands and feet. The study was the first randomized, double blind, placebo-controlled trial to evaluate a biologic agent in the treatment of this uniquely challenged subpopulation of psoriasis patients.

- **LUCENTIS® (ranibizumab injection) by Genentech:** LUCENTIS® is an antibody fragment against Vascular Endothelial Growth Factor for the treatment of neovascular (wet) age-related macular degeneration, which causes gradual or sudden, painless central vision loss in the elderly, brought on by deterioration of the macula. LUCENTIS® was approved by the FDA in June of 2006 and in the European Union, where it is distributed by Novartis AG ("Novartis"), in January of 2007. It is the first marketed therapeutic product manufactured under a license using our Bacterial Cell Expression ("BCE") technology.

- **NEUPREX® (opebacan/rBPI$_{21}$)** is an injectable formulation of opebacan, a modified recombinant fragment of human bactericidal/permeability-increasing protein ("BPI"). BPI is a human host-defense protein made by a type of white blood cell that is important in the body's defenses against microbial infection. Opebacan shares BPI's anti-infective properties and it is a potent neutralizer of endotoxin. More than 1,100 patients have been treated with NEUPREX® in clinical studies without any apparent safety concerns.

  In January of 2007, in conjunction with Harvard Medical School, we initiated an open label, dose escalating Phase I/II clinical trial of NEUPREX® in adults and children undergoing allogeneic hematopoietic stem cell transplantation ("HSCT") to evaluate safety, pharmacokinetics and markers of biological activity. Earlier research indicates that endotoxemia can induce or worsen acute graft vs. host disease in these patients who are also susceptible to infectious complications due to the large doses of radiation or chemotherapy they receive prior to transplantation. We expect to add other sites to this

study during 2007. Success in HSCT trials may be relevant to potential use in acute radiation syndrome as part of the United States Government's bio-defense efforts.

XOMA is also supporting investigator-initiated trials at University of Texas Southwestern in Dallas in pediatric patients with congenital heart abnormalities requiring open heart surgery at Children's Hospital and in patients with burn injuries at Parkland Burn Center. These Phase I trials are evaluating opebacan's safety and its role in improving endotoxin-induced complications in these patient populations. We expect these trials to conclude in 2007 and then evaluate options for conducting additional studies.

In September of 2006, the European Medicines Agency ("EMEA") granted an orphan medicinal product designation to NEUPREX® in meningococcal sepsis, a potentially life-threatening bacterial infection predominantly affecting young children. Meningococcal sepsis is a blood infection caused by the gram-negative bacterium *Neisseria meningitidis*. We are completing the regulatory assessment for NEUPREX® under the EMEA exceptional circumstances mechanism during the first half of 2007 and intend to base our planned application on existing Phase III clinical trial data.

- **HCD122 (formerly CHIR-12.12) with Novartis (formerly Chiron Corporation):** HCD122 is a fully human anti-CD40 antagonist antibody intended as a treatment for B-cell mediated diseases, including malignancies and autoimmune diseases. This antibody has a dual mechanism of action blocking a tumor cell growth and survival signal as well as recruiting immune effector cells to kill tumor cells. HCD122 is the first product candidate selected under the multi-product antibody development and commercialization agreement for the treatment of cancer announced by Novartis and us, initiated in March of 2004. The first Investigational New Drug ("IND") application submission took place in December of 2004. In April of 2005, we announced the initiation of a Phase I study for patients with advanced chronic lymphocytic leukemia ("CLL") and in October of 2005, we initiated a second Phase I study for patients with multiple myeloma ("MM"). Phase I trials of HCD122 in patients with relapsed and refractory MM and CLL are ongoing. We expect to expand clinical development with one or more additional indications in 2007. In addition, there are a number of undisclosed preclinical stage programs that we are investigating with Novartis.
- **XOMA 052 (formerly XMA005.2)** is a Human Engineered™ ("HE™") monoclonal antibody with a very high-affinity and potent inhibitory activity against its inflammatory target. This high potency means that it may be suitable for use as a monthly-dose injectable therapeutic. We are currently developing XOMA 052 for targeting multiple inflammatory indications such as osteoarthritis and rheumatoid arthritis, where less frequent dosing could be a significant marketing advantage. We plan to enter clinical trials in mid 2007.
- **XOMA 629 (a reformulation of XMP.629)** is a topical anti-bacterial formulation of a BPI-derived peptide under development as a possible treatment for acne. Certain bacteria commonly found on human skin are associated with inflammatory lesions in acne patients. The emergence of strains resistant to current antibiotics used to treat acne has encouraged our researchers to review the properties of the compound for this dermatological indication. In 2003, we completed two Phase I clinical trials to evaluate skin irritation and pharmacokinetics of the compound. In January of 2004, we announced the initiation of Phase II clinical testing in patients with mild-to-moderate acne. In August of 2004, we announced that the results of this trial were inconclusive in demonstrating a clinical benefit of XMP.629 when compared with vehicle gel. In September of 2006, we announced that we had reformulated our original gel to increase its skin penetration and improve other characteristics. We are currently conducting preclinical studies to optimize the reformulated product and intend to amend our IND application and initiate Phase I clinical trials in 2007.
- **ING-1** is a HE™ monoclonal antibody developed by us to specifically target tumor cells in adenocarcinoma patients. ING-1 antibodies bind with high affinity to the Ep-CAM antigen and recruit host immune cells to kill the cancer cell. We have completed three Phase I clinical studies of ING-1, testing both intravenous and subcutaneous formulations in patients with advanced or refractory adenocarcinomas.

In October of 2004, we entered into an agreement with Triton BioSystems, Inc. ("Triton") under which Triton has in-licensed the exclusive worldwide right to use the ING-1 monoclonal antibody with Triton's Targeted Nano-Therapeutics™ ("TNT™") System. The TNT™ System is an innovative product that ablates tumors by using tiny magnetic spheres delivered, to the tumor, systemically with antibodies and heated by means of a magnetic field directed to the tumor. The combination of the ING-1 antibody with the TNT™ System is intended to create a novel, highly selective, safe, and effective treatment for adenocarcinomas, such as breast, colorectal, lung, ovary and prostate. ING-1 remains available for licensing outside the field covered by the Triton license.

- **Metabolic Disease Target with Lexicon Pharmaceuticals, Inc. ("Lexicon"):** In June of 2005, we began a collaboration to jointly develop and commercialize multiple antibody drugs for metabolic disease targets discovered by Lexicon using their proprietary gene knock-out technology. The initial targets are secreted proteins involved in various metabolic functions. When knocked out, the target genes result in mouse strains that display unique and desirable physiological functions, suggesting an important role of the target in disease. Antibodies to these targets may be developed to treat a variety of metabolic diseases.
- **Therapeutic Antibodies with Schering Plough Research Institute ("SPRI"):** During 2006, we signed a contract with SPRI for therapeutic monoclonal antibody discovery and development against multiple targets selected by them.
- **Therapeutic Antibodies with Takeda Pharmaceutical Company Limited ("Takeda")** During 2006, we signed a contract with Takeda for therapeutic monoclonal antibody discovery and development against multiple targets selected by them.
- **Anti-gastrin Monoclonal Antibody:** In September of 2004, we began a collaboration to develop antibody treatments for gastrointestinal and other gastrin-sensitive cancers where neutralizing gastrin may inhibit tumor growth. We have selected a lead therapeutic candidate with demonstrated high affinity and in vivo neutralization activity. Our collaboration partner filed for bankruptcy in May of 2006 and the collaboration was terminated. We are currently evaluating options for this program.

The following table describes important information related to certain products on which we earn royalties, that we are currently developing or that are available for licensing:

Program	Description	Indication	Status	Collaborator/Developer
RAPTIVA® (Efalizumab)	Humanized anti-CD11a monoclonal antibody	Moderate-to-severe plaque psoriasis	Marketed in U.S., Europe and elsewhere	Genentech
LUCENTIS®	Humanized antibody fragment against Vascular Endothelial Growth Factor	Neovascular (wet) age-related macular degeneration	Marketed in U.S. and Europe	Genentech
NEUPREX® (Opebacan)	IV formulation of $rBPI_{21}$, a modified recombinant fragment of bactericidal/ permeability-increasing protein	Multiple anti-infective and anti-endotoxin indications	Various clinical phases	In-house
HCD122	Fully human antibody to CD40 with dual mechanism of action	B-cell cancers	Phase I for CLL & MM	Novartis
XOMA 052	HE™ anti-inflammatory monoclonal antibody	Multiple inflammatory	IND enabling	In-house
XOMA 629	Topical formulation of BPI derived anti-microbial peptide	Acne	Preclinical	In-house
ING-1	HE™ antibody to Ep-CAM	Adenocarcinomas	Phase I	Licensed to Triton for use with TNT® technology; otherwise available for outlicensing
Multiple Therapeutic Antibodies	Fully human and HE™ monoclonal antibodies to novel undisclosed metabolic disease targets	Various metabolic diseases	Preclinical	Lexicon
Multiple Therapeutic Antibodies	Fully human monoclonal antibodies to undisclosed disease targets	Undisclosed	Preclinical	Novartis, SPRI and Takeda
Gastrin	Anti-Gastrin antibody	Gastric cancers	Preclinical	In-house

Below is a summary of certain proprietary technologies owned by us and available for licensing to other companies:

- **Bacterial Cell Expression.** Genetically engineered bacteria can be the appropriate choice for recombinant expression of target proteins for biopharmaceutical research and development. Reasons

include the relative simplicity of gene expression in bacteria as well as many years of experience culturing such species as *E. coli* in laboratories and manufacturing facilities. In support of our own biopharmaceutical development efforts, company scientists have developed efficient and cost-effective bacterial expression technologies for producing antibodies and other recombinant protein products.

We have granted over 45 licenses to biotechnology and pharmaceutical companies to use our patented and proprietary technologies relating to bacterial expression of recombinant pharmaceutical products. Bacterial antibody expression is an enabling technology for the discovery and selection, as well as the development and manufacture, of recombinant protein pharmaceuticals, including diagnostic and therapeutic antibodies for commercial purposes. Bacterial antibody expression is also a key technology used in multiple systems for high-throughput screening of antibody domains. Expression of antibodies by phage display technology, for example, depends upon the expression and secretion of antibody domains from bacteria as properly folded, functional proteins.

Current licensees include but are not limited to the following companies:

Affimed Therapeutics AG	Crucell Holland B.V.	MorphoSys AG
Affitech AS	Diversa Corporation	Novartis AG
Alexion Pharmaceuticals, Inc.	Dompe, s.p.a.	Schering-Plough Corporation
Applied Molecular Evolution, Inc. (AME)	Dyax Corp.	Takeda Pharmaceutical Company Ltd.
Avecia Limited	E.I. duPont de Nemours and Company	The Medical Research Council
Aventis Pharma Deutschland GmbH (Hoechst)	Eli Lilly and Company	UCB S.A.
BioInvent International AB	Genentech, Inc.	Unilever plc
Biosite Incorporated	Genzyme Corporation	Viventia Biotech, Inc.
Cambridge Antibody Technology Limited (AstraZeneca)	Invitrogen Corporation	Wyeth Pharmaceuticals Division
Centocor, Inc.	Merck & Co., Inc.	ZymoGenetics, Inc.

These licenses are sometimes associated with broader agreements. For example, in October of 2006, we entered into a licensing and product development agreement with Affimed Therapeutics AG (“Affimed”). Under the terms of the agreement, Affimed received a license to use our BCE technology for research related to recombinant antibody products, with an option to acquire a BCE license for production and commercialization of antibodies, in particular their proprietary TandAb and Flexibody products. In addition, we will provide Affimed with cell line development and process development services specific to a TandAb therapeutic product candidate that they are currently developing. We received a license under Affimed’s antibody library patents for antibody discovery purposes, as well as for the development and commercialization of antibodies. In addition, Affimed will build two customized patient-derived human antibody phage display libraries according to our specifications.

As of February 2, 2007, we were aware of one antibody product, UCB S.A.’s (“UCB”) CIMZIA™, in late-stage clinical testing which is manufactured under a license using our BCE technologies. CIMZIA™ (certolizumab pegol, CDP870) is a anti-TNF (Tumor Necrosis Factor) alpha antibody fragment and has been submitted for regulatory approval for Crohn’s disease. It has had positive results in two Phase III trials in rheumatoid arthritis and in one mid-stage clinical trial in psoriasis.

- **HE™** is a proprietary technology that allows modification of non-human monoclonal antibodies to reduce or eliminate detectable immunogenicity and make them suitable for medical purposes in humans. The technology uses a unique method developed by us, based on analysis of the conserved structure-function relationships among antibodies. The method defines which residues in a non-human variable region are candidates to be modified. The result is a HE™ antibody with preserved antigen binding, structure and function and eliminated or greatly reduced immunogenicity.

  HE™ technology was used in our XOMA 052 and certain other antibody products. In 2006, we entered into our first HE™ technology service agreements and humanized antibodies for AVEO Pharmaceuticals, Inc. ("AVEO") and Attenuon, LLC ("Attenuon").

In addition, we have installed commercially available phage display libraries for the discovery of antibodies and are utilizing XOMA proprietary libraries to enhance our antibody technology platform. We believe that access to multiple libraries offers a number of benefits to XOMA and its partners, by permitting screening of libraries in parallel where feasible to increase our probability of technical and business success in finding those rare and unique, high-affinity antibodies directed to targets of interest. We also have access to certain intellectual property rights and services that augment our existing antibody technology platform and development capabilities and further streamline product development timelines. This broad antibody technology platform and expertise is available for building our antibody product pipeline as well as those of our collaborators.

Our fully integrated infrastructure also allows us to offer technical development and manufacturing services on a fee-for-service basis. In particular, in March of 2005, we were awarded an 18-month contract worth approximately $15.0 million from the National Institute of Allergy and Infectious Diseases ("NIAID") to develop three anti-botulinum neurotoxin monoclonal antibodies and, in July of 2006, NIAID awarded an additional three year contract worth approximately $16.3 million to produce these antibodies to protect United States citizens against the harmful effects of botulinum neurotoxins used in bioterrism. In November 2006, we were named as a subcontractor under a prime contract between SRI International and NIAID. Once the final terms are negotiated, we will manufacture a variety of monoclonal antibody therapeutic agents of importance to NIAID. We expect the final contract to run five years and total $28.1 million. Successful negotiation of the subcontract would, if the full amount is funded, bring the total of our governmental contract awards to approximately $60.0 million since March of 2005. We are continuing to seek other opportunities for government and biodefense contracts.

Financial and Legal Arrangements of Product Collaborations, Licensing an Other Arrangements

Current Agreements

Genentech

In April of 1996, we entered into a collaboration agreement with Genentech for the development of RAPTIVA®. In March of 2003, we entered into amended and expanded agreements related to all aspects of the collaboration, to reflect the then current understanding between the companies. The agreements called for us to share in the development costs and to receive a 25% share of future United States operating profits and losses and a royalty on sales outside the United States. The agreements also called for Genentech to finance our share of development costs up until first FDA marketing approval via a convertible subordinated loan, and our share of pre-launch marketing and sales costs via an additional commercial loan facility. Under the loan agreement, upon FDA approval of the product, which occurred on October 27, 2003, we elected to pay $29.6 million of the development loan in convertible preference shares and to defer repayment of the remaining $40.0 million as an offset against future proceeds from our 25% share of United States operating profits on the product. On December 22, 2003, we issued the preference shares to Genentech which are convertible into approximately 3.8 million common shares at a price of $7.75 per common share. The $13.4 million of outstanding principal and interest on the commercial loan was payable only in cash and was paid in January and May of 2004.

In January of 2005, we announced a restructuring of our arrangement with Genentech on RAPTIVA®. Under the restructured arrangement, effective January 1, 2005, we are entitled to receive mid-single digit

royalties on worldwide sales of RAPTIVA® in all indications. The previous cost and profit sharing arrangement for RAPTIVA® in the United States was discontinued, and Genentech will be responsible for all operating and development costs associated with the product. Genentech may elect and we may agree to provide further clinical trial or other development services at Genentech's expense. In addition, our obligation to pay the outstanding balance to Genentech of $40.9 million under the development loan, including accrued interest, was extinguished.

In December of 1998, we licensed our BCE technology to Genentech, which utilized it in the development of LUCENTIS® for the treatment of neovascular (wet) age-related macular degeneration. LUCENTIS® was approved by the FDA in June of 2006 and in the European Union in January of 2007. We are entitled to receive an undisclosed royalty on worldwide sales of LUCENTIS®.

Novartis

In February of 2004, we entered into an exclusive, worldwide, multi-product collaboration with Novartis to develop and commercialize antibody products for the treatment of cancer. Under the terms of the agreement, the companies agreed to jointly research, develop, and commercialize multiple antibody product candidates. The companies share expenses and revenues, generally on a 70-30 basis, with our share being 30%. Novartis' profit share is subject to a limited upward adjustment, which, in turn, may be reduced if we achieve certain milestones. Financial terms include initial payments to us in 2004 totaling $10.0 million and a loan facility, secured by our interest in the collaboration, of up to $50.0 million to fund up to 75% of our share of expenses beginning in 2005. In the first quarter of 2007, Novartis' and our mutual obligations to conduct antibody discovery, development and commercialization work together on an exclusive basis in oncology expired, except with respect to existing collaboration projects which have reached the development stage.

Lexicon

In June of 2005, we entered into a collaboration agreement with Lexicon to jointly develop and commercialize antibody drugs for certain targets discovered by Lexicon. The collaboration is designed to combine Lexicon's target discovery and biotherapeutics capabilities with our antibody generation, process development and manufacturing expertise to accelerate the development and commercialization of novel therapeutic antibodies.

During the three-year initial term, Lexicon will select for submission to the collaboration targets from among those discovered and analyzed in its Genome5000™ program. In this program, Lexicon is using its gene knockout technology to discover the physiological functions of 5,000 potential drug targets. Our role is to generate or engineer antibodies that modulate the collaboration's targets using phage display libraries and our proprietary HE™ technology. The companies are sharing the responsibility and costs for research, preclinical, clinical and commercialization activities. Costs and profits are allocated 65% to Lexicon and 35% to us. We will have principal responsibility for manufacturing antibodies for use in clinical trials and commercial sales.

Schering Plough

In May of 2006, we entered into a collaboration agreement with the SPRI division of Schering-Plough Corporation for therapeutic monoclonal antibody discovery and development. Under the agreement, SPRI will make upfront, annual maintenance and milestone payments to us, fund our R&D and manufacturing activities related to the agreement and pay royalties on sales of products resulting from the collaboration. During the collaboration, we will discover therapeutic antibodies against three targets selected by SPRI using multiple human antibody phage display libraries, may optimize antibodies through affinity maturation or other protein engineering, may use our proprietary HE™ technology to humanize antibody candidates generated by hybridoma techniques, perform pre-clinical studies to support regulatory filings, develop cell lines and production processes and produce antibodies for initial clinical trials. SPRI selected the first target at the inception of the agreement and, in December of 2006, exercised its right to initiate the additional discovery and development programs.

Takeda

In November of 2006, we entered into a collaboration agreement with Takeda for therapeutic monoclonal antibody discovery and development. During the collaboration, we will discover and optimize therapeutic antibodies against multiple targets selected by Takeda. Under the agreement, Takeda will make upfront, annual maintenance and milestone payments to us, fund our R&D and manufacturing activities for preclinical and early clinical studies and pay royalties on sales of products resulting from the collaboration. Takeda will be responsible for clinical trials and commercialization of drugs after an IND submission and is granted the right to manufacture once the product enters into Phase II clinical trials.

NIAID

In March of 2005, we were awarded a $15.0 million contract from NIAID, a division of the National Institutes of Health, to develop three anti-botulinum neurotoxin monoclonal antibody therapeutics. Under this contract, we created production cell lines using our proprietary antibody expression systems, built Master and Manufacturer's Working Cell Banks, developed production processes and produced initial quantities of the three antibodies. The contract was performed over an eighteen month period and was 100% funded with Federal funds from NIAID under Contract No. HHSN266200500004C. Final acceptance of the project was received in October of 2006.

In July of 2006, we were awarded a $16.3 million contract funded with Federal funds from NIAID under Contract No. HHSN266200600008C/N01-Al-60008 to produce monoclonal antibodies for the treatment of botulism to protect United States citizens against the harmful effects of botulinum neurotoxins used in bioterrorism. Under this contract, we will create and produce an innovative injectable product comprised of three anti-type A botulinum neurotoxin monoclonal antibodies to support entry into Phase I safety human clinical trials. The work is being performed on a cost plus fixed fee basis, per the terms of the contract, over a three year period.

Taligen

In September of 2006, we entered into an agreement with Taligen Therapeutics, Inc. ("Taligen") which formalized an earlier letter agreement, which was signed in May of 2006, for the development and Good Manufacturing Practices ("cGMP") manufacture of a novel antibody fragment for the potential treatment of inflammatory diseases. Under the agreement, we will utilize our BCE technology and expertise to develop and scale-up production processes for Taligen's FAb antibody fragment and manufacture quantities of the antibody fragment sufficient to support preclinical and initial clinical trials. Taligen will pay all manufacturing costs and, if it elects to exercise its option to obtain a production license for our BCE technology, will make upfront, milestone and royalty payments.

AVEO

In April of 2006, we entered into an agreement with AVEO to utilize our HE" technology to humanize AV-299 under which AVEO paid us an up-front license fee and development milestones. Under this agreement we created four HE™ versions of the original AV-299, all of which met design goals and from which AVEO selected one as its lead development candidate. In the future, AVEO will pay annual maintenance fees, additional development milestones and royalties.

In September of 2006, as a result of the successful humanization of AV-299, we entered into a second agreement with AVEO to manufacture and supply AV-299, AVEO's novel anti-HGF antibody, in support of early clinical trials. Under the agreement, we will create AV-299 production cell lines and conduct process and assay development as well as cGMP manufacturing activities in support of AVEO's IND filing and early clinical trials. AVEO retains all development and commercialization rights to AV-299.

Attenuon

In September of 2006, we entered into an agreement with Attenuon to utilize our HE™ technology to humanize a monoclonal antibody targeting the urokinase plasminogen activator system for the treatment of cancer. Attenuon will pay us an up-front fee, annual maintenance fees, development milestones and royalties. Attenuon will retain all development and commercialization rights to the antibody.

Triton

In October of 2004, we entered into an agreement with Triton under which Triton licensed the exclusive worldwide rights from us to use our ING-1 monoclonal antibody with Triton's TNT™ System. The TNT™ System is an innovative product that ablates tumors by using tiny magnetic spheres delivered, to the tumor, systemically with antibodies and heated by means of a magnetic field directed to the tumor. The combination of the ING-1 antibody with the TNT™ System is intended to create a novel, highly selective, safe, and effective treatment for adenocarcinomas, such as breast, colorectal, lung, ovary and prostate. The license to Triton includes United States and foreign patent rights related to our ING-1 and HE™ technologies along with several pending applications. ING-1 remains available for licensing outside the field covered by the Triton license. Under the terms of the contract, we received an upfront license fee and will receive milestones and royalties.

Millennium

In November of 2001, in conjunction with Millennium, we announced an agreement under which we would collaborate to develop two of Millennium's biotherapeutic agents, MLN2222 (also known as CAB2) and MLN2201, for certain vascular inflammation indications.

In October of 2003, we announced the discontinuation of development of MLN2201, based on preliminary data from a Phase I study that did not meet predefined criteria necessary to support further product development efforts.

In December of 2003, we announced the initiation of a Phase I clinical program for MLN2222, a complement inhibitor for coronary artery bypass graft surgery targeting vascular inflammation associated with such surgery, to evaluate its safety, tolerability, pharmacokinetic and pharmacodynamic properties. In October of 2004, we announced the amendment of our agreements with Millennium whereby Millennium assumed responsibility for all development work and expenses for MLN2222 upon initiation of Phase II testing. We completed a Phase I trial of MLN2222 and have transferred the relevant clinical data from the trial to Millennium. We are obligated to continue to provide quantities of bulk drug substance and services requested and paid for by Millennium for future clinical trials. We will be entitled to receive an undisclosed royalty on future net sales of MLN2222, as well as payments related to the achievement of certain clinical and regulatory milestones.

Recently Terminated Agreements

Cubist

In September of 2005, we announced that we had signed a letter agreement with Cubist Pharmaceuticals, Inc. ("Cubist") to develop production processes and to manufacture HepeX-B™, a novel two-antibody biologic, in quantities sufficient to conduct Phase III clinical trials. HepeX-B™ is a combination of two fully human monoclonal antibodies that target hepatitis B virus ("HBV") surface antigens. In July of 2006, Cubist announced that it had decided to cease investment in this product because of stringent FDA requirements for regulatory approval and, as a result, we have terminated our letter agreement with Cubist.

Aphton

In September of 2004, we announced a worldwide collaboration with Aphton Corporation ("Aphton") to develop treatments for gastrointestinal and other gastrin-sensitive cancers using anti-gastrin monoclonal

antibodies. Under the terms of the agreement, the companies agreed to share all development expenses and all commercialization profits and losses for all product candidates on a 70/30 basis, with our share being 30%. In January of 2006, Aphton announced that its common stock had been delisted from Nasdaq. In May of 2006, Aphton filed for bankruptcy protection under Chapter 11, Title 11 of the United States bankruptcy code and we terminated the agreement. In July of 2006, Receptor BioLogix, Inc. acquired the assets of Aphton.

Other Products

We are seeking development and marketing partners for additional products in our pipeline. No assurance can be given regarding the timing or likelihood of future collaborative arrangements or of product licensure.

We are also pursuing additional opportunities to further broaden our product pipeline. These include product development collaborations with other pharmaceutical and biotechnology companies and evaluations of product in-licensing and acquisition opportunities.

Competition

The biotechnology and pharmaceutical industries are subject to continuous and substantial technological change. Competition in the areas of recombinant DNA-based and antibody-based technologies is intense and expected to increase as new technologies emerge and established biotechnology firms and large chemical and pharmaceutical companies continue to 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 ours. 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 ours. 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 our products or technologies obsolete or uncompetitive.

Without limiting the foregoing, we are aware that:

- in April of 2004, Amgen Inc. and its partner Wyeth Pharmaceuticals, a division of Wyeth, announced that their rheumatoid arthritis and psoriatic arthritis drug, Enbrel®, had been approved by the FDA for the same psoriasis indication as RAPTIVA® and, in September of 2004, they announced that the product received approval in the European Union in this same indication;
- Abbott Laboratories has recently announced that it has successfully completed two Phase III psoriasis trials showing clinical benefits of its rheumatoid arthritis and psoriatic arthritis drug Humira™ for the treatment of psoriasis. They indicated that they will submit regulatory applications in the United States and Europe in the first half of 2007;
- In September of 2006, Centocor, Inc. (“Centocor”) , a unit of Johnson & Johnson, announced that its rheumatoid arthritis and Crohn’s disease drug, Remicade® (infliximab) had been approved by the FDA for the treatment of adult patients with chronic severe (i.e. extensive and/or disabling) plaque psoriasis who are candidates for systemic therapy and when other systemic therapies are medically less appropriate. This drug had already been approved to treat plaque psoriasis in the European Union, psoriatic arthritis in the United States and, in combination with methotrexate, in the European Union;
- Biogen Idec Inc. (“Biogen”) sold its worldwide rights to Amevive®, which has been approved in the United States and Canada to treat the same psoriasis indication as RAPTIVA®, to Astellas Pharma US, Inc., in March of 2006;

- Biogen and Fumapharm AG ("Fumapharm") have taken their psoriasis-treating pill, BG-12 (dimethyl fumarate), through a Phase III trial in Germany in which, according to the companies, the product significantly reduced psoriasis symptoms in patients, and Biogen acquired Fumapharm in June of 2005. Biogen announced, in January of 2007, that it is initiating Phase III trials of BG-12 in multiple sclerosis;
- Isotechnika, Inc. has completed a Canadian Phase III trial of ISA247, a trans-isomer of a cyclosporine analog, in 450 patients with moderate to severe psoriasis, achieving all efficacy endpoints, as well as a Phase III extension trial, and has announced plans to conduct a 500-patient second Canadian/European phase III trial;
- In February of 2007, UCB announced that it had completed a mid-stage clinical trial in psoriasis with positive results and that it was planning to start Phase III trials in the first half of 2007;
- In February of 2007, Centocor announced positive results from a Phase II clinical trial in moderate to severe plaque psoriasis of CNTO 1275, a fully-human monoclonal antibody that targets the cytokines interleukin-12 (IL-12) and interleukin-23 (IL-23) and that the product is currently in Phase III clinical development in the same indication; and
- other companies are developing monoclonal antibody or other products for treatment of inflammatory skin disorders.

In addition to LUCENTIS®, there are two other FDA-approved therapies to treat macular degeneration: Pfizer, Inc.'s and OSI Pharmaceuticals, Inc.'s Macugen® and Novartis' and QLT Inc.'s Visudyne®. It is also possible that LUCENTIS® will compete with Genentech's cancer drug Avastin®.

There are several companies developing topical peptide treatments which may compete with XOMA 629 in acne. Migenix Inc. and its partner Cutanea Life Sciences, Inc. are developing CLS001 (formerly MBI 594AN) for roseasea, a topical peptide that has completed two Phase II trials for the treatment of acne. Helix Biomedix, Inc. is developing several peptide compounds. Medicis Pharmaceutical Corp. has rights to human derived antimicrobial peptides that may be developed for acne.

In collaboration with Novartis, we are co-developing a humanized antibody to the target CD40, and, at the current time, there are several CD40-related programs under development, mostly focused on the development of CD40 ligand products. For example, SGN-40 is a humanized monoclonal antibody under development by Seattle Genetics, Inc. ("Seattle Genetics") which is targeting CD40 antigen. Seattle Genetics is currently conducting a phase II clinical trial for patients with diffuse large B-cell lymphoma, the most common type of aggressive non-Hodgkin's lymphoma, and phase I trials for patients with multiple myeloma or chronic lymphocytic leukemia. In January of 2007, Seattle Genetics entered into an exclusive worldwide license agreement with Genentech to develop and commercialize SGN-40. Under the agreement, Genentech will fund future research, development, manufacturing and commercialization costs. In January of 2007, Kirin Brewery Company, Limited and Astellas Pharma Inc. announced that they have entered into a license and collaborative research and development agreement under which they will exclusively collaborate in developing and marketing a fully human anti-CD40 antagonistic monoclonal antibody worldwide with a first target indication of prophylaxis of organ rejection associated with organ transplantation.

It is possible that other companies may be developing other products based on the same human protein as our NEUPREX® product, and these products may prove to be more effective than NEUPREX®. It is also possible that other companies may be developing other products based on the same therapeutic target as our XOMA 052 product and these products may prove to be more effective than XOMA 052.

Regulatory

Our products are subject to comprehensive preclinical and clinical testing requirements and to approval processes by the FDA and by similar authorities in other countries. Our products are primarily regulated on a

product-by-product basis under the United States Food, Drug and Cosmetic Act and Section 351(a) of the Public Health Service Act. Most of our human therapeutic products are or will be classified as biologic products. Approval of a biologic for commercialization requires licensure of the product and the manufacturing facilities. The review of therapeutic biologic products is carried out by the FDA's Center for Drug Evaluation and Research, the body that also reviews drug products.

The FDA regulatory process is carried out in several phases. Prior to beginning human clinical testing of a proposed new biologic product, an IND is filed with the FDA. This document contains scientific information on the proposed product, including results of testing of the product in animal and laboratory models. Also included is information on manufacture of the product and studies on toxicity in animals and a clinical protocol outlining the initial investigation in humans.

The initial stage of clinical testing, Phase I, ordinarily encompasses safety, pharmacokinetic 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 multi-center, 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 Biologics License Application is submitted to the FDA to request marketing approval. Internal FDA committees are formed that evaluate the application, including scientific background information, animal and laboratory efficacy studies, toxicology, manufacturing facility and clinical data. During the review process, a dialogue between the 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, the FDA generally requests presentation of clinical or other data before an FDA advisory committee, at which point, some or all of such data may become available. Also, during the later stages of review, the 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, the FDA issues a license for the product and for the manufacturing facility, thereby authorizing commercial distribution.

The FDA has substantial discretion in both the product approval process and the manufacturing approval process. It is not possible to predict at what point, or whether, the FDA will be satisfied with our submissions or whether the FDA will raise questions which may delay or preclude product approval or manufacturing facility approval. As additional clinical data is accumulated, it will be submitted to the FDA and may have a material impact on the FDA product approval process. Given that regulatory review is an interactive and continuous process, we have adopted a policy of limiting announcements and comments upon the specific details of the ongoing regulatory review of our products, subject to our obligations under the securities laws, until definitive action is taken. There can be no assurance any of the products we have under development will be developed successfully, obtain the requisite regulatory approval or be successfully manufactured or marketed.

In Europe, most of our human therapeutic products are or will be classified as biological medicinal products which are assessed through a centralized procedure by the EMEA. The EMEA coordinates the evaluation and supervision of medicinal products throughout the European Union and the European Economic Area. The assessment of the Marketing Authorization ("MA") Application is carried out by a Rapporteur and a Co-rapporteur appointed by the Committee for Medicinal Products for Human Use ("CHMP"), which is the expert scientific committee of the EMEA.

The Rapporteur and Co-rapporteur are drawn from the CHMP membership representing member states of the European Union. In addition to their responsibility for undertaking scientific assessments of an application for a MA, the Rapporteur and the Co-Rapporteur liaise with the applicant on behalf of the CHMP in an effort to provide answers to queries raised by the CHMP. Their assessment report(s) is circulated to and considered by the

full CHMP membership, leading to the production ultimately of a CHMP opinion which is transmitted to the applicant and the European Commission. The final decision on the grant of a MA is made by the Commission as the licensing authority of the European Community ("Community"). Under Community law, a positive decision issued by the European Commission represents the grant of a MA. Such an authorization allows a medicinal product to be placed on the European market. Upon the grant of an MA in the European Union, certain member states require pricing approval before the product can be placed into commercial distribution.

Under Community law, the applicant may request grant of a MA under exceptional circumstances if comprehensive data on the efficacy and safety of the drug, under normal conditions of use cannot be provided because its intended indications are encountered so rarely (such as in the case of a medicinal product intended for treating an orphan disease) that comprehensive evidence cannot reasonably be collected, the present state of scientific knowledge will not allow comprehensive information to be collected, or it would be against generally accepted medical ethics to collect comprehensive information. The Rapporteur, Co-Rapporteur and the other CHMP members will assess the justification/data submitted for exceptional circumstances as part of the overall assessment of the benefit/risk of the application. It is up to the CHMP, during the review, to ultimately decide on whether grant of a MA under exceptional circumstances is justified on the evidence before them. Approval under exceptional circumstances is subject to a requirement for specific procedures related to safety and results of its use and is reviewed annually to reassess the risk-benefit balance of the product. Once approval is granted, the product can be marketed under the single European MA in all member states of the European Union and the European Economic Area. Consistent with the single MA, the labeling for Europe is identical throughout all member states except that all labeling must be translated into the local language of the country of intended importation and in relation to the content of the so called *"*blue box*"* on the outer packaging in which locally required information may be inserted.

Orphan drugs are those intended for use in rare diseases or conditions. As a result of the high cost of development and the low return on investment for rare diseases, governments provide regulatory and commercial incentives for the development of drugs for small disease populations. In the United States, the term "rare disease or condition" means any disease or condition which affects less than 200,000 persons in the United States. Applications for United States orphan drug status are evaluated and granted by the Office of Orphan Products Development ("OOPD") of the FDA. In the United States, orphan drugs are subject to the standard regulatory process for marketing approval but are exempt from the payment of user fees for licensure, receive market exclusivity for a period of seven years and some tax benefits, and are eligible for OOPD grants. In Europe, orphan medicinal products are those intended for the diagnosis, prevention or treatment of a life-threatening or chronically debilitating condition affecting not more than five in 10,000 persons in the Community. The EMEA's Committee for Orphan Medicinal Products ("COMP") reviews applications seeking orphan designation. If the European Commission agrees with a positive assessment made by COMP, then the product will receive a positive designation through adoption of a decision by the European Commission. Orphan medicinal products are exempt from fees for protocol assistance and scientific advice from the Scientific Advice Working Party during development, reduction or exemption of MA and other fees, and ten year market exclusivity upon granting of a MA in respect of the approved clinical indication. Moreover, manufacturers may be eligible for grants or other financial incentives from the Community and Member States programs.

Patents and Trade Secrets

As a result of our ongoing activities, we hold and are in the process of applying for a number of patents in the United States and internationally to protect our products and important processes. We also have obtained or have the right to obtain exclusive licenses to certain patents and applications filed by others. However, the patent position of biotechnology companies generally is highly uncertain and no consistent policy regarding the breadth of allowed claims has emerged from the actions of the U.S. Patent and Trademark Office ("Patent Office") with respect to biotechnology patents. Accordingly, no assurance can be given that our patents will afford protection against competitors with similar technologies, or others will not obtain patents claiming aspects similar to those covered by our patent applications.

We have established an extensive portfolio of patents and applications related to our BPI-related products, including novel compositions, their manufacture, formulation, assay and use. We are also the exclusive licensee of BPI-related patents and applications owned by New York University ("NYU"), including those directed to novel BPI-related protein and DNA compositions, as well as their production and uses. Finally, we are the exclusive licensee of BPI-related patents and applications owned by Incyte Corporation ("Incyte"), including those related to endotoxin-associated uses of BPI.

We have established a portfolio of patents related to our bacterial expression technology, including claims to novel promoter sequences, secretion signal sequences, compositions, methods for expression and secretion of recombinant proteins from bacteria, including immunoglobulin gene products, and improved methods and cells for expression of recombinant protein products. U.S. Patent No. 5,028,530 is directed to expression vehicles containing an araB promoter, host cells and processes for regulated expression of recombinant proteins. U.S. Patent Nos. 5,576,195 and 5,846,818 are 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, 5,698,417 and 6,204,023 relate to methods for recombinant production/secretion of functional immunoglobulin molecules. U.S. Patent No. 7,094,579 relates to eukaryotic signal sequences and their use in methods for prokaryotic expression of recombinant proteins. U.S. Patent No. 6,803,210 relates to improved bacterial host cells that are deficient in one or more of the active transport systems for an inducer of an inducible promoter, such as arabinose for an araB promoter, and methods for the use of such cells for the production of recombinant proteins.

We have also established a portfolio of patent applications related to our mammalian expression technology, including U.S. Patent Application Publication No. 2003/0203447 for which we have received a Notice of Allowance, related to methods and materials for increasing the expression of recombinant polypeptides using expression vectors containing multiple copies of a transcription unit encoding a polypeptide of interest.

We have established a portfolio of patents and applications related to our HE™ technology, including U.S. Patent No. 5,766,886, directed to methods of modifying antibody variable domains to reduce immunogenicity. Related patents and applications are directed to antibodies engineered according to our patented methods. We believe that our patented HE™ technology provides an attractive alternative to other humanization technologies.

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

Research and License Agreements

We have contracted with a number of academic and institutional collaborators to conduct research and development activities. Under these agreements, we generally fund either the research and development or evaluation of products, technologies or both, will own or obtain exclusive licenses to products or technologies developed and may pay royalties on sales of products covered by certain licenses. 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 incurred by us under all of our research agreements were negligible for each of 2006, 2005 and 2004. We have entered into certain license agreements with respect to the following products:

- In August of 1990, we entered into a research collaboration and license agreement with NYU whereby we 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 defense system against infection and we are investigating the use of products based on BPI for various indications. We have obtained an exclusive, worldwide license for the development, manufacture, sale and use of BPI

products for all therapeutic and diagnostic uses, have paid a license fee, 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.

Each party has the right to terminate the agreement upon a material breach by the other party of the performance of its obligations under the agreement, subject to customary cure periods. Upon termination of the agreement prior to the expiration of the relevant patents, all rights in and to NYU's intellectual property revert to NYU.

- In July of 1998, we entered into a license agreement with Incyte whereby we obtained an exclusive (even as to Incyte), freely sublicenseable, worldwide license to all of Incyte's patent rights relating to BPI. We will pay Incyte a royalty on sales of BPI products covered by the license, up to a maximum of $11.5 million and made a $1.5 million advance royalty payment, one-half in cash and one-half in our common shares. We also issued warrants to Incyte to purchase 250,000 of our common shares at $6.00 per share. As of December 31, 2006, 125,000 of these warrants remain outstanding. Due to offsets against other royalties, we may not ultimately incur increased total BPI royalty payments as a result of this license.

  The agreement expires in July of 2008 unless, on or prior to such date, the license granted therein becomes fully paid up in accordance with its terms. Incyte has the right to terminate the agreement (subject to a customary cure period) upon a breach by us of any of our material obligations under the agreement.

International Operations

We believe that, because the pharmaceutical industry is global in nature, international activities will be a significant part of our future business activities and that, when and if we are able to generate income, a substantial portion of that income will be derived from product sales and other activities outside the United States.

A number of risks are inherent in international operations. Foreign regulatory agencies often establish standards different from those in the United States. An inability to obtain foreign regulatory approvals on a timely basis could have an adverse effect on our international business, financial condition and results of operations. International operations may be limited or disrupted by the imposition of government controls, export license requirements, political or economic instability, trade restrictions, changes in tariffs, restrictions on repatriating profits, taxation or difficulties in staffing and managing international operations. In addition, our business, financial condition and results of operations may be adversely affected by fluctuations in currency exchange rates. There can be no assurance that we will be able to successfully operate in any foreign market.

We were incorporated in Delaware in 1981 and became a Bermuda company effective December 31, 1998, when we completed a shareholder-approved corporate reorganization, changing our legal domicile from Delaware to Bermuda and our name to XOMA Ltd. When referring to a time or period before December 31, 1998, or when the context so requires, the terms "Company" and "XOMA" refer to XOMA Corporation, a Delaware corporation and the predecessor of XOMA Ltd.

Employees

As of December 31, 2006, we employed 255 non-unionized full-time employees at our California facilities, principally in Berkeley, California, and one employee in Ireland. Our employees are engaged in clinical, process development and manufacturing, quality assurance and control, research and product development, and in executive, finance and administrative positions. We consider our employee relations to be excellent.

Available Information

For information on XOMA's investment prospects and risks, please contact Mr. Paul Goodson, Senior Director, Investor Relations and Corporate Communications at (800) 246-9662 or by sending an e-mail message to investorrelations@xoma.com. Our principal executive offices are located at 2910 Seventh Street, Berkeley, California 94710 U.S.A. Our telephone number is (510) 204-7200.

The following information can be found on our website at http://www.xoma.com or can be obtained free of charge by contacting our Investor Relations Department:

- our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with the Securities and Exchange Commission ("SEC"). All reports we file with the SEC can also be obtained free of charge via EDGAR through the SEC's website at http://www.sec.gov;
- our policies related to corporate governance, including our Code of Ethics applying to our directors, officers and employees (including our principal executive officer and principal financial and accounting officer) that we have adopted to meet the requirements set forth in the rules and regulations of the United States SEC and its corporate governance principles; and
- the charters of the Audit, Compensation and Nominating & Governance Committees of our Board of Directors.

We intend to satisfy the applicable disclosure requirements regarding amendments to, or waivers from, provisions of our Code of Ethics by posting such information on our website.

Item 1A. Risk Factors

The following risk factors and other information included in this annual report should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us also may impair our business operations. If any of the following risks occur, our business, financial condition, operating results and cash flows could be materially adversely affected.

Our present and future revenues rely significantly on sales of products marketed and sold by others.

Currently, our revenues rely significantly upon sales of RAPTIVA® and LUCENTIS®, in which we have only royalty interests. RAPTIVA® was approved by the FDA on October 27, 2003, for the treatment of chronic moderate-to-severe plaque psoriasis in adults who are candidates for systemic therapy or phototherapy. Genentech and Serono, Genentech's international marketing partner for RAPTIVA®, are responsible for the marketing and sales effort in support of this product. In September of 2004, Serono announced that RAPTIVA® had received approval for use in the European Union and the product was launched in several European Union countries in the fourth quarter of 2004. In January of 2007, Merck KGaA acquired Serono and renamed the surviving entity Merck Serono S.A. We are evaluating the impact of this acquisition but do not yet know what effect it will have on sales of RAPTIVA®. LUCENTIS® was approved by the FDA on June 30, 2006, for the treatment of age-related macular degeneration. Genentech and Novartis, Genentech's international marketing partner for LUCENTIS®, are responsible for the marketing and sales effort in support of this product. We have no role in marketing and sales efforts, and Genentech, Serono and Novartis do not have an express contractual obligation to us regarding the marketing or sales of RAPTIVA® or LUCENTIS®.

Under our current arrangements with Genentech, we are entitled to receive royalties on worldwide sales of RAPTIVA® and LUCENTIS®. Successful commercialization of these products is subject to a number of risks, including, but not limited to:

- Genentech's and Serono's willingness and ability to implement their marketing and sales effort and achieve sales;

- the strength of competition from other products being marketed or developed to treat psoriasis;
- the occurrence of adverse events which may give rise to safety concerns;
- physicians' and patients' acceptance of RAPTIVA® as a treatment for psoriasis and LUCENTIS® as a treatment for age-related macular degeneration;
- Genentech's ability to provide manufacturing capacity to meet demand for the products; and
- pricing and reimbursement issues.

According to Genentech, United States sales of RAPTIVA® during 2006 were $89.8 million, compared with $79.2 million and $52.4 million during 2005 and 2004, respectively. According to Serono, sales of RAPTIVA® outside of the United States during 2006 were $69.9 million, compared with $33.4 million and $3.9 million during 2005 and 2004, respectively. According to Genentech, United States sales of LUCENTIS® were $380.0 million and sales outside the United States were $27.0 million during 2006. LUCENTIS® sales began on June 30, 2006, upon its approval by regulatory agencies. Given our current reliance on RAPTIVA® and LUCENTIS® as principal sources of our revenues, any material adverse developments with respect to the commercialization of RAPTIVA® or LUCENTIS® may cause our revenues to decrease and may cause us to incur losses in the future.

Because our products are still being developed, we will require substantial funds to continue; we cannot be certain that funds will be available and, if they are not available, we may have to take actions which could adversely affect your investment.

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

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

Based on current spending levels, anticipated revenues, collaborator funding, proceeds from our convertible note offerings in February of 2005 and February of 2006, our November 2006 term loan and other sources of funding we believe to be available, we estimate that we have sufficient cash resources to meet our anticipated net cash needs through at least 2008. Any significant revenue shortfalls, increases in planned spending on development programs or more rapid progress of development programs than anticipated, as well as the unavailability of anticipated sources of funding, could shorten this period. Progress or setbacks by potentially competing products may also affect our ability to raise new funding on acceptable terms. As a result, we do not know when or whether:

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

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

Our level of leverage and debt service obligations could adversely affect our financial condition.

As of December 31, 2006, we (including our subsidiaries) had approximately $98.2 million, including our embedded derivative, of indebtedness outstanding. We may not be able to generate cash sufficient to pay the principal of, interest on and other amounts due in respect of our indebtedness when due. We and our subsidiaries may also incur additional debt that may be secured. In connection with our collaboration with Novartis, Novartis has extended a line of credit to us (through our U.S subsidiary) for $50.0 million to fund up to 75% of our expenses thereunder, of which $16.4 million was drawn as of December 31, 2006. This line of credit is secured by a pledge of our interest in the collaboration. On November 9, 2006, XOMA (US) LLC entered into a five-year, $35.0 million term loan facility with Goldman Sachs Specialty Lending Holdings, Inc. ("Goldman Sachs") and borrowed the full amount thereunder. The loan is guaranteed by XOMA and is secured by the payment rights due to XOMA (US) LLC relating to RAPTIVA®, LUCENTIS® and CIMZIA™. As a result, these assets will not be available to XOMA or any other lender to secure future indebtedness.

Our level of debt and debt service obligations could have important effects on us and our investors. These effects may include:

- making it more difficult for us to satisfy our obligations with respect to our convertible notes and our obligations to other persons with respect to our other debt;
- limiting our ability to obtain additional financing or renew existing financing at maturity on satisfactory terms to fund our working capital requirements, capital expenditures, acquisitions, investments, debt service requirements and other general corporate requirements;
- increasing our vulnerability to general economic downturns, competition and industry conditions, which could place us at a competitive disadvantage compared with our competitors that are less leveraged;
- increasing our exposure to rising interest rates to the extent any of our borrowings are at variable interest rates;
- reducing the availability of our cash flow to fund our working capital requirements, capital expenditures, acquisitions, investments and other general corporate requirements because we will be required to use a substantial portion of our cash flow to service debt obligations; and
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate.

Our ability to satisfy our debt obligations will depend upon our future operating performance and the availability of refinancing debt. If we are unable to service our debt and fund our business, we may be forced to reduce or delay capital expenditures, seek additional debt financing or equity capital, restructure or refinance our debt or sell assets. We cannot assure you that we would be able to obtain additional financing, refinance existing debt or sell assets on satisfactory terms or at all.

Most of our therapeutic products have not received regulatory approval. If these products do not receive regulatory approval, neither our third party collaborators nor we will be able to manufacture and market them.

Our products cannot be manufactured and marketed in the United States and other countries without required regulatory approvals. The United States government and governments of other countries extensively regulate many aspects of our products, including:

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

In the United States, the FDA regulates pharmaceutical products under the Federal Food, Drug, and Cosmetic Act and other laws, including, in the case of biologics, the Public Health Service Act. At the present time, we believe that most of our products will be regulated by the FDA as biologics. Changes in the regulatory approval policy during the development period, changes in, or the enactment of, additional regulations or statutes or changes in regulatory review for each submitted product application may cause delays in the approval or rejection of an application. Even if the FDA or other regulatory agency approves a product candidate, the approval may impose significant restrictions on the indicated uses, conditions for use, labeling, advertising, promotion, marketing and/or production of such product. Even for approved products such as RAPTIVA® and LUCENTIS®, the FDA may impose ongoing requirements for post-approval studies, including additional research and development and clinical trials, and may subsequently withdraw approval based on these additional trials. The FDA and other agencies also may impose various civil or criminal sanctions for failure to comply with regulatory requirements, including withdrawal of product approval. State regulations may also affect our proposed products. The FDA has substantial discretion in both the product approval process and manufacturing facility approval process and, as a result of this discretion and uncertainties about outcomes of testing, we cannot predict at what point, or whether, the FDA will be satisfied with our or our collaborators' submissions or whether the FDA will raise questions which may be material and delay or preclude product approval or manufacturing facility approval. As we accumulate additional clinical data, we will submit it to the FDA, which may have a material impact on the FDA product approval process.

We face uncertain results of clinical trials of our potential products.

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

- our future filings will be delayed,
- our preclinical and clinical studies will be successful,
- we will be successful in generating viable product candidates to targets,
- we will be able to provide necessary additional data,
- results of future clinical trials will justify further development, or
- we will ultimately achieve regulatory approval for any of these products.

For example,

- In 1996, in conjunction with Genentech, we began testing RAPTIVA® in patients with moderate-to-severe plaque psoriasis. In April of 2002, we announced with Genentech that a pharmacokinetic study conducted on RAPTIVA® comparing XOMA-produced material and Genentech-produced material did not achieve the pre-defined statistical definition of comparability, and the FDA requested that another Phase III study be completed before the filing of a Biologics License Application for RAPTIVA®, delaying the filing beyond the previously-planned time frame of the summer of 2002. In March of 2003, we announced completion of enrollment in a Phase II study of RAPTIVA® in patients suffering from rheumatoid arthritis. In May of 2003, Genentech and we announced our decision to terminate Phase II testing of RAPTIVA® in patients suffering from rheumatoid arthritis based on an evaluation by an independent Data Safety Monitoring Board that suggested no overall net clinical benefit in patients receiving the study drug. We also completed enrollment in a Phase II study of RAPTIVA® as a possible treatment for patients with psoriatic arthritis. In March of 2004, we announced that the study did not reach statistical significance.

- In December of 1992, we began human testing of our NEUPREX® product, a genetically engineered fragment of a particular human protein, and licensed certain worldwide rights to Baxter Healthcare Corporation ("Baxter") in January of 2000. In April of 2000, members of the FDA and representatives of XOMA and Baxter discussed results from the Phase III trial that tested NEUPREX® in pediatric patients with a potentially deadly bacterial infection called meningococcemia, and senior representatives of the FDA indicated that the data presented were not sufficient to support the filing of an application for marketing approval at that time.
- In 2003, we completed two Phase I trials of XMP.629, a BPI-derived topical peptide compound targeting acne, evaluating the safety, skin irritation and pharmacokinetics. In January of 2004, we announced the initiation of Phase II clinical testing in patients with mild-to-moderate acne. In August of 2004, we announced the results of a Phase II trial with XMP.629 gel. The results were inconclusive in terms of clinical benefit of XMP.629 compared with vehicle gel.

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

Because all of our products are still being developed, we have sustained losses in the past and we expect to sustain losses in the future.

We have experienced significant losses and, as of December 31, 2006, we had an accumulated deficit of $727.5 million.

For the year ended December 31, 2006, we had a net loss of approximately $51.8 million or $0.54 per common share (basic and diluted). For the year ended December 31, 2005, as a result of the restructuring of our Genentech arrangement and subsequent extinguishment of our obligation to pay $40.9 million under a development loan and related one-time credit to other income, we had net income of approximately $2.8 million or $0.03 per common share (basic and diluted).

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

Our agreements with third parties, many of which are significant to our business, expose us to numerous risks.

Our financial resources and our marketing experience and expertise are limited. Consequently, our ability to successfully develop products depends, to a large extent, upon securing the financial resources and/or marketing capabilities of third parties.

- In April of 1996, we entered into an agreement with Genentech whereby we agreed to co-develop Genentech's humanized monoclonal antibody product RAPTIVA®. In April of 1999, March of 2003, and January of 2005, the companies amended the agreement. In October of 2003, RAPTIVA® was approved by the FDA for the treatment of adults with chronic moderate-to-severe plaque psoriasis who are candidates for systemic therapy or phototherapy and, in September of 2004, Serono announced the product's approval in the European Union. In January of 2005, we entered into a restructuring of our collaboration agreement with Genentech which ended our existing cost and profit sharing arrangement related to RAPTIVA® in the United States and entitles us to a royalty interest on worldwide net sales.

- In November of 2001, we entered into a collaboration with Millennium to develop two of Millennium's products for certain vascular inflammation indications. In October of 2003, we announced that we had discontinued one of these products, MLN2201. In December of 2003, we announced the initiation of Phase I testing on the other product, MLN2222. As of May 2006, we completed the transfer of the data from the Phase I study to Millennium as per our amended agreement.
- In March of 2004, we announced we had agreed to collaborate with Chiron Corporation (now Novartis) for the development and commercialization of antibody products for the treatment of cancer. Under the terms of the agreement, the companies will jointly research, develop, and commercialize multiple antibody product candidates. In April of 2005, we announced the initiation of clinical testing of the first product candidate out of the collaboration, HCD122, an anti-CD40 antibody, in patients with advanced CLL. In October of 2005, we announced the initiation of the second clinical trial of HCD122 in patients with multiple myeloma.
- In October of 2004, we announced the licensing of our ING-1 product to Triton for use with their TNT™ System.
- In March of 2005, we entered into a contract with NIAID to produce three monoclonal antibodies designed to protect United States citizens against the harmful effects botulinum neurotoxin of used in bioterrorism. In July of 2006, we entered into an additional contract with NIAID for the development of an appropriate formulation for human administration of these three antibodies in a single injection.
- In June of 2005, we announced the formation of a collaboration to jointly develop and commercialize antibody drugs for certain targets discovered by Lexicon.
- We have licensed our BCE technology, an enabling technology used to discover and screen, as well as develop and manufacture, recombinant antibodies and other proteins for commercial purposes, to over 45 companies. As of December 31, 2006, we were aware of one antibody product manufactured using this technology that has received FDA approval, Genentech's LUCENTIS® (ranibizumab injection) for treatment of neovascular (wet) age-related macular degeneration, and one antibody manufactured using this technology that is in late-stage clinical testing, UCB's CIMZIA™ (certolizumab pegol, CDP870) an anti-TNF alpha antibody fragment for rheumatoid arthritis and Crohn's disease.

Because our collaborators and licensees are independent third parties, they may be subject to different risks than we are and have significant discretion in determining the efforts and resources they will apply. If these collaborators and licensees do not successfully develop and market these products, we may not have the capabilities, resources or rights to do so on our own. We do not know whether our collaborators or licensees will successfully develop and market any of the products that are or may become the subject of one of our collaboration or licensing arrangements. In particular, each of these arrangements provides for either sharing of collaboration expenses, which means that not only we but our collaborators must have sufficient available funds for the collaborations to continue, or funding solely by our collaborators or licensees. In addition, our collaboration with Novartis provides for funding by it in the form of a line of credit to us, and we cannot be certain that Novartis will provide the necessary funds available when we attempt to draw on the line of credit. Furthermore, our contracts with NIAID contain numerous standard terms and conditions provided for in the applicable federal acquisition regulations and customary in many government contracts. Uncertainty exists as to whether we will be able to comply with these terms and conditions in a timely manner, if at all. In addition, given our relative lack of experience in programs under contract with government agencies, we are uncertain as to the extent of NIAID's demands and the flexibility that will be granted to us in meeting those demands. Lastly, CIMZIA™ (CDP870) has not received marketing approval from the FDA or any foreign governmental agency, and therefore we cannot assure you that it will prove to be safe and effective, will be approved for marketing or will be successfully commercialized.

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

- In December of 2003, we agreed to collaborate with Alexion Pharmaceuticals, Inc. ("Alexion") for the development and commercialization of an antibody to treat chemotherapy-induced thrombocytopenia.

The TPO mimetic antibody was designed to mimic the activity of human thrombopoietin, a naturally occurring protein responsible for platelet production. In November of 2004, in conjunction with Alexion, we determined that the lead molecule in our TPO mimetic collaboration did not meet the criteria established in the program for continued development. In the first quarter of 2005, the companies determined not to continue with this development program and in the second quarter of 2005, the collaboration was terminated.

- In November of 2004, we announced the licensing of our BPI product platform, including our NEUPREX® product, to Zephyr Sciences, Inc. In July of 2005, we announced our decision to terminate the license agreement with Zephyr due to Zephyr not meeting the financing requirements of the license agreement.
- In September of 2004, we entered into a collaboration with Aphton for the treatment of gastrointestinal and other gastrin-sensitive cancers using anti-gastrin monoclonal antibodies. In January of 2006, Aphton announced that its common stock had been delisted from Nasdaq. In May of 2006, Aphton filed for bankruptcy protection under Chapter 11, Title 11 of the United States Bankruptcy Code.
- In September of 2005, we signed a letter agreement with Cubist to develop production processes and to manufacture a novel two-antibody biologic in quantities sufficient to conduct Phase III clinical trials. In July of 2006, Cubist announced that it had decided to cease investment in this product because of stringent FDA requirements for regulatory approval, and as a result we have terminated our letter agreement with Cubist.

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

Certain of our technologies are relatively new and are in-licensed from third parties, so our capabilities using them are unproven and subject to additional risks.

We license technologies from third parties. These technologies include but are not limited to phage display technologies licensed to us in connection with our BCE technology licensing program. However, our experience with some of these technologies remains relatively limited and, to varying degrees, we are still dependent on the licensing parties for training and technical support for these technologies. In addition, our use of these technologies is limited by certain contractual provisions in the licenses relating to them and, although we have obtained numerous licenses, intellectual property rights in the area of phage display are particularly complex. If the owners of the patent rights underlying the technologies we license do not properly maintain or enforce those patents, our competitive position and business prospects could be harmed. Our success will depend in part on the ability of our licensors to obtain, maintain and enforce our licensed intellectual property. Our licensors may not successfully prosecute the patent applications to which we have licenses, or our licensors may fail to maintain existing patents. They may determine not to pursue litigation against other companies that are infringing these patents, or they may pursue such litigation less aggressively than we would. Our licensors may also seek to terminate our license, which could cause us to lose the right to use the licensed intellectual property and adversely affect our ability to commercialize our technologies, products or services.

Our share price may be volatile and there may not be an active trading market for our common shares.

There can be no assurance that the market price of our common shares will not decline below its present market price or that there will be an active trading market for our common shares. The market prices of biotechnology companies have been and are likely to continue to be highly volatile. Fluctuations in our operating results and general market conditions for biotechnology stocks could have a significant impact on the volatility of our common share price. We have experienced significant volatility in the price of our common shares. From January 1, 2006 through March 5, 2007, our share price has ranged from a high of $3.50 to a low of $1.57. On March 5, 2007, the closing price of the common shares as reported on the Nasdaq National Market was $2.84 per share. Factors contributing to such volatility include, but are not limited to:

- sales and estimated or forecasted sales of products,

- results of preclinical studies and clinical trials,
- information relating to the safety or efficacy of products,
- developments regarding regulatory filings,
- announcements of new collaborations,
- failure to enter into collaborations,
- developments in existing collaborations,
- our funding requirements and the terms of our financing arrangements,
- technological innovations or new indications for our therapeutic products,
- introduction of new products or technologies by us or our competitors,
- government regulations,
- developments in patent or other proprietary rights,
- the number of shares issued and outstanding,
- the number of shares trading on an average trading day,
- announcements regarding other participants in the biotechnology and pharmaceutical industries, and
- market speculation regarding any of the foregoing.

We or our third party collaborators or licensees may not have adequate manufacturing capacity sufficient to meet market demand.

Genentech is responsible for manufacturing or arranging for the manufacturing of commercial quantities of RAPTIVA® and LUCENTIS®. Should Genentech have difficulty in providing manufacturing capacity to produce these products in sufficient quantities, we do not know whether they will be able to meet market demand. If not, we will not realize revenues from the sales of these products. If any of our other products are approved, because we have never commercially introduced any pharmaceutical products, we do not know whether the capacity of our existing manufacturing facilities can be increased to produce sufficient quantities of our products to meet market demand. Also, if we or our third party collaborators or licensees need additional manufacturing facilities to meet market demand, we cannot predict that we will successfully obtain those facilities because we do not know whether they will be available on acceptable terms. In addition, any manufacturing facilities acquired or used to meet market demand must meet the FDA's quality assurance guidelines.

We do not know whether there will be, or will continue to be, a viable market for the products in which we have an ownership or royalty interest.

Although RAPTIVA® was approved in the United States in October of 2003 and in the European Union in 2004 and LUCENTIS® was approved in June of 2006 and in the European Union in January of 2007, their acceptance in the marketplace may not continue. Furthermore, even if other products in which we have an interest receive approval in the future, they may not be accepted in the marketplace. In addition, we or our collaborators or licensees may experience difficulties in launching new products, many of which are novel and based on technologies that are unfamiliar to the healthcare community. We have no assurance that healthcare providers and patients will accept such products, if developed. For example, physicians and/or patients may not accept a product for a particular indication because it has been biologically derived (and not discovered and developed by more traditional means) or if no biologically derived products are currently in widespread use in that indication. Similarly, physicians may not accept a product, such as RAPTIVA® or LUCENTIS®, if they believe other products to be more effective or are more comfortable prescribing other products. Safety concerns may also arise in the course of on-going clinical trials or patient treatment as a result of adverse events or reactions.

Furthermore, government agencies, as well as private organizations involved in healthcare, from time to time publish guidelines or recommendations to healthcare providers and patients. Such guidelines or recommendations can be very influential and may adversely affect the usage of any products we may develop directly (for example, by recommending a decreased dosage of a product in conjunction with a concomitant therapy or a government entity withdrawing its recommendation to screen blood donations for certain viruses) or indirectly (for example, by recommending a competitive product over our product). Consequently, we do not know if physicians or patients will adopt or use our products for their approved indications.

Products and technologies of other companies may render some or all of our products noncompetitive or obsolete.

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

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

These factors may enable others to develop products and processes competitive with or superior to our own or those of our collaborators. In addition, a significant amount of research in biotechnology is being carried out in universities and other non-profit research organizations. These entities are becoming increasingly interested in the commercial value of their work and may become more aggressive in seeking patent protection and licensing arrangements. Furthermore, positive or negative developments in connection with a potentially competing product may have an adverse impact on our ability to raise additional funding on acceptable terms. For example, if another product is perceived to have a competitive advantage, or another product's failure is perceived to increase the likelihood that our product will fail, then investors may choose not to invest in us on terms we would accept or at all.

Without limiting the foregoing, we are aware that:

- in April of 2004, Amgen Inc. and its partner Wyeth Pharmaceuticals, a division of Wyeth, announced that their rheumatoid arthritis and psoriatic arthritis drug, Enbrel®, had been approved by the FDA for the same psoriasis indication as RAPTIVA® and, in September of 2004, they announced that the product received approval in the European Union in this same indication;
- Abbott Laboratories has recently announced that it has successfully completed two Phase III psoriasis trials showing clinical benefits of its rheumatoid arthritis and psoriatic arthritis drug Humira™ for the treatment of psoriasis. They indicated that they will submit regulatory applications in the United States and Europe in the first half of 2007;
- In September of 2006, Centocor announced that its rheumatoid arthritis and Crohn's disease drug, Remicade® (infliximab) had been approved by the FDA for the treatment of adult patients with chronic severe (i.e. extensive and/or disabling) plaque psoriasis who are candidates for systemic therapy and when other systemic therapies are medically less appropriate. This drug had already been approved to treat plaque psoriasis in the European Union, psoriatic arthritis in the United States and, in combination with methotrexate, in the European Union;

- Biogen sold its worldwide rights to Amevive®, which has been approved in the United States and Canada to treat the same psoriasis indication as RAPTIVA®, to Astellas Pharma US, Inc., in March of 2006;
- Biogen and Fumapharm have taken their psoriasis-treating pill, BG-12 (dimethyl fumarate), through a Phase III trial in Germany in which, according to the companies, the product significantly reduced psoriasis symptoms in patients, and Biogen acquired Fumapharm in June of 2005. Biogen announced, in January of 2007, that it is initiating Phase III trials of BG-12 in multiple sclerosis;
- Isotechnika, Inc. has completed a Canadian Phase III trial of ISA247, a trans-isomer of a cyclosporine analog, in 450 patients with moderate to severe psoriasis, achieving all efficacy endpoints, as well as a Phase III extension trial, and has announced plans to conduct a 500-patient second Canadian/European phase III trial;
- In February of 2007, UCB announced that it had completed a mid-stage clinical trial in psoriasis with positive results and that it was planning to start Phase III trials in the first half of 2007;
- In February of 2007, Centocor announced positive results from a Phase II clinical trial in moderate to severe plaque psoriasis of CNTO 1275, a fully-human monoclonal antibody that targets the cytokines interleukin-12 (IL-12) and interleukin-23 (IL-23) and that the product is currently in Phase III clinical development in the same indication; and
- other companies are developing monoclonal antibody or other products for treatment of inflammatory skin disorders.

In addition to LUCENTIS®, there are two other FDA-approved therapies to treat macular degeneration: Pfizer, Inc.'s and OSI Pharmaceuticals, Inc.'s Macugen® and Novartis' and QLT Inc.'s Visudyne®. It is also possible that LUCENTIS® will compete with Genentech's cancer drug Avastin®.

There are several companies developing topical peptide treatments which may compete with XOMA 629 in acne. Migenix Inc. and its partner Cutanea Life Sciences, Inc. are developing CLS001 (formerly MBI 594AN) for roseasea, a topical peptide that has completed two Phase II trials for the treatment of acne. Helix Biomedix, Inc. is developing several peptide compounds. Medicis Pharmaceutical Corp. has rights to human derived antimicrobial peptides that may be developed for acne.

In collaboration with Novartis, we are co-developing a humanized antibody to the target CD40, and, at the current time, there are several CD40-related programs under development, mostly focused on the development of CD40 ligand products. For example, SGN-40 is a humanized monoclonal antibody under development by Seattle Genetics, Inc. which is targeting CD40 antigen. Seattle Genetics is currently conducting a phase II clinical trial for patients with diffuse large B-cell lymphoma, the most common type of aggressive non-Hodgkin's lymphoma, and phase I trials for patients with multiple myeloma or chronic lymphocytic leukemia. In January of 2007, Seattle Genetics entered into an exclusive worldwide license agreement with Genentech to develop and commercialize SGN-40. Under the agreement, Genentech will fund future research, development, manufacturing and commercialization costs. In January of 2007, Kirin Brewery Company, Limited and Astellas Pharma Inc. announced that they have entered into a license and collaborative research and development agreement under which they will exclusively collaborate in developing and marketing a fully human anti-CD40 antagonistic monoclonal antibody worldwide with a first target indication of prophylaxis of organ rejection associated with organ transplantation.

It is possible that other companies may be developing other products based on the same human protein as our NEUPREX® product, and these products may prove to be more effective than NEUPREX®. It is also possible that other companies may be developing other products based on the same therapeutic target as our XOMA 052 product and these products may prove to be more effective than XOMA 052.

Even if we or our third party collaborators or licensees bring products to market, we may be unable to effectively price our products or obtain adequate reimbursement for sales of our products, which would prevent our products from becoming profitable.

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

If we and our partners are unable to protect our intellectual property, in particular our patent protection for our principal products and processes, and prevent its use by third parties, our ability to compete in the market will be harmed, and we may not realize our profit potential.

We rely on patent protection, as well as a combination of copyright, trade secret, and trademark laws to protect our proprietary technology and prevent others from duplicating our products. However, these means may afford only limited protection and may not:

- prevent our competitors from duplicating our products;
- prevent our competitors from gaining access to our proprietary information and technology, or
- permit us to gain or maintain a competitive advantage.

Because of the length of time and the expense associated with bringing new products to the marketplace, we and our partners hold and are in the process of applying for a number of patents in the United States and abroad to protect our products and important processes and also have obtained or have the right to obtain exclusive licenses to certain patents and applications filed by others. However, the mere issuance of a patent is not conclusive as to its validity or its enforceability. The United States Federal Courts or equivalent national courts or patent offices elsewhere may invalidate our patents or find them unenforceable. In addition, the laws of foreign countries may not protect our intellectual property rights effectively or to the same extent as the laws of the United States. If our intellectual property rights are not adequately protected, we may not be able to commercialize our technologies, products, or services, and our competitors could commercialize our technologies, which could result in a decrease in our sales and market share that would harm our business and operating results. Specifically, the patent position of biotechnology companies generally is highly uncertain and involves complex legal and factual questions. The legal standards governing the validity of biotechnology patents are in transition, and current defenses as to issued biotechnology patents may not be adequate in the future. Accordingly, there is uncertainty as to:

- whether any pending or future patent applications held by us will result in an issued patent, or that if patents are issued to us, that such patents will provide meaningful protection against competitors or competitive technologies,
- whether competitors will be able to design around our patents or develop and obtain patent protection for technologies, designs or methods that are more effective than those covered by our patents and patent applications, or
- the extent to which our products could infringe on the intellectual property rights of others, which may lead to costly litigation, result in the payment of substantial damages or royalties, and/or prevent us from using technology that is essential to our products.

We have established an extensive portfolio of patents and applications, both United States and foreign, related to our BPI-related products, including novel compositions, their manufacture, formulation, assay and use. We have also established a portfolio of patents, both United States and foreign, related to our BCE 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.

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

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

Litigation regarding intellectual property can be costly and expose us to risks of counterclaims against us.

We may be required to engage in litigation or other proceedings to protect our intellectual property. The cost to us of this litigation, even if resolved in our favor, could be substantial. Such litigation could also divert management's attention and resources. In addition, if this litigation is resolved against us, our patents may be declared invalid, and we could be held liable for significant damages. In addition, we may be subject to a claim that we are infringing another party's patent. If such claim is resolved against us, we or our collaborators may be enjoined from developing, manufacturing, selling or importing products, processes or services unless we obtain a license from the other party. Such license may not be available on reasonable terms, thus preventing us from using these products, processes or services and adversely affecting our revenue.

Manufacturing risks and inefficiencies may adversely affect our ability to manufacture products for ourselves or others.

We are subject to manufacturing risks which may hinder our ability to provide manufacturing services for our own benefit or to third parties. Additionally, unanticipated fluctuations in customer requirements may lead to manufacturing inefficiencies. We must provide our manufacturing services in compliance with regulatory requirements, in sufficient quantities and on a timely basis, while maintaining acceptable product quality and manufacturing costs. Additional resources and changes in our manufacturing processes may be required for each new product or customer or to meet increasing customer requirements once a contract has been initiated, and this work may not be successfully or efficiently completed.

In addition, the development work and products addressed in new contracts may not share production attributes with our existing projects to the extent we anticipate, and consequently these new contracts may require the development of new manufacturing technologies and expertise. If we are unable to develop manufacturing capabilities as needed, on acceptable terms, our ability to complete these contracts or enter into additional contracts may be adversely affected.

Manufacturing and quality problems may arise in the future as we continue to perform these services for our own benefit and under additional manufacturing contracts. Consequently, our internal development goals or

milestones under our contracts may not be achieved in a timely manner or at a commercially reasonable cost, or at all. In addition, we continue to make investments to improve our manufacturing processes and to design, develop and purchase manufacturing equipment that may not yield the improvements that we expect. Inefficiencies or constraints related to our manufacturing may adversely affect our overall financial results. Such inefficiencies or constraints may also result in delays or loss of current or potential customers due to their dissatisfaction.

The financial terms of future collaborative or licensing arrangements could result in dilution of our share value.

Funding from collaboration partners and others has in the past and may in the future involve issuance by us of our shares. Because we do not currently have any such arrangements, we cannot be certain how the purchase price of such shares, the relevant market price or premium, if any, will be determined or when such determinations will be made. Any such issuance could result in dilution in the value of our issued and outstanding shares.

Because many of the companies we do business with are also in the biotechnology sector, the volatility of that sector can affect us indirectly as well as directly.

As a biotechnology company that collaborates with other biotech companies, the same factors that affect us directly can also adversely impact us indirectly by affecting the ability of our collaborators, partners and others we do business with to meet their obligations to us and reduce our ability to realize the value of the consideration provided to us by these other companies.

For example, in connection with our licensing transactions relating to our BCE technology, we have in the past and may in the future agree to accept equity securities of the licensee in payment of license fees. The future value of these or any other shares we receive is subject both to market risks affecting our ability to realize the value of these shares and more generally to the business and other risks to which the issuer of these shares may be subject.

As we do more business internationally, we will be subject to additional political, economic and regulatory uncertainties.

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

- imposition of government controls,
- export license requirements,
- political or economic instability,
- trade restrictions,
- changes in tariffs,
- restrictions on repatriating profits,
- exchange rate fluctuations,
- withholding and other taxation, and
- difficulties in staffing and managing international operations.

Because we are a relatively small biopharmaceutical company with limited resources, we may not be able to attract and retain qualified personnel, and the loss of key personnel could delay or prevent achieving our objectives.

Our success in developing marketable products and achieving a competitive position will depend, in part, on our ability to attract and retain qualified scientific and management personnel, particularly in areas requiring specific technical, scientific or medical expertise. There is intense competition for such personnel. Our research, product development and business efforts could be adversely affected by the loss of one or more key members of our scientific or management staff, particularly our executive officers: John L. Castello, our Chairman of the Board, President and Chief Executive Officer; J. David Boyle II, our Vice President, Finance and Chief Financial Officer; Patrick J. Scannon, M.D., Ph.D., our Executive Vice President and Chief Biotechnology Officer; and Christopher J. Margolin, our Vice President, General Counsel and Secretary. We currently have no key person insurance on any of our employees. In February of 2007, Mr. Castello announced his plans to retire. Although he intends to continue to serve in his present capacities during the candidate search and transition period, our business could be adversely affected if the search and transition period take longer than expected or we are unable to find a suitable replacement.

We had approximately 256 employees as of December 31, 2006, and we anticipate that we will require additional experienced executive, accounting, research and development, legal, administrative and other personnel in the future. There is intense competition for the services of these personnel, especially in California. Moreover, we expect that the high cost of living in the San Francisco Bay Area, where our headquarters and manufacturing facilities are located, may impair our ability to attract and retain employees in the future. If we do not succeed in attracting new personnel and retaining and motivating existing personnel, our operations may suffer and we may be unable to implement our current initiatives or grow effectively.

Calamities, power shortages or power interruptions at our Berkeley headquarters and manufacturing facility could disrupt our business and adversely affect our operations, and could disrupt the businesses of our customers.

Our principal operations are located in Northern California, including our corporate headquarters and manufacturing facility in Berkeley, California. In addition, many of our collaborators and licensees are located in California. All of these locations are in areas of seismic activity near active earthquake faults. Any earthquake, terrorist attack, fire, power shortage or other calamity affecting our facilities or our customers' facilities may disrupt our business and could have material adverse effect on our business and results of operations.

We are exposed to an increased risk of product liability claims.

The testing, marketing and sales of medical products entails an inherent risk of allegations of product liability. In the event of one or more large, unforeseen awards of damages against us, our product liability insurance may not provide adequate coverage. A significant product liability claim for which we were not covered by insurance would have to be paid from cash or other assets. To the extent we have sufficient insurance coverage, such a claim would result in higher subsequent insurance rates. In addition, product liability claims can have various other ramifications including loss of future sales opportunities, increased costs associated with replacing products, and a negative impact on our goodwill and reputation, which could also adversely affect our business and operating results.

We may be subject to increased risks because we are a Bermuda company.

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

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

- legislation restricting certain types of transactions, and
- punitive tax legislation.

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

If you were to obtain a judgment against us, it may be difficult to enforce against us because we are a foreign entity.

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

Our shareholder rights agreement or bye-laws may prevent transactions that could be beneficial to our shareholders and may insulate our management from removal.

In February of 2003, we adopted a new shareholder rights agreement (to replace the shareholder rights agreement that had expired), which could make it considerably more difficult or costly for a person or group to acquire control of us in a transaction that our board of directors opposes.

Our bye-laws:

- require certain procedures to be followed and time periods to be met for any shareholder to propose matters to be considered at annual meetings of shareholders, including nominating directors for election at those meetings;
- authorize our board of directors to issue up to 1,000,000 preference shares without shareholder approval and to set the rights, preferences and other designations, including voting rights, of those shares as the board of directors may determine; and
- contain provisions, similar to those contained in the Delaware General Corporation Law that may make business combinations with interested shareholders more difficult.

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

We may issue additional equity securities and thereby materially and adversely affect the price of our common shares.

We are authorized to issue, without shareholder approval, 1,000,000 preference shares, of which 2,959 were issued and outstanding as of December 31, 2006, which may give other shareholders dividend, conversion,

voting, and liquidation rights, among other rights, which may be superior to the rights of holders of our common shares. In addition, we are authorized to issue, without shareholder approval, up to 210,000,000 common shares, of which 105,454,389 were issued and outstanding as of December 31, 2006. If we issue additional equity securities, the price of our common shares and, in turn, the price of our convertible notes may be materially and adversely affected. In addition, as of December 31, 2006, there were $44.5 million aggregate principal amount of New Notes outstanding, which were convertible into an aggregate of 23,750,873 common shares, with an aggregate of 1,889,317 additional shares issuable in lieu of the additional interest that would be due on such conversion.

If the trading price of our common shares fails to comply with the continued listing requirements of The Nasdaq National Market, we would face possible delisting, which would result in a limited public market for our common shares and make obtaining future debt or equity financing more difficult for us.

If we do not continue to comply with the continued listing requirements for The Nasdaq National Market, then Nasdaq may provide written notification regarding the delisting of our securities. At that time, we would have the right to request a hearing to appeal The Nasdaq determination and would also have the option to apply to transfer our securities to The Nasdaq SmallCap Market.

We cannot be sure that our price will comply with the requirements for continued listing of our common shares on The Nasdaq National Market, or that any appeal of a decision to delist our common shares will be successful. If our common shares lose their status on The Nasdaq National Market and we are not successful in obtaining a listing on The Nasdaq SmallCap Market, our common shares would likely trade in the over-the-counter market.

If our common shares are neither listed for trading on a United States national or regional securities exchange nor approved for trading on The Nasdaq National Market, Nasdaq SmallCap Market or any other established United States system of automated dissemination or quotations of securities prices, it would be deemed a “fundamental change” under the indenture governing our convertible notes, giving the holders thereof the right to require us to repurchase such notes. Our failure to repurchase our convertible notes would constitute an event of default under the notes indenture, which might constitute an event of default under the terms of our other debt.

If our shares were to trade on the over-the-counter market, selling our common shares could be more difficult because smaller quantities of shares would likely be bought and sold, transactions could be delayed, and security analysts’ coverage of us may be reduced. In addition, in the event our common shares are delisted, broker-dealers have certain regulatory burdens imposed upon them, which may discourage broker-dealers from effecting transactions in our common shares, further limiting the liquidity thereof. These factors could result in lower prices and larger spreads in the bid and ask prices for common shares.

Such delisting from The Nasdaq National Market or future declines in our share price could also greatly impair our ability to raise additional necessary capital through equity or debt financing, and could significantly increase the ownership dilution to shareholders caused by our issuing equity in financing or other transactions. Consent under the Exchange Control Act 1972 (and its related regulations) has been obtained from the Bermuda Monetary Authority for the issue and transfer of our shares, notes and other securities to and between non-residents of Bermuda for exchange control purposes, but this consent is conditional on our shares remaining listed on an appointed stock exchange. We cannot assure you that the Bermuda Monetary Authority will give the same or a similar consent in the event our common shares are no longer listed on The Nasdaq National Market or another appointed stock exchange. In the absence of such a general consent, specific consents of the Bermuda Monetary Authority would be required for certain issues and transfers of our shares, notes and other securities.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our development and manufacturing facilities are located in Berkeley and Emeryville, California. We lease approximately 135,000 square feet of space including approximately 35,000 square feet of research and development laboratories, 56,000 square feet of production and production support facilities and 44,000 square feet of office space. A separate 17,000 square foot technology development and pilot facility is owned by us.

We produced multiple anti-botulinum neurotoxin antibodies and XOMA 052 in addition to performing numerous small-scale development runs in 2006. We have previously produced MLN2222, TPO mimetic antibody, NEUPREX®, RAPTIVA®, MLN2201 and ING-1 for clinical trials and other testing needs at our Berkeley manufacturing facilities, pursuant to a drug manufacturing license obtained from the State of California. We recently received Investigational Medicinal Products (IMP) Certification from the Medicines and Healthcare Products Regulatory Agency of the United Kingdom to allow production of clinical trial materials for use in the European Union. We base our manufacturing capability on recombinant DNA technology, which can produce therapeutic products from either mammalian or microbial cells. Our primary manufacturing facility houses three fermentation trains with a tank size of 2,750 liters. Our Pilot Plant houses two fermentation trains with a tank size of 500 liters. Each facility has associated isolation and purification equipment within production suites. We perform our own formulation and contract with third parties for final sterile filling and finishing.

Item 3. Legal Proceedings

In September of 2004, XOMA (US) LLC entered into a collaboration with Aphton for the treatment of gastrointestinal and other gastrin-sensitive cancers using anti-gastrin monoclonal antibodies. In May of 2006, Aphton filed for bankruptcy protection under Chapter 11, Title 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware, No. 06-10510 (CSS). XOMA (US) LLC filed a proof of claim in the proceeding, as an unsecured creditor of Aphton, for approximately $594,000. Recently, Aphton and the Official Committee of Unsecured Creditors filed a Proposed Plan of Reorganization that would result in a liquidation of Aphton and the process of seeking approval of that Plan has commenced. It is not presently known what, if any, distributions will be made to holders of unsecured claims.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were brought to a vote of our shareholders in the quarter ended December 31, 2006.

Executive Officers

Our executive officers and their respective ages, as of December 31, 2006, and positions are as follows:

Name	Age	Title
John L. Castello	70	Chairman of the Board, President and Chief Executive Officer
Patrick J. Scannon, M.D., Ph.D.	59	Executive Vice President and Chief Biotechnology Officer
J. David Boyle II	53	Vice President, Finance and Chief Financial Officer
Christopher J. Margolin, Esq.	60	Vice President, General Counsel and Secretary

The Board of Directors elects all officers annually. There is no family relationship between or among any of the officers or directors.

Business Experience

Mr. Castello became Chairman of the Board, President and Chief Executive Officer in March of 1993. From April of 1992 to March of 1993, Mr. Castello was President, Chief Executive Officer and a director.

Mr. Castello was President and Chief Operating Officer of the Ares-Serono Group from 1988 to 1991 and prior to that was President of the Serono Diagnostics Division from 1986 to 1988. Ares-Serono Group is known in the United States for fertility drugs and it is also the manufacturer of a bioengineered human growth hormone which is marketed primarily outside of the United States. Mr. Castello previously held senior management positions at Amersham International plc and Abbott Laboratories. Mr. Castello is also a director of Cholestech Corporation, which is engaged in the business of developing products for the diagnostic measurement of cholesterol and other blood components.

Dr. Scannon is one of our founders and has served as a director since our formation. Dr. Scannon became Executive Vice President and Chief Biotechnology Officer in May of 2006. Previously he was our Chief Scientific and Medical Officer beginning in March of 1993, served as our as Vice Chairman, Scientific and Medical Affairs from April of 1992 to March of 1993 and our President from our formation until April of 1992. From 1998 until 2001, Dr. Scannon served as a director of NanoLogics, Inc., a software company. From 1979 until 1981, Dr. Scannon was a clinical research scientist at the Letterman Army Institute of Research in San Francisco. A Board-certified internist, Dr. Scannon holds a Ph.D. in organic chemistry from the University of California, Berkeley and an M.D. from the Medical College of Georgia.

Mr. Boyle is our Vice President, Finance and Chief Financial Officer. Before joining us in January 2005, he was Vice President, Finance for Polycom, Inc. From 1996 to 1999, he served as Executive Vice President and Chief Financial Officer of Salix Pharmaceuticals Ltd. Before joining Salix, Mr. Boyle spent five years with Serono, S.A. in Switzerland and the United States, most recently as Vice President, Finance and Administration for North America.

Mr. Margolin is our Vice President, General Counsel and Secretary. Prior to joining us in 1991, Mr. Margolin was a corporate attorney holding several different executive legal positions for Raychem Corporation, an international high technology company, for 11 years. From 1975 to 1980, he was a division counsel for TRW Inc. and from 1972 to 1975, he was an associate at the law firm of McCutchen, Black, Verleger and Shea in Los Angeles.

PART II

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

Our common shares trade 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 our common shares on the Nasdaq National Market for the periods indicated.

	Price Range	
	High	Low
2006		
First Quarter	$ 2.46	$ 1.57
Second Quarter	2.32	1.59
Third Quarter	1.90	1.60
Fourth Quarter	2.50	1.86
2005		
First Quarter	$ 2.74	$ 1.00
Second Quarter	2.09	0.98
Third Quarter	1.97	1.38
Fourth Quarter	1.94	1.45

On March 5, 2007, there were approximately 2,764 shareholders of record of our common shares, one of which is Cede & Co., a nominee for Depository Trust Company ("DTC"). All of the common shares held by brokerage firms, banks and other financial institutions as nominees for beneficial owners are deposited into participant accounts at DTC and are therefore considered to be held of record by Cede & Co. as one shareholder.

We have not paid dividends on our common shares. We currently intend to retain any earnings for use in the development and expansion of our business. We, therefore, do not anticipate paying cash dividends on our common shares in the foreseeable future (see Note 5, "Share Capital," to the Consolidated Financial Statements.).

In July of 2004, we exercised an option to sell 920,284 shares to Millennium for gross proceeds of $3.7 million or $3.99 per share. In November of 2003, we exercised an option to sell 763,719 shares to Millennium for gross proceeds of $5.4 million or $7.07 per share. In June of 2003, we exercised an option to sell 608,766 shares to Millennium for gross proceeds of $4.0 million or $6.57 per share. In December of 2002, we issued 1,443,418 shares to Millennium for gross proceeds of $7.5 million or $5.20 per share. These sales of common shares to Millennium were exempt from registration under the Securities Act pursuant to Section 4(2) thereof. In October of 2004, the investment agreement with Millennium was terminated and there will be no further issuance of common shares to Millennium under this agreement.

In December of 2003, we issued 2,959 of Series B preferred shares to Genentech in repayment of the $29.6 million outstanding balance under the convertible subordinated debt agreement. These shares are convertible into approximately 3.8 million common shares, which represents a price of $7.75 per share.

In February of 2005, we issued $60.0 million of 6.5% convertible senior notes due in 2012, the proceeds of which are being used for general corporate purposes, including current research and development projects, the development of new products or technologies, equipment acquisitions, general working capital purposes and operating expenses. The notes were initially convertible into approximately 32 million common shares at a conversion rate of 533.4756 of our common shares per $1,000 principal amount of notes, which is equivalent to a conversion price of approximately $1.87 per common share. Before February 6, 2008, we could not have redeemed the notes. On or after February 6, 2008, we could have redeemed any or all of the notes at 100% of the principal amount, plus accrued and unpaid interest, if our common shares traded at 150% of the conversion price then in effect for 20 trading days in a 30 consecutive trading day period. Holders of the notes could have required us to repurchase some or all of the notes for cash at a repurchase price equal to 100% of the principal amount of the notes plus accrued and unpaid interest following a fundamental change. In addition, following certain fundamental changes, we would have increased the conversion rate by a number of additional common shares or, in lieu thereof, we could have, in certain circumstances, elected to adjust the conversion rate and related conversion obligation so that the notes would have been convertible into shares of the acquiring, continuing or surviving company. The convertible senior notes were issued, to the initial purchasers, for net proceeds of $56.6 million. The issuance costs of approximately $3.4 million are being amortized on a straight-line basis over the 84 month life of the notes.

In February of 2006, we completed an exchange offer with holders of our 6.5% convertible senior notes due 2012 in which we exchanged $60.0 million aggregate principal amount of our new 6.5% Convertible SNAPs$_{SM}$ due 2012 (the "New Notes") for all $60.0 million aggregate principal amount of our then outstanding convertible senior notes due 2012. We also issued an additional $12.0 million of New Notes to the public for cash at a public offering price of 104% of principal, or $12.5 million. The New Notes are initially convertible into approximately 38.4 million common shares at a conversion rate of 533.4756 of common shares per $1,000 principal amount of New Notes, which is equivalent to a conversion price of approximately $1.87 per common share. Before February 10, 2010, we may not redeem the New Notes. On or after February 10, 2010, we may redeem any or all of the New Notes at 100% of the principal amount, plus accrued and unpaid interest. In addition, we may automatically convert some or all of the New Notes on or prior to the maturity date if the closing price of our common shares has exceeded 150% of the conversion price then in effect for at least 20 trading days during any

consecutive 30 trading day period ending within five trading days prior to the notice of auto-conversion. If we elect to automatically convert, or if holders elect to voluntarily convert, some or all of the New Notes on or prior to February 10, 2010, we must pay or provide for additional interest equal to four years' worth of interest less any interest paid or provided for, on the principal amount so converted, prior to the date of conversion. Additional interest, if any, shall be paid in cash or, solely at our option and subject to certain limitations, in our common shares valued at the conversion price then in effect.

For the year ended December 31, 2006, $27.5 million of New Notes were converted into 18,262,264 common shares including 3,602,879 shares related to the additional interest payment feature of the notes.

As of March 7, 2007, an additional $42.0 million of our New Notes were converted into 24,223,414 common shares including 1,790,759 shares related to the additional interest payment feature of the notes.

On March 7, 2006, we announced that the conditions necessary for the auto-conversion of the remaining $2.5 million principal outstanding of our convertible debt had been met and that we had elected to notify note holders of our intention to redeem any notes not converted and still outstanding as of March 27, 2007.

The section labeled "Plan-Based Awards" appearing in our proxy statement for the 2007 Annual General Meeting of Shareholders is incorporated herein by reference.

Item 6. Selected Financial Data

The following table contains our selected financial information including statement of operations and balance sheet data for the years 2002 through 2006. The selected financial information has been derived from our audited consolidated financial statements. The selected financial information should be read in conjunction with the consolidated financial statements and notes thereto included in Item 8 of this report and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 7 below. The data set forth below is not necessarily indicative of the results of future operations.

	Year Ended December 31,				
	2006	2005	2004	2003	2002
	(In thousands, except per share amounts)				
Consolidated Statement of Operations Data					
Total revenues	$ 29,498	$ 18,669	$ 3,665	$ 24,412	$ 29,949
Total operating costs and expenses [1]	70,182	54,694	81,761	81,950	62,026
Loss from operations	(40,684)	(36,025)	(78,096)	(57,538)	(32,077)
Other income (expense), net [2]	(11,157)	38,807	(846)	(1,115)	(1,170)
Net income (loss) from operations before income taxes	(51,841)	2,782	(78,942)	(58,653)	(33,247)
Income tax expense	—	3	—	—	—
Net income (loss)	$ (51,841)	$ 2,779	$ (78,942)	$ (58,653)	$ (33,247)
Basic and diluted net income (loss) per common share	$ (0.54)	$ 0.03	$ (0.93)	$ (0.78)	$ (0.47)

	December 31,				
	2006	2005	2004	2003	2002
	(In thousands)				
Balance Sheet Data					
Cash and cash equivalents	$ 28,002	$ 20,804	$ 23,808	$ 84,812	$ 36,262
Short-term investments	18,381	22,732	511	436	391
Restricted cash	4,330	—	—	—	1,500
Current assets	65,888	50,288	26,607	97,234	48,770
Working capital	43,221	33,744	3,004	66,776	30,168
Total assets	91,478	72,577	46,260	118,850	71,782
Current liabilities	22,667	16,544	23,603	30,458	18,602
Long-term liabilities [3]	106,984	76,706	47,267	40,178	64,545
Redeemable convertible preferences shares, at par value [4]	1	1	1	1	—
Accumulated deficit	(727,533)	(675,692)	(678,471)	(599,529)	(540,876)
Total shareholders' equity (net capital deficiency) [5]	(38,173)	(20,673)	(24,610)	48,214	(11,365)

(1) 2002 includes approximately $7.0 million in legal expenses related to our litigation with Biosite Incorporated and certain shareholder litigation. The litigation matters to which these expenses related were settled or otherwise resolved in 2002. 2004, 2003 and 2002, include approximately $16.4 million, $7.5 million and $2.7 million, respectively, of collaboration arrangement expenses related to our collaboration with Genentech on RAPTIVA®. This agreement was amended and, effective January 1, 2005, we no longer incurred these expenses.

(2) 2005 includes a one-time gain of $40.9 million as a result the restructuring of the Genentech agreement in January 2005. 2006 includes interest expense of $6.9 million related to the revaluation of the embedded derivative to fair market value and the payment in common shares, of the additional interest feature, on our convertible debt.

(3) 2005 includes liabilities incurred in connection with our $60.0 million aggregate principal amount of convertible senior notes due 2012. The interest rate and amount of principal are fixed. In February of 2006, we exchanged all of these convertible senior notes for $60.0 million of 6.5% Convertible SNAPs$_{SM}$ due 2012 and issued an additional $12.0 million of 6.5% convertible SNAPs$_{SM}$ to the public for cash. 2006 also includes our $35.0 million term loan completed in November of 2006.

(4) Aggregate liquidation preference of $29.6 million.

(5) Book values per common share for the periods identified in the table are not disclosed because they would have been negative amounts.

Quarterly Results of Operations (Unaudited)

The following is a summary of the quarterly results of operations for the years ended December 31, 2006 and 2005.

	Consolidated Statements of Operations Quarter Ended			
	March 31	June 30	September 30	December 31
	(In thousands, except per share amounts)			
2006				
Total revenues	$ 5,604	$ 7,512	$ 7,355	$ 9,027
Total operating costs and expenses	17,234	16,490	16,860	19,598
Other income (expense), net	(8,973)	3,063	(1,331)	(3,916)
Income tax expense	—	—	—	—
Net loss	$(20,603)	$ (5,915)	$ (10,836)	$ (14,487)
Basic and diluted net loss per common share	$ (0.23)	$ (0.06)	$ (0.11)	$ (0.14)
2005				
Total revenues	$ 2,993	$ 5,159	$ 4,426	$ 6,091
Total operating costs and expenses	13,753	13,256	12,626	15,059
Other income (expense), net	40,840	(447)	(792)	(794)
Income tax expense	—	38	2	(37)
Net income (loss)	$ 30,080	$ (8,582)	$ (8,994)	$ (9,725)
Basic net income (loss) per common share	$ 0.35	$ (0.10)	$ (0.10)	$ (0.11)
Diluted net income (loss) per common share	$ 0.28	$ (0.10)	$ (0.10)	$ (0.11)

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

Overview

We are a biopharmaceutical company that discovers, develops and manufactures antibodies and other genetically-engineered protein products to treat immunological and inflammatory disorders, cancer and infectious diseases.

In the near term, our ability to achieve profitability will be highly dependent on sales levels of RAPTIVA®, which we developed under a collaboration agreement with Genentech, and LUCENTIS® for which Genentech licensed our BCE technology. Genentech is responsible for the manufacturing, marketing and sales effort in support of these products and we are entitled to receive royalties on worldwide sales. RAPTIVA® has been approved in the United States and the European Union for treating patients suffering from moderate-to-severe plaque psoriasis. LUCENTIS® is approved in the United States and Europe and is a treatment for neovascular (wet) age-related macular degeneration. Our near-term profits will also be influenced by our ability to generate

revenues or benefit from cost-sharing arrangements, funded research and development, contract manufacturing or other development activities. We are developing a number of products, both proprietary and under collaboration agreements with other companies and may enter into additional arrangements. Our objective in development collaborations is to leverage our existing development infrastructure to broaden and strengthen our new product pipeline beyond what we can accomplish with proprietary products, thereby diversifying our development risk and gaining financial support from our collaboration partners.

We incurred a net loss in two of the past three years and expect to continue to operate at a loss until sufficient profits are generated from RAPTIVA®, LUCENTIS® and various manufacturing and development arrangements, or until we achieve additional regulatory approvals and commence commercial sales of additional products. The timing and likelihood of additional 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.

Critical Accounting Policies and the Use of Estimates

The accompanying discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements and the related disclosures, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates, assumptions and judgments that affect the reported amounts in our consolidated financial statements and accompanying notes. On an on-going basis, we evaluate our estimates, including those related to terms of research collaborations, investments, share compensation, impairment issues and the estimated useful life of assets and contingencies. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following policies to be the most critical to an understanding of our financial condition and results of operations because they require us to make estimates, assumptions and judgments about matters that are inherently uncertain.

Revenue Recognition

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

We recognize revenue from license and collaboration arrangements, contract services, product sales and royalties. Our revenue arrangements with multiple elements are divided into separate units of accounting, if certain criteria are met, including whether the delivered element has stand-alone value to the customer and whether there is objective and reliable evidence of the fair value of the undelivered items. The consideration we receive is allocated among the separate units based on their respective fair values and the applicable revenue recognition criteria are applied to each of the separate units. Advance payments received in excess of amounts earned are classified as deferred revenue until earned.

License and Collaborative Fees

Revenue from non-refundable license or technology access payments under license and collaborative agreements where we have a continuing obligation to perform is recognized as revenue over the expected period of the continuing performance obligation. We estimate the performance period at the inception of the arrangement and reevaluate it each reporting period. This reevaluation may shorten or lengthen the period over which the remaining revenue is recognized.

Milestone payments under collaborative arrangements are recognized as revenue upon completion of the milestone events, which represent the culmination of the earnings process because we have no future performance obligations related to the payment. Milestone payments that require a continuing performance obligation on our part are recognized over the expected period of the continuing performance obligation. Amounts received in advance are recorded as deferred revenue until the related milestone is completed. Allowances are established for estimated uncollectible amounts, if any.

Contract Revenue

Contract revenue for research and development involves our providing research and development for manufacturing processes to collaborative partners or others. Revenues for certain contracts are accounted for by a proportional performance, or output based, method where performance is based on agreed progress toward elements defined in the contract. We recognize revenue under these arrangements as the related research and development costs are incurred and collectibility is reasonably assured. Any cumulative impact of a change in an estimate of a contract revenue or cost is recorded in the period in which the change becomes known.

Royalty Revenue

Royalty revenue and royalty receivables are generally recorded in the periods these royalties are earned, in advance of collection. The royalty revenue and receivables in these instances are based upon communication with collaborative partners, historical information and forecasted sales trends. Under some of our agreements with licensees that include receipt of royalty revenue, we do not have sufficient historical information to estimate royalty revenues or receivables in the period that these royalties are earned. For these contracts, we record royalty revenue upon cash receipt.

Research and Development Expenses

We expense research and development expense as incurred. Research and development expenses consist of direct and research-related allocated overhead costs such as facilities costs, salaries and related personnel costs, patent costs and material and supply costs. In addition, research and development expenses include costs related to clinical trials to validate our testing processes and procedures and related overhead expenses. Under cost sharing arrangements with collaborative partners, differences between our actual research and development spending and our share of such spending under the collaboration agreement will also be included as a cost sharing adjustment in our research and development expense. Expenses resulting from clinical trials are recorded when incurred based in part on estimates as to the status of the various trials. From time to time, research and development expenses may include upfront fees and milestones paid to collaborative partners for the purchase of rights to in-process research and development. Such amounts are expensed as incurred. The timing of upfront fees and milestone payments in the future may cause variability in our future research and development expenses.

Long-Lived Assets

In accordance with Financial Accounting Standards Board (“FASB”) Statement No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets” which superseded FASB Statement No. 121, “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of,” we record impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets.

Share Based Compensation

On January 1, 2006, we adopted SFAS 123R, which requires the measurement and recognition of compensation expense for all share-based payment awards made to our employees and directors, including

employee share options and employee share purchases related to the Employee Share Purchase Plan, on estimated fair values. We are using the modified prospective method. Under this method, we are required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding at the date of adoption. To estimate the value of an award, we use the Black-Scholes option pricing model. This model requires inputs such as expected life, expected volatility and risk-free interest rate. Further, the forfeiture rate also impacts the amount of aggregate compensation. These inputs are subjective and generally require significant analysis and judgment to develop. While estimates of expected life, volatility and forfeiture rate are derived primarily from our historical data, the risk-free rate is based on the yield available on United States Treasury zero-coupon issues. We review our valuation assumptions quarterly and, as a result, it is likely we will change our valuation assumptions used to value share based awards granted in future periods.

Results of Operations

Revenues

Total revenues in 2006 were $29.5 million, compared with $18.7 million in 2005 and $3.7 million in 2004.

License and collaborative fees revenues in 2006 were $2.8 million, compared with $5.1 million in 2005 and $3.6 million in 2004. These revenues include upfront and milestone payments related to the outlicensing of our products and technologies and other collaborative arrangements. The $2.3 million decrease for the 2006 compared with 2005 and the $1.5 million increase in 2005 compared with 2004 was primarily related to an outlicensing agreement with Merck & Co., Inc. which we recognized in 2005.

Contract and other revenues were $16.3 million in 2006, as compared with $7.4 million in 2005 and zero in 2004. The increase of $8.9 million for 2006, partially resulted from contracts entered into in 2006 with SPRI, Taligen, Cubist, AVEO and, to a lesser extent, other 2006 contracts but was primarily caused by contract manufacturing process services performed under our contracts with NIAID entered into in March of 2005 and July of 2006. The increase from these contracts was partially offset by a reduction in clinical trial services performed on behalf of Genentech and Novartis in 2005.

The March 2005 NIAID contract work was being performed over an eighteen month period. We recognized revenue over the life of the contract as the services were performed on a proportional performance basis and, as per the terms of the contract, a 10% retention on all revenue was being deferred and classified as a receivable until final acceptance of the contract which was achieved in October of 2006. During 2006 and 2005, respectively, we recorded revenues of $9.8 million and $5.2 million from this contract. The July 2006 NIAID contract work is being performed on a cost plus fixed fee basis, per the terms of the contract, over a three year period. We are recognizing revenue as the services are performed on a proportional performance basis.

We defer revenue until all requirements under our revenue recognition policy are met. In 2006, we deferred $26.6 million of revenue from eight contracts including SPRI, NIAID, Takeda and Taligen and recognized $16.1 million in revenue from the eight contracts in addition to the amortization of the $10.0 million in upfront payments received from Novartis for our February 2004 oncology collaboration contract. The Novartis payments are being recognized as revenue over the five year expected term of the agreement. The 2005 $8.3 million beginning balance is the unamortized balance on the Novartis contract, the $1.5 million of revenue deferred relates to NIAID and the $2.0 million of revenue recognized is the Novartis amortization. The 2004 activity relates to the $10.0 million in upfront payments received from Novartis.

The following table shows the activity in deferred revenue for the years ended December 31, 2006, 2005 and 2004, (in thousands):

	Year ended December 31,		
	2006	2005	2004
Beginning deferred revenue	$ 7,860	$ 8,333	$ 90
Revenue deferred	26,605	1,527	10,000
Revenue recognized	(16,096)	(2,000)	(1,757)
Ending deferred revenue	$ 18,369	$ 7,860	$ 8,333

The $18.4 million balance in deferred revenue at December 31, 2006, is expected to be recognized as revenue over the next four years. Future amounts may also be impacted by additional consideration received, if any, under existing or any future licensing or other collaborative arrangements.

Revenues from royalties were $10.3 million in 2006, as compared with $6.2 million in 2005 and $0.1 million in 2004. The increase in royalty revenues from 2004 through 2006 resulted primarily from an increase in RAPTIVA® royalties and the inception of LUCENTIS® royalties, in June of 2006, earned under our royalty arrangements with Genentech.

Revenues for 2007 are expected to continue to increase as a result of royalties generated by worldwide sales of RAPTIVA® and LUCENTIS®, the expected inception of CIMZIA™ royalties and our existing and additional antibody discovery, manufacturing service and license arrangements.

Research and Development Expenses

Generally speaking, biopharmaceutical development includes a series of steps, including*in vitro* and *in vivo* preclinical testing, and Phase I, II and III clinical studies in humans. Each of these steps is typically more expensive than the previous step, but actual timing and the cost to us depends on the product being tested, the nature of the potential disease indication and the terms of any collaborative arrangements with other companies. After successful conclusion of all of these steps, regulatory filings for approval to market the products must be completed, including approval of manufacturing processes and facilities for the product. Our research and development expenses currently include costs of personnel, supplies, facilities and equipment, consultants, patent expenses and third party costs related to preclinical and clinical testing.

In 2006, our research and development expenses were $52.1 million, compared with $39.9 million in 2005 and $49.8 million in 2004.

The $12.2 million increase in 2006 compared with 2005 primarily reflects increases in spending on our contracts with NIAID, Taligen and AVEO, our development of XOMA 052 and NEUPREX®, and our collaborations with SPRI and Lexicon, partially offset by decreased spending on our collaboration agreements with Novartis, Genentech, Aphton and Millennium, our development of XOMA 629 and the termination of our agreement with Cubist. In addition, during 2006, we recorded $0.5 million of share-based compensation expense. No share based compensation expense was recorded in 2005.

The $9.9 million decrease in 2005 compared with 2004 primarily reflects reduced spending on MLN2222 due to the discontinuation of the Millennium collaboration announced in October 2004, reduced spending on TPO Mimetic due to the termination of the Alexion collaboration in the second quarter of 2005, reduced spending on RAPTIVA® following the restructuring of our collaboration arrangement with Genentech in January 2005, as well as reduced spending on XMP.629 and other proprietary new product developments through the year. These reductions were partially offset by increased spending on our collaboration agreements with Novartis, Aphton and Lexicon, our research and development work for NIAID, and our internal development of XOMA 052.

During 2005, we completed an annual review of leasehold improvements. Based on our review, we decided to abandon our plan to add a fermentation unit to our existing research and development facility. As certain leasehold improvements related to this project no longer prolonged the life of the related building nor enhanced its functional use, we expensed approximately $0.6 million to depreciation expense for research and development in December 2005.

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

	Year ended December 31,		
	2006	2005	2004
Earlier stage programs	$ 41,548	$ 30,113	$ 31,746
Later stage programs	10,546	9,783	18,038
Total	$ 52,094	$ 39,896	$ 49,784

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

	Year ended December 31,		
	2006	2005	2004
Internal projects	$ 32,033	$ 23,285	$ 29,829
Collaborative arrangements	20,061	16,611	19,955
Total	$ 52,094	$ 39,896	$ 49,784

In 2006, three development programs (Novartis, NIAID and XOMA 052) each individually accounted for more than 10% but less than 20%, and no development program accounted for more than 20% of our total research and development expenses. In 2005, one development program (Novartis) accounted for more than 30% but less than 40% and no development program accounted for more than 40% of our total research and development expenses. In 2004, two development programs (XMP.629 and MLN2222) each individually accounted for more than 10% but less than 20% and no development program accounted for more than 20% of our total research and development expenses.

We currently anticipate that research and development expenses will continue to increase in 2007 as compared with 2006. We expect our spending on our oncology collaboration with Novartis and Lexicon to continue as well as increases in spending on our collaborations with SPRI and Takeda, our contracts with NIAID, Taligen and AVEO, our development of XOMA 052, NEUPREX® and XOMA 629 and other new projects. Future research and development spending may also be impacted by potential new licensing or collaboration arrangements, as well as the termination of existing agreements. Beyond this, the scope and magnitude of future research and development expenses are difficult to predict at this time.

General and Administrative Expenses

General and administrative expenses include salaries and related personnel costs, facilities costs and professional fees. In 2006, general and administrative expenses were $18.1 million compared with $14.8 million in 2005 and $15.6 million in 2004.

The increase of $3.3 million for 2006 compared with 2005 resulted primarily from increased employee related costs, principally from additional legal and business development staffing, debt issuance expenses related

to our February 2006 convertible debt, and increased legal, audit and other consulting fees. In addition, during 2006, we recorded $0.5 million of share-based compensation expense. No share-based compensation expense was recorded in 2005.

The decrease of $0.8 million in 2005 compared with 2004 resulted from lower accounting fees related to the first year implementation of Sarbanes-Oxley in 2004, partially offset by fees related to our convertible debt exchange which was completed in 2006.

We anticipate that general and administrative expenses will remain flat in 2007 as a result of a reduction in outside professional fees offset by an increase in salaries and other personnel-related costs.

Collaborative Arrangement Expenses

Collaborative arrangement expenses, which related exclusively to RAPTIVA®, were zero in 2006 and 2005. In 2004, collaborative arrangement expenses were $16.4 million which reflects our 25% share of commercialization costs for RAPTIVA® in excess of Genentech's revenues less cost of goods sold, research and development cost sharing adjustments and royalties on sales outside the United States. Because of the restructuring of our arrangement with Genentech, which was effective January 1, 2005, we are no longer responsible for a share of operating costs or research and development expenses, but rather we are entitled to receive royalties on RAPTIVA®'s worldwide sales. Genentech is responsible for all development costs and, to the extent that we provide further clinical trial support or other development services for RAPTIVA®, we will be compensated by Genentech. The 2004 collaborative arrangement expenses are as follow (in thousands):

	2004
Net collaborative loss before R&D expense	$ (15,812)
R&D co-development charge	(758)
Royalties from international sales	197
Total collaboration arrangement expenses	$ (16,373)

In addition to the amounts shown in the above table, we incurred research and development expenses on RAPTIVA® of zero, $1.0 million and $3.9 million in 2006, 2005 and 2004, respectively.

Investment and Interest Income

In 2006, investment and interest income was $1.7 million compared with $1.9 million in 2005 and $0.5 million in 2004. Investment and interest income consists primarily of interest earned on our cash and investment balances. The decrease in 2006 compared with 2005 resulted from lower average cash balances partially offset by higher interest rates. The increase in 2005 compared with 2004 resulted from higher average cash balances due to the $60.0 million raised in a debt financing at the beginning of 2005, as well as higher interest rates and realized gains on sale of equity investments during the year. Investment and interest income is expected to decrease in 2007 due to lower cash investment balances.

We review our investments for other-than-temporary impairment whenever the value of the investment is less than the amortized cost. As of December 31, 2006, five investments with an aggregate fair value of approximately $3.8 million, had aggregate unrealized losses of $11,000, compared with 18 investments with an aggregate fair value of approximately $14.5 million with aggregate unrealized losses of $69,000 at December 31, 2005. The unrealized losses were recorded in other comprehensive income. All such investments have been or were in an unrealized loss position for, and have holding periods of, less than twelve months. We have not previously sold similar investments at a loss, and we currently have the financial ability to hold short-term investments with an unrealized loss until maturity and not incur any recognized losses. As a result, we do not believe any unrealized losses represent an other-than-temporary impairment.

Interest Expense

In 2006, interest expense was $12.9 million compared with $4.3 million in 2005 and $1.2 million in 2004. Interest expense for 2006, consists of $6.9 million from the revaluation, to fair market value, of the embedded derivative on our convertible debt, including $4.8 million related to shares paid for the additional interest feature on converted debt, $3.4 million of interest expense payable on our convertible debt, $1.0 million in net amortization of debt issuance costs, discount and premium on our convertible debt, $0.5 million of interest payable on our term loan, $42,000 in amortization of debt issuance costs on our term loan and $1.0 million of interest payable on our note with Novartis. Interest expense for 2005 consisted of $3.5 million of interest on our convertible debt, $0.5 million in amortization of debt issuance costs on our convertible debt and $0.3 million of interest payable on our note with Novartis. Interest expense for 2004 consisted primarily of interest on the convertible notes due to Genentech and Millennium. Interest expense is expected to slightly decrease in 2007 as a result of the conversion of our convertible debt partially offset by increased interest on our term loan and Novartis loan facility.

Other Income (Expense)

In 2006, other income (expense) was $0.1 million compared with $41.2 million in 2005 and $(0.1) million in 2004. The 2005 income amount primarily reflects a one-time gain of $40.9 million as a result of the restructuring of the Genentech agreement in January of 2005.

Income Taxes

We have recorded cumulative net deferred tax assets of $163.3 million and $157.4 million at December 31, 2006 and 2005, respectively, principally attributable to the timing of the deduction of certain expenses associated with certain research and development expenses, net operating loss and other carryforwards. We also recorded corresponding valuation allowances of $163.3 million and $157.4 million at December 31, 2006 and 2005, respectively, to offset these deferred tax assets, as management cannot predict with reasonable certainty that the deferred tax assets to which the valuation allowance relates will be realized.

As of December 31, 2006, we had federal net operating loss carryforwards of approximately $173.5 million to offset future taxable income. We also had federal research and development tax credit carryforwards of approximately $11.3 million. If not utilized, these carryforwards will begin to expire in 2006. The availability of our net operating loss and tax credit carryforwards may be subject to substantial limitation if it is determined that our ownership has changed by more than 50% over a three year period.

In 2006, income tax expense was zero compared with $3,000 in 2005 and zero in 2004, the expense in 2005 is related to activities of our foreign operations.

Accounting for Share-Based Compensation

Prior to the adoption of Financial Accounting Standards No. 123 (revised 2004), “Share-Based Payment” (“SFAS 123R”) on January, 1, 2006, we accounted for our share-based compensation plans under the intrinsic value method described in Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees,” (“APB 25”) and related Interpretations as permitted by Financial Accounting Standards No. 123, “Accounting for Stock-Based Compensation” (“SFAS 123”), as amended by Financial Accounting Standards No. 148, “Accounting for Stock-Based Compensation—Transition and Disclosure” (“SFAS 148”). In general, as the exercise price of the options granted under our plans was equal to the market price of the underlying common shares on the grant date, no share-based employee compensation cost was recognized. As required by SFAS 148 prior to the adoption of SFAS 123R, we provided pro forma net income (loss) and pro forma net income (loss) per common share disclosures for share-based awards, as if SFAS 123 had been applied.

SFAS 123R requires all share based payments to be recognized in the financial statements based on their fair values. We are using the modified prospective method. Under this method, compensation cost recognized during the year ended December 31, 2006, includes compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123 amortized on a graded vesting basis over the options' vesting period, and compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R amortized on a straight-line basis over the options' vesting period. We elected to use the modified prospective transition method as permitted by SFAS 123R and, therefore, have not restated our financial results for prior periods to reflect expensing of share-based compensation. As a result, the results for the year ended December 31, 2006, are not comparable to the years ended December 31, 2005 and 2004.

In November of 2005, the FASB issued FASB Staff Position FAS 123(R)-3, "Transition Election Related to Accounting for the Tax Effects of Share Base Payment Awards," which allowed a one-time election to adopt one of two acceptable methodologies for calculating the initial additional paid-in capital pool ("APIC pool"). We elected the "short-cut" method to establish our APIC pool required under FAS 123(R) for the year ended December 31, 2006. In subsequent periods, the APIC pool will be increased by tax benefits from share-based compensation and decreased by tax deficiencies caused when the recorded share-based compensation for book purposes exceeds the allowable tax deduction.

Prior to the adoption of SFAS 123R, our Board of Directors approved the acceleration of vesting of all outstanding employee share options with an exercise price greater than $3.00 per share. Because the exercise price of all the accelerated options exceeded the market price per share of the common shares as of the new measurement date, the acceleration had no impact on our earnings in 2005. Since the accelerated options had exercise prices in excess of the current market value of our common shares, the options had limited economic value and were not fully achieving their original objective of incentive compensation and employee retention. The modification allows expense recognized after the adoption of SFAS 123R to better reflect our compensation strategies.

During the year ended December 31, 2006, we recognized $1.0 million in share-based compensation expense. At December 31, 2006, there was $1.2 million of unrecognized share-based compensation expense related to unvested shares with a weighted average remaining recognition period of 2.6 years.

Liquidity and Capital Resources

Cash, cash equivalents and short-term investments at December 31, 2006, was $46.4 million compared with $43.5 million at December 31, 2005. This $2.9 million increase reflects cash used in operations of $33.3 million, cash used in the purchase of fixed assets of $8.5 million and cash transferred to restricted cash of $4.3 million more than offset by cash provided by financing activities of $48.9, primarily from our term loan financing of $35.0 million and $12.5 million in New Notes issued for cash in our convertible debt exchange.

Net cash used in operating activities was $33.3 million in 2006 compared with $44.2 million in 2005 and $44.8 million in 2004.

Cash used in operations for 2006, consisted of a net loss of $51.8 million with non-cash addbacks for the revaluation of our embedded derivative of $6.9 million, depreciation and amortization of $6.2 million, equity related compensation of $2.1 million and accrued interest of $1.2 million along with a net increase in liabilities of $10.4 million partially offset by an increase in assets of $8.2 million. During 2006, we made payments of $2.7 million for debt issuance costs on our convertible debt of which $2.0 million related to cash used in operations, $3.8 million for interest on our convertible debt and $1.1 million for our Management Incentive Compensation Program ("MICP").

Cash used in operations for 2005, consisted of a net income of $2.8 million with non-cash deductions of $40.9 million for a gain on the extinguishment of our debt with Genentech and a $0.3 million gain on a sale of investments along with a net increase in assets of $4.2 million and a net decrease in liabilities of $10.4 million partially offset by non-cash addbacks for depreciation and amortization of $5.8 million, equity related compensation of $1.4 million and accrued interest of $1.7 million. During 2005, we made payments of $4.0 million on our Genentech collaboration liability, $1.9 million for interest on our convertible debt and $1.3 million for our MICP.

Cash used in operations for 2004, consisted of a net loss of $78.9 million with non-cash addbacks for depreciation and amortization of $4.6 million, equity related compensation of $0.9 million and accrued interest of $0.6 million along with a net decrease in assets of $9.6 million and a net increase in liabilities of $18.3 million. During 2004, we made payments of $7.3 million on our Genentech collaboration liability and $1.0 million for our MICP.

Net cash used in investing activities for 2006, 2005 and 2004 was $8.4 million, $27.4 million and $2.6 million, respectively. Cash used investing activities consisted of purchases of property and equipment of $8.5 million, $4.8 million and $2.6 million and net purchases of short-term investments of $(4.4) million, $22.5 million and $(5,000) for 2006, 2005 and 2004, respectively. In addition, $4.3 million was transferred to restricted cash in 2006.

Net cash provided by (used in) financing activities in 2006, 2005 and 2004 was $48.9 million, $68.6 million and $(13.5) million, respectively. Financing activities in 2006, consisted of $35.0 million from our term loan, offset by $1.5 million in debt issuance costs, $12.5 million in proceeds from the issuance of convertible notes, offset by $0.5 million in debt issuance costs, a $3.0 million advance on our line-of-credit with Novartis and $0.4 million in proceeds from the issuance of common shares. Financing activities in 2005, consisted of an issuance of $60.0 million of convertible senior notes for net proceeds of $56.4 million, a $12.4 million drawdown on our Novartis loan facility and $0.2 million in proceeds from the issuance of common shares partially offset with principal payments on capital lease obligations of $0.2 million and payments of short-term loan obligations of $0.1 million. Financing activities in 2004 consisted of a $13.2 million payment to retire our short-term loan obligation to Genentech, a $5.0 million payment of our convertible debt to Millennium, $0.6 million for principal payments on capital lease obligations and $0.4 million for principal payments on a short-term loan partially offset by $3.7 million in proceeds from common shares sold under our investment agreement with Millennium, $1.4 million in proceeds from the sale of common shares through share option exercises and the employee share purchase plan and $0.5 million in proceeds from a short-term note.

On November 9, 2006, XOMA (US) LLC entered into a five-year, $35.0 million term loan facility ("the facility") with Goldman Sachs and borrowed the full amount thereunder. The loan is guaranteed by XOMA. Indebtedness under the facility will bear interest at an annual rate equal to six-month LIBOR plus 5.25%, which was 10.637% at December 31, 2006, and is secured by all rights to receive payments due XOMA (US) LLC relating to RAPTIVA®, LUCENTIS® and CIMZIA™ and other assets. Payments received by XOMA (US) LLC in respect of these payment rights, in addition to a standing reserve of the next semi-annual interest payment, will be held in a custodial account which is classified as restricted cash. This cash account and the interest earned thereon can be used solely for the payment of the interest amounts in March and September of each year and, at that time, amounts in excess of the interest reserve requirement may be used to pay down principal or be distributed back to us, at the discretion of the lender. XOMA (US) LLC may prepay indebtedness under the facility at any time, subject to certain prepayment premiums. XOMA (US) LLC is required to comply with a debt covenant determined by the ratio of royalties collected to interest payable. Proceeds from the loan will be used for general corporate purposes.

At December 31, 2006, the outstanding principal amount under this loan totaled $35.0 million and the balance in restricted cash was $4.3 million. Debt issuance costs of $1.5 are being amortized on a straight-line basis over the five year life of the loan and are disclosed as current and long-term debt issuance costs on the balance sheet. In 2006, we incurred interest expense payable of $0.5 million and amortization of debt issuance costs of $42,000.

In February of 2005, we issued $60.0 million of 6.5% convertible senior notes due in 2012, the proceeds of which are being used for general corporate purposes, including current research and development projects, the development of new products or technologies, equipment acquisitions, general working capital purposes and operating expenses. The notes were initially convertible into approximately 32 million common shares at a conversion rate of 533.4756 of our common shares per $1,000 principal amount of notes, which is equivalent to a conversion price of approximately $1.87 per common share. The convertible senior notes were issued, to the initial purchasers, for net proceeds of $56.6 million. The issuance costs of approximately $3.4 million are being amortized on a straight-line basis over the 84 month life of the notes, and are disclosed as current and long-term debt issuance costs on the balance sheet.

In February of 2006, we completed an exchange offer with holders of our 6.5% convertible senior notes due 2012 in which we exchanged $60.0 million aggregate principal amount of our new 6.5% Convertible SNAPs$_{SM}$ due 2012 (the "New Notes") for all $60.0 million aggregate principal amount of our then outstanding convertible senior notes due 2012. We also issued an additional $12.0 million of New Notes to the public for cash at a public offering price of 104% of principal, or $12.5 million. The New Notes are initially convertible into approximately 38.4 million common shares at a conversion rate of 533.4756 of common shares per $1,000 principal amount of New Notes, which is equivalent to a conversion price of approximately $1.87 per common share. Before February 10, 2010, we may not redeem the New Notes. On or after February 10, 2010, we may redeem any or all of the New Notes at 100% of the principal amount, plus accrued and unpaid interest. In addition, we may automatically convert some or all of the New Notes on or prior to the maturity date if the closing price of our common shares has exceeded 150% of the conversion price then in effect for at least 20 trading days during any consecutive 30 trading day period ending within five trading days prior to the notice of auto-conversion. If we elect to automatically convert, or if holders elect to voluntarily convert, some or all of the New Notes on or prior to February 10, 2010, we must pay or provide for additional interest equal to four years' worth of interest less any interest paid or provided for, on the principal amount so converted, prior to the date of conversion. Additional interest, if any, shall be paid in cash or, solely at our option and subject to certain limitations, in our common shares valued at the conversion price then in effect.

In accounting for the New Notes, we applied guidance as set forth in EITF 96-19, Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended ("SFAS 133"), EITF 05-7, EITF 00-19, and EITF 01-6 as follows. The exchange offer is a modification of existing debt, rather than an extinguishment. The additional interest payment upon conversion is an embedded derivative requiring separate accounting. We considered the provisions of EITF 05-2 and concluded that this is not conventional convertible debt.

In accordance with SFAS 133, we have separately accounted for the additional interest payment feature of the New Notes as an embedded derivative instrument, which is measured at fair value and classified on the balance sheet with the convertible debt. Changes in the fair value of the embedded derivative are recognized in earnings as a component of other income (expense). At the time of issuance, we estimated the fair value of the additional interest payment feature to be $5.8 million, including approximately $1.0 million related to the New Notes issued for cash, based on current information including share price. For the New Notes issued in the exchange offer and in the new money offering, this amount was subtracted from the carrying value of the debt, reflected as a debt discount, which is amortized as interest expense using the effective interest method through the date the notes are scheduled to mature, and separately reported as a derivative liability.

The additional New Notes were issued, to the initial purchasers, for net proceeds of $11.8 million. Debt issuance costs related to the New Notes of approximately $0.7 million are being amortized on a straight-line basis over the 72 month life of the notes. Additional debt issuance costs of $2.0 million, related to the modification of the existing debt, were expensed as incurred with $1.1 million and $0.9 million expensed during 2006 and 2005, respectively.

For the year ended December 31, 2006, $27.5 million of New Notes were converted into 18,262,264 common shares including 3,602,879 shares related to the additional interest payment feature of the notes. As of

December 31, 2006, we have elected to pay all additional interest owed in common shares. We recorded a $6.9 million charge to interest expense during the year ended December 31, 2006, as a result of an increase in the fair value of the embedded derivative on our convertible debt including $4.8 million related to the additional interest feature of the converted notes. The remaining principal of $44.5 million is convertible into 23,750,873 common shares and 1,889,317 common shares remain available for payment of the additional interest feature.

For the years ended December 31, 2006 and 2005, we incurred $3.4 million and $3.5 million, respectively, in interest expense payable on our convertible debt. Interest expense is payable on a semi-annual basis. Additionally, we amortized a net of $1.0 million in debt issuance costs, premium and discount for the year ended December 31, 2006, and $0.5 million in debt issuance costs for the year ended December 31, 2005. See "Subsequent Events" at the end of this section for an update on our convertible debt.

In May of 2005, we executed a secured note agreement with Novartis. Under the note agreement, Novartis agreed to make semi-annual loans to us, to fund up to 75% of our research and development and commercialization costs under the collaboration arrangement, not to exceed $50.0 million in an aggregate principal amount. Any unpaid principal amount together with accrued and unpaid interest shall be due and payable in full on June 21, 2015, the tenth anniversary date of the advance date on which the first loan was made. Interest on the unpaid balance of the principal amount of each loan shall accrue at a floating rate per annum which was equal to 7.37% at December 31, 2006, and is payable semi-annually in June and December of each year. At our election, the semi-annual interest payments can be added to the outstanding principal amount, in lieu of a cash payment, as long as the aggregate principal amount does not exceed $50.0 million. Loans under the note agreement are secured by our interest in the collaboration with Novartis, including our share of any profits arising therefrom. At December 31, 2006, the outstanding principal balance under this note agreement totaled $16.4 million and for the years ended December 31, 2006, and 2005, we incurred and capitalized interest expense of $1.0 million and $0.3 million, respectively.

Payments by period due under contractual obligations at December 31, 2006, mature as follows (in thousands):

Contractual Obligations	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Operating leases	$ 12,236	$ 3,251	$ 3,319	$ 2,638	$ 3,028
Debt Obligations[a]					
Principal	95,914	—	—	35,000	60,914
Interest	45,176	7,459	15,818	16,200	5,699
Total	$153,326	$ 10,710	$ 19,137	$ 53,838	$ 69,641

(a) See "Item 7A—Quantitative and Qualitative Disclosures about Market Risk" and "Convertible Notes and Other Arrangements" footnote for further discussion of our debt obligations.

In addition to the above, we have committed to make potential future "milestone" payments to third parties as part of licensing and development programs. Payments under these agreements generally become due and payable only upon the achievement of certain developmental, regulatory and/or commercial milestones. Because it is uncertain if and when these milestones will be achieved, such contingencies have not been recorded on our consolidated balance sheet.

Other than the convertible senior notes, the term loan, the Novartis note and the operating lease obligations stated in the table above, we had no other long-term obligations as of December 31, 2006, nor any purchase obligations, as defined in Item 303(a)(5) of Regulation S-K since all of our outstanding purchase obligations are cancelable.

The present outlook is for lower losses in 2007 as compared with 2006. Our strategy is to attempt to continue broadening our product pipeline through internal development, additional collaborations such as our

arrangements with Lexicon, Novartis, SPRI and Takeda and additional government and other external contracts such as those with NIAID, AVEO and Taligen; and to increase revenues or benefits from cost sharing arrangements which take advantage of our manufacturing and development capabilities.

We expect our cash, cash equivalents and short-term investments to decrease during 2007 as a result of the use of cash to fund ongoing operations and capital investments. Additional licensing and antibody discovery collaboration agreements may positively impact our cash balances.

Based on current spending levels, anticipated revenues, collaborator funding, proceeds from our convertible note offerings in February of 2005 and February of 2006, our November 2006 term loan and other sources of funding we believe to be available, we estimate that we have sufficient cash resources to meet our anticipated net cash needs through at least 2008. Any significant revenue shortfalls, increases in planned spending on development programs or more rapid progress of development programs than anticipated, as well as the unavailability of anticipated sources of funding, could shorten this period. Progress or setbacks by potentially competing products may also affect our ability to raise new funding on acceptable terms. For a further discussion of the risks related to our business and their effects on our cash flow and ability to raise new funding on acceptable terms, see “Risk Factors” included in Item 1A.

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

Recent Accounting Pronouncements

In July of 2006, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (“FIN 48”), an interpretation of FASB Statement No. 109, “Accounting for Income Taxes” (“FAS 109”). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with FAS 109 and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 will be effective beginning with the first annual period after December 15, 2006. We are still evaluating what impact, if any, the adoption of this standard will have on our financial position or results of operations.

In September of 2006, the FASB issued Statement of Financial Accounting Standards No. 157, “Fair Value Measurements” (“SFAS 157”). SFAS 157 provides guidance for using fair value to measure assets and liabilities and responds to investors’ request for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value and the effect of fair value measurements on earnings. SFAS 157 applies whenever other standards require or permit assets or liabilities to be measured at fair value and does not expand the use of fair value in any new circumstances. SFAS will be effective beginning with the first annual period after November 15, 2007. We are still evaluating what impact, if any, the adoption of this standard will have on our financial position or results of operations.

Subsequent Events

On February 26, 2007, Jack Castello, Chairman of the Board, President and Chief Executive Officer of XOMA, announced his plans to retire. Mr. Castello will continue to serve in his present capacities during the candidate search and transition period.

On February 28, 2007, we announced that pursuant to the terms of our collaboration agreement with Novartis, the parties’ mutual obligations to conduct antibody discovery, development and commercialization

work together on an exclusive basis in oncology have expired, except with respect to existing collaboration projects which have reached the development stage. Unamortized deferred revenue of $4.3 million, at December 31, 2006, associated with the upfront collaboration fee of $10.0 million will be recognized during the first quarter of 2007. Prior to the expiration of the exclusivity period, the upfront fee was being amortized over the expected five-year term of the exclusivity provision, or at a rate of $0.5 million a quarter. All other terms of the collaboration remain in effect.

On February 28, 2007, in conjunction with Takeda, we announced that we had amended our existing collaboration agreement to increase the number of potential therapeutic antibody programs in oncology under our collaboration initiated in November of 2006.

As of March 7, 2007, an additional $42.0 million of our New Notes were converted into 24,223,414 common shares, including 1,790,759 shares related to the additional interest payment feature of the notes. As a result of the limitation on shares available to satisfy the additional interest feature, we also paid $4.9 million of additional interest in cash. At the time of the note conversions, we recorded a $5.8 million charge to interest expense as a result of the revaluation to fair value of the embedded derivative related to the additional interest feature of the notes. The remaining outstanding principal amount of the notes of $2.5 million is convertible into 1,416,776 common shares with 98,558 shares available to pay the additional interest feature.

On March 7, 2006, we announced that the conditions necessary for the auto-conversion of the remaining $2.5 million principal outstanding of our convertible debt had been met and that we had elected to notify note holders of our intention to redeem any notes not converted and still outstanding as of March 27, 2007.

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

Certain statements contained herein related to the sufficiency of our cash resources, levels of future revenues, losses, expenses and cash, future sales of approved products, as well as other statements related to current plans for product development and existing and potential collaborative and licensing relationships, or that otherwise relate to future periods, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements are based on assumptions that may not prove accurate. Actual results could differ materially from those anticipated due to certain risks inherent in the biotechnology industry and for companies engaged in the development of new products in a regulated market. Among other things, the period for which our cash resources are sufficient could be shortened if expenditures are made earlier or in larger amounts than anticipated or are unanticipated, if anticipated revenues or cost sharing arrangements do not materialize, if funds are not otherwise available on acceptable terms; revenue levels may be other than as expected if sales of approved products are lower than expected; losses may be other than as expected for any of the reasons affecting revenues and expenses; expense levels and cash utilization may be other than as expected due to unanticipated changes in our research and development programs; and the sales efforts for approved products may not be successful if the parties responsible for marketing and sales fail to meet their commercialization goals, due to the strength of the competition, if physicians do not adopt the product as treatment for their patients or if remaining regulatory approvals are not obtained. These and other risks, including those related to the results of pre-clinical testing; the timing or results of pending and future clinical trials (including the design and progress of clinical trials; safety and efficacy of the products being tested; action, inaction or delay by the FDA, European or other regulators or their advisory bodies; and analysis or interpretation by, or submission to, these entities or others of scientific data); changes in the status of existing collaborative relationships; the ability of collaborators and other partners to meet their obligations; our ability to meet the demand of the United States government agency with which we have entered our first government contract; competition; market demands for products; scale-up and marketing capabilities; availability of additional licensing or collaboration opportunities; international operations; share price volatility; our financing needs and opportunities; uncertainties regarding the status of biotechnology patents; uncertainties as to the costs of protecting intellectual property; and risks associated with our status as a Bermuda company, are described in more detail in “Item 1A—Risk Factors”.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

Our exposure to market rate risk for changes in interest rates relates primarily to our investment portfolio and our loan facility. By policy, we make our investments in high quality debt securities, limit the amount of credit exposure to any one issuer, limit duration by restricting the term of the instrument and hold investments to maturity except under rare circumstances. We do not invest in derivative financial instruments.

In November of 2006, we entered into a five-year senior term loan facility in the aggregate amount of $35.0 million with the principal due at maturity. Interest on the facility will be at a rate of USD six month LIBOR plus 5.25%, which was 10.637% at December 31, 2006.

In February of 2005, we issued $60.0 million of 6.5% convertible senior notes due 2012. In February of 2006, we completed an exchange offer for all $60.0 million of our 6.5% convertible senior notes due 2012 for $60.0 million of 6.5% convertible SNAPs$_{SM}$ due 2012 (the "New Notes") and issued an additional $12.0 million of New Notes to the public for cash. The interest rate and amount of principal of the previously outstanding notes were, and of the New Notes are, fixed. The New Notes include an additional interest rate feature which is accounted for as an embedded derivative which is measured at fair value. Changes in the fair value of the embedded derivative are recognized in earnings as interest expense.

As of December 31, 2006, we have drawn down $16.4 million against the Novartis $50.0 million loan facility that is due in 2015 at an interest rate of USD six month LIBOR plus 2 percent which was 7.37% at December 31, 2006.

We estimate that a hypothetical 100 basis point change in interest rates could increase or decrease our interest expense by approximately $521,000 on an annualized basis.

We hold interest-bearing instruments that are classified as cash, cash equivalents and short-term investments. Fluctuations in interest rates can affect the principal values and yields of fixed income investments. If interest rates in the general economy were to rise rapidly in a short period of time, our fixed income investments could lose value. The following table presents the amounts and related weighted interest rates of our cash and investments at December 31, 2006 and 2005, (in thousands, except interest rate):

	Maturity	Carrying Amount (in thousands)	Fair Value (in thousands)	Average Interest Rate
December 31, 2006				
Cash and cash equivalents	Daily	$ 28,002	$ 28,002	4.91%
Short-term investments	Less than 1 year	18,392	18,381	4.30%
December 31, 2005				
Cash and cash equivalents	Daily	$ 20,804	$ 20,804	2.82%
Short-term investments	Less than 1 year	22,801	22,732	4.23%

Item 8. Financial Statements and Supplementary Data

The following consolidated financial statements of the registrant, related notes and report of independent registered public accounting firm are set forth beginning on page F-1 of this report.

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not Applicable.

Item 9A. Controls and Procedures

Under the supervision and with the participation of our management, including our Chairman of the Board, President and Chief Executive Officer and our Vice President, Finance and Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report. Based on this evaluation, our Chairman of the Board, President and Chief Executive Officer and our Vice President, Finance and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to us and our consolidated subsidiaries required to be included in our periodic SEC filings.

We continue to enhance internal financial controls and staffing consistent with the requirements of the Sarbanes-Oxley Act of 2002. Apart from this, there were no changes in our internal controls over financial reporting during 2006 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial accounting.

Management's Report on Internal Control over Financial Reporting

Management, including our Chairman of the Board, President and Chief Executive Officer and our Vice President, Finance and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system was designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of published financial statements in accordance with generally accepted accounting principles.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2006. In making this assessment, Management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control—Integrated Framework*. Based on our assessment we believe that, as of December 31, 2006, our internal control over financial reporting is effective based on those criteria.

Management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2006, has been audited by Ernst & Young, LLP, the independent registered public accounting firm who also audited the Company's consolidated financial statements. Ernst & Young's attestation report on management's assessment of the Company's internal control over financial reporting follows.

Item 9B. Other Information

None.

Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

The Board of Directors and Shareholders of XOMA Ltd.

We have audited management's assessment, included in the accompanying "Management Report on Internal Control Over Financial Reporting," that XOMA Ltd. maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). XOMA Ltd.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that XOMA Ltd. maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, XOMA Ltd. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of XOMA Ltd. as of December 31, 2006 and 2005, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2006, of XOMA Ltd. and our report dated March 8, 2007, expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Palo Alto, California
March 8, 2007

PART III

Item 10. Directors and Executive Officers of the Registrant

The section labeled "Item 1—Election of Directors" appearing in our proxy statement for the 2007 Annual General Meeting of Shareholders is incorporated herein by reference. Certain information concerning our executive officers is set forth in Part I of this Form 10-K.

Item 11. Executive Compensation

The section labeled "Compensation of Executive Officers" appearing in our proxy statement for the 2007 Annual General Meeting of Shareholders is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

The section labeled "Share Ownership" appearing in our proxy statement for the 2007 Annual General Meeting of Shareholders is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

Not applicable.

Item 14. Principal Accounting Fees and Services

The section labeled "Item 2—Appointment of Independent Auditors" appearing in our proxy statement for the 2007 Annual General Meeting of Shareholders is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) The following documents are included as part of this Annual Report on Form 10-K:

(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 consolidated financial statements or the notes thereto or is not applicable or required.

(3) Exhibits:

See “Index to Exhibits.”

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 8th day of March 2007.

XOMA LTD.

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.

Signature	Title	Date
/s/ JOHN L. CASTELLO **(John L. Castello)**	Chairman of the Board, President and Chief Executive Officer	March 8, 2007
/s/ J. DAVID BOYLE II **(J. David Boyle II)**	Vice President, Finance and Chief Financial Officer (Principal Financial and Accounting Officer)	March 8, 2007
/s/ PATRICK J. SCANNON **(Patrick J. Scannon, M.D., Ph.D.)**	Executive Vice President and Chief Biotechnology Officer	March 8, 2007
/s/ JAMES G. ANDRESS **(James G. Andress)**	Director	March 8, 2007
/s/ WILLIAM K. BOWES, JR. **(William K. Bowes, Jr.)**	Director	March 8, 2007
/s/ PETER BARTON HUTT **(Peter Barton Hutt)**	Director	March 8, 2007
/s/ ARTHUR KORNBERG **(Arthur Kornberg, M.D.)**	Director	March 8, 2007
/s/ W. DENMAN VAN NESS **(W. Denman Van Ness)**	Director	March 8, 2007
/s/ PATRICK J. ZENNER **(Patrick J. Zenner)**	Director	March 8, 2007

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors and Shareholders of XOMA Ltd.

We have audited the accompanying consolidated balance sheets of XOMA Ltd. as of December 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. These consolidated 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 the standards of the Public Company Accounting Oversight Board (United States). 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 consolidated financial position of XOMA Ltd. at December 31, 2006 and 2005, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with United States generally accepted accounting principles.

As discussed in Note 1 to the Notes to Consolidated Financial Statements, in 2006 XOMA changed its method of accounting for share-based compensation in accordance with guidance provided in Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment."

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of XOMA Ltd.'s internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 8, 2007, expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Palo Alto, California
March 8, 2007

XOMA Ltd.

CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	December 31, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 28,002	$ 20,804
Short-term investments	18,381	22,732
Restricted cash	4,330	—
Receivables	13,390	5,186
Related party receivables	56	98
Prepaid expenses	1,061	975
Debt issuance costs	668	493
Total current assets	65,888	50,288
Property and equipment, net	22,434	19,056
Related party receivables—long-term	38	93
Debt issuance costs—long-term	2,661	2,683
Deposits	457	457
Total assets	$ 91,478	$ 72,577
LIABILITIES AND SHAREHOLDERS' EQUITY (NET CAPITAL DEFICIENCY)		
Current liabilities:		
Accounts payable	$ 4,186	$ 5,648
Accrued liabilities	7,086	5,717
Accrued interest	1,794	1,652
Deferred revenue	9,601	3,527
Total current liabilities	22,667	16,544
Deferred revenue—long-term	8,768	4,333
Convertible debt—long-term	46,823	60,000
Interest bearing obligation—long-term	51,393	12,373
Total liabilities	129,651	93,250
Commitments and contingencies (Note 6)		
Shareholders' equity (net capital deficiency):		
Preference shares, $.05 par value, 1,000,000 shares authorized		
Series A, 210,000 designated, no shares issued and outstanding at December 31, 2006 and 2005	—	—
Series B, 8,000 designated, 2,959 shares issued and outstanding at December 31, 2006 and 2005; aggregate liquidation preference of $29.6 million	1	1
Common shares, $.0005 par value, 210,000,000 shares authorized, 105,454,389 and 86,312,712 shares outstanding at December 31, 2006 and 2005, respectively	53	43
Additional paid-in capital	689,315	655,041
Accumulated comprehensive income	(9)	(66)
Accumulated deficit	(727,533)	(675,692)
Total shareholders' equity (net capital deficiency)	(38,173)	(20,673)
Total liabilities and shareholders' equity (net capital deficiency)	$ 91,478	$ 72,577

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

XOMA Ltd.

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	Year Ended December 31,		
	2006	2005	2004
Revenues:			
License and collaborative fees	$ 2,846	$ 5,061	$ 3,573
Contract and other revenue	16,329	7,392	—
Royalties	10,323	6,216	92
Total revenues	29,498	18,669	3,665
Operating costs and expenses:			
Research and development (including contract related of $10,909, $5,536, and $40, respectively, for the years ended December 31, 2006, 2005 and 2004)	52,094	39,896	49,784
General and administrative	18,088	14,798	15,604
Collaboration arrangement	—	—	16,373
Total operating costs and expenses	70,182	54,694	81,761
Loss from operations	(40,684)	(36,025)	(78,096)
Other income (expense):			
Investment and interest income	1,675	1,882	499
Interest expense	(12,932)	(4,254)	(1,229)
Gain on extinguishment of debt	—	40,935	—
Other income (expense)	100	244	(116)
Net income (loss) before taxes	(51,841)	2,782	(78,942)
Income tax expense	—	3	—
Net income (loss)	$(51,841)	$ 2,779	$(78,942)
Basic and diluted net income (loss) per common share	$ (0.54)	$ 0.03	$ (0.93)
Shares used in computing basic net income (loss) per common share	95,961	86,141	84,857
Shares used in computing diluted net income (loss) per common share	95,961	90,063	84,857

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

XOMA Ltd.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(NET CAPITAL DEFICIENCY)
(in thousands)

	Preferred Shares		Common Shares					Total Shareholders' Equity (Net Capital Deficiency)
	Shares	Amount	Shares	Amount	Paid-In Capital	Accumulated Comprehensive Income	Accumulated Deficit	
Balance, December 31, 2003	3	$ 1	83,999	$ 42	$647,534	$ 166	$ (599,529)	$ 48,214
Exercise of share options, contributions to 401(k) and incentive plans	—	—	653	—	2,328	—	—	2,328
Sale of common shares (net)	—	—	920	1	3,675	—	—	3,676
Exercise of warrants	—	—	15	—	—	—	—	—
Comprehensive loss:								
Net change in unrealized gain on investments	—	—	—	—	—	114	—	114
Net loss	—	—	—	—	—	—	(78,942)	(78,942)
Comprehensive loss								(78,828)
Balance, December 31, 2004	3	1	85,587	43	653,537	280	(678,471)	(24,610)
Exercise of share options, contributions to 401(k) and incentive plans	—	—	726	—	1,504	—	—	1,504
Comprehensive income:								
Net change in unrealized loss on investments	—	—	—	—	—	(346)	—	(346)
Net income	—	—	—	—	—	—	2,779	2,779
Comprehensive income								2,433
Balance, December 31, 2005	3	1	86,313	43	655,041	(66)	(675,692)	(20,673)
Exercise of share options, contributions to 401(k) and incentive plans	—	—	879	1	1,489	—	—	1,490
Share-based compensation expense under FAS 123R	—	—	—	—	978	—	—	978
Conversion of convertible debt	—	—	18,262	9	31,807	—	—	31,816
Comprehensive income:								
Net change in unrealized loss on investments	—	—	—	—	—	57	—	57
Net loss	—	—	—	—	—	—	(51,841)	(51,841)
Comprehensive loss								(51,784)
Balance, December 31, 2006	3	$ 1	105,454	$ 53	$689,315	$ (9)	$ (727,533)	$ (38,173)

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

XOMA Ltd.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2006	2005	2004
Cash flows from operating activities:			
Net income (loss)	$ (51,841)	$ 2,779	$ (78,942)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depreciation and amortization	5,117	5,083	4,553
Common shares contribution to 401(k) and management incentive plans	1,088	1,353	926
Share-based compensation expense	978	—	—
Accrued interest on convertible notes and other interest bearing obligations	1,159	1,652	578
Revaluation of embedded derivative	6,945	—	—
Amortization of discount, premium and debt issuance costs of convertible debt	1,035	451	—
Amortization of premiums on short-term investments	18	240	—
Gain on extinguishment of debt	—	(40,935)	—
Loss on disposal/retirement of property and equipment	11	11	121
(Gain) loss on sale of investments	—	(271)	35
Other non-cash adjustments	(3)	3	—
Changes in assets and liabilities:			
Receivables and related party receivables	(8,107)	(4,315)	9,777
Prepaid expenses	(86)	440	(147)
Deposits	—	(323)	—
Accounts payable	(1,462)	3,729	(3,139)
Accrued liabilities	1,369	(13,614)	13,168
Deferred revenue	10,509	(473)	8,243
Net cash used in operating activities	(33,270)	(44,190)	(44,827)
Cash flows from investing activities:			
Proceeds from sales/maturities of investments	32,784	9,224	5
Purchase of investments	(28,391)	(31,763)	—
Transfer of restricted cash	(4,330)	—	—
Purchase of property and equipment	(8,506)	(4,844)	(2,643)
Net cash used in investing activities	(8,443)	(27,383)	(2,638)
Cash flows from financing activities:			
Proceeds from short-term loan	—	—	508
Principal payments of short-term loan	—	(115)	(13,570)
Payments under capital lease obligations	—	(237)	(555)
Proceeds from issuance of long-term debt	36,541	12,373	—
Proceeds from issuance of convertible notes	11,969	56,397	—
Principal payments of convertible notes	—	—	(5,000)
Proceeds from issuance of common shares	401	151	5,078
Net cash provided by (used in) financing activities	48,911	68,569	(13,539)
Net increase (decrease) in cash and cash equivalents	7,198	(3,004)	(61,004)
Cash and cash equivalents at the beginning of the period	20,804	23,808	84,812
Cash and cash equivalents at the end of the period	$ 28,002	$ 20,804	$ 23,808

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

XOMA Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Business and Summary of Significant Accounting Policies

Business

XOMA Ltd. ("XOMA" or the "Company"), a Bermuda company, is a biopharmaceutical company that discovers and develops for commercialization antibodies and other genetically-engineered protein products to treat immunological and inflammatory disorders, cancer and infectious diseases. The Company's products are presently in various stages of development and most are subject to regulatory approval before they can be introduced commercially. The Company receives royalties from Genentech, Inc. ("Genentech") on two approved products, RAPTIVA®, for the treatment of moderate-to-severe plaque psoriasis, and LUCENTIS®, for the treatment of neovascular (wet) age-related macular degeneration. XOMA's pipeline includes both proprietary products and collaborative programs at various stages of preclinical and clinical development.

Consolidation

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

Estimates

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

Concentration of Risk

Cash, cash equivalents, short-term investments, restricted cash and accounts receivable are financial instruments, which potentially subject the Company to concentrations of credit risk. The Company maintains money market funds and short-term investments that bear minimal risk. The Company has not experienced any significant credit losses and does not generally require collateral on receivables. In 2006, two customers represented 40% and 35% of total revenues and as of December 31, 2006, there were billed and unbilled receivables of $11.2 million outstanding from these customers and one additional customer representing 13%, 26% and 45% of the balance. In 2005, four customers represented 39%, 28%, 14%, and 11% of total revenues and as of December 31, 2005, and there were billed and unbilled receivables of $4.6 million outstanding from three of these customers representing 52%, 22%, and 15% of the balance. In 2004, three customers represented 45%, 14% and 14% of total revenues.

Critical Accounting Policies

The Company believes the following policies to be the most critical to an understanding of its financial condition and results of operations because they require it to make estimates, assumptions and judgments about matters that are inherently uncertain.

Revenue Recognition

Revenue is generally recognized when the four basic criteria of revenue recognition are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the fee is fixed

XOMA Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

and determinable; and (4) collectibility is reasonably assured. Determination of criteria (3) and (4) are based on management's judgments regarding the nature of the fee charged for products or services delivered and the collectibility of those fees.

The Company recognizes revenue from its license and collaboration arrangements, contract services, product sales and royalties. Revenue arrangements with multiple elements are divided into separate units of accounting if certain criteria are met, including whether the delivered element has stand-alone value to the customer and whether there is objective and reliable evidence of the fair value of the undelivered items. The consideration received is allocated among the separate units based on their respective fair values and the applicable revenue recognition criteria are applied to each of the separate units. Advance payments received in excess of amounts earned are classified as deferred revenue until earned.

License and Collaborative Fees

Revenue from non-refundable license or technology access payments under license and collaborative agreements where the Company has a continuing obligation to perform is recognized as revenue over the expected period of the continuing performance obligation. The Company estimates the performance period at the inception of the arrangement and reevaluates it each reporting period. This reevaluation may shorten or lengthen the period over which the remaining revenue is recognized.

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

Contract Revenue

Contract revenue for research and development involves the Company providing research and development and contract manufacturing services to collaborative partners or others. Revenues for certain contracts are accounted for by a proportional performance, or output based, method where performance is based on agreed progress toward elements defined in the contract. The Company recognizes revenue under these arrangements as the related research and development costs are incurred and collectibility is reasonably assured. Any cumulative impact of a change in an estimate of a contract revenue or cost is recorded in the period in which the change becomes know.

Royalty Revenue

Royalty revenue and royalty receivables are generally recorded in the periods these royalties are earned, in advance of collection. The royalty revenue and receivables in these instances is based upon communication with collaborative partners, historical information and forecasted sales trends. Under some of XOMA's agreements with licensees that include receipt of royalty revenue, the Company does not have sufficient historical information to estimate royalty revenues or receivables in the period that these royalties are earned. For these contracts, the Company records royalty revenue upon cash receipt.

Research and Development

The Company expenses research and development costs as incurred. Research and development expenses consist of direct and research-related allocated overhead costs such as facilities costs, salaries and related

personnel costs, patent costs and material and supply costs. In addition, research and development expenses include costs related to clinical trials to validate the Company's testing processes and procedures and related overhead expenses. Under cost sharing arrangements with collaborative partners, differences between the Company's actual research and development spending and its share of such spending under the collaboration agreement will also be included as a cost sharing adjustment in its research and development expense. Expenses resulting from clinical trials are recorded when incurred based in part on estimates as to the status of the various trials. From time to time, research and development expenses may include upfront fees and milestones paid to collaborative partners for the purchase of rights to in-process research and development.

Long-Lived Assets

In accordance with Financial Accounting Standards Board ("FASB") Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" the Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets.

Share-Based Compensation

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), which requires the measurement and recognition of compensation expense for all share-based payment awards made to the Company's employees and directors, including employee share options and employee share purchases related to the Employee Share Purchase Plan ("ESPP"), on estimated fair values. The Company is using the modified prospective method. Under this method, the Company is required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding at the date of adoption. To estimate the value of an award, the Company uses the Black-Scholes option pricing model. This model requires inputs such as expected life, expected volatility and risk-free interest rate. Further, the forfeiture rate also impacts the amount of aggregate compensation. These inputs are subjective and generally require significant analysis and judgment to develop. While estimates of expected life, volatility and forfeiture rate are derived primarily from the Company's historical data, the risk-free rate is based on the yield available on United States Treasury zero-coupon issues. The Company reviews its valuation assumptions quarterly and, as a result, it is likely to change its valuation assumptions used to value share based awards granted in future periods.

Share-Based Compensation

Prior to the adoption of SFAS 123R on January 1, 2006, the Company accounted for its share-based compensation plans under the intrinsic value method described in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," ("APB 25") and related Interpretations as permitted by Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), as amended by Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure" ("SFAS 148"). In general, as the exercise price of the options granted under the Company's plans was equal to the market price of the underlying common shares on the grant date, no share-based employee compensation cost was recognized. As required by SFAS 148 prior to the adoption of SFAS 123R, the Company provided pro forma net income (loss) and pro forma net income (loss) per common share disclosures for share-based awards, as if SFAS 123 had been applied.

SFAS 123R requires all share based payments to be recognized in the financial statements based on their fair values. The Company is using the modified prospective method. Under this method, compensation cost

XOMA Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

recognized during the year ended December 31, 2006, includes compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123 amortized on a graded vesting basis over the options' vesting period, and compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R amortized on a straight-line basis over the options' vesting period. The Company elected to use the modified prospective transition method as permitted by SFAS 123R and, therefore, has not restated its financial results for prior periods to reflect expensing of share-based compensation. As a result, the results for the year ended December 31, 2006, are not comparable to the prior years.

In November of 2005, the FASB issued FASB Staff Position FAS 123(R)-3, "Transition Election Related to Accounting for the Tax Effects of Share Base Payment Awards," which allowed a one-time election to adopt one of two acceptable methodologies for calculating the initial additional paid-in capital pool ("APIC pool"). The Company elected the "short-cut" method to establish its APIC pool required under FAS 123(R) for the year ended December 31, 2006. In subsequent periods, the APIC pool will be increased by tax benefits from share-based compensation and decreased by tax deficiencies caused when the recorded share-based compensation for book purposes exceeds the allowable tax deduction.

The following table illustrates the effect on net income (loss) and net income (loss) per share had the Company applied the fair value recognition provisions of SFAS 123 to account for its share plans and ESPP for the years ended December 31, 2005 and 2004, (in thousands, except per share amounts):

	Year ended December 31,	
	2005	2004
Net income (loss)—as reported	$ 2,779	$ (78,942)
Deduct: Total share-based employee compensation expense under SFAS 123	(3,633)	(3,640)
Pro forma net loss	$ (854)	$ (82,582)
Net income (loss) per common share:		
Basic and diluted—as reported	$ .03	$ (0.93)
Basic and diluted—pro forma	$ (0.01)	$ (0.97)

The historical pro forma impact of applying the fair value method prescribed by SFAS 123 is not representative of the impact that may be expected in the future due to changes resulting from additional grants in future years and changes in assumptions such as expected life, volatility and interest rates used to estimate fair value of the grants in future years.

The following table shows total share-based compensation expense included in the condensed consolidated statements of operations for the year ended December 31, 2006, (in thousands):

	Year Ended December 31, 2006
Research and development	$ 468
General and administrative	510
Total share-based compensation expense	$ 978

XOMA Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Basic and diluted net income (loss) per common share is $(0.01) lower for the year ended December 31, 2006, as a result of implementing SFAS 123R. There was no capitalized share-based compensation cost as of December 31, 2006. There were no recognized tax benefits during the year ended December 31, 2006. The adoption of SFAS 123R had no impact on cash flows from operations or financing.

To estimate the value of an award, the Company uses the Black-Scholes option pricing model. This model requires inputs such as expected life, expected volatility and risk-free interest rate. The forfeiture rate also impacts the amount of aggregate compensation. These inputs are subjective and generally require significant analysis and judgment to develop. While estimates of expected life, volatility and forfeiture rate are derived primarily from the Company's historical data, the risk-free rate is based on the yield available on United States Treasury zero-coupon issues.

The fair value of share based awards was estimated using a Black-Scholes model with the following weighted-average assumptions for the years ended December 31, 2006, 2005 and 2004.

	Year Ended December 31,		
	2006	2005	2004
Dividend yield	0%	0%	0%
Expected volatility	79%	83%	101%
Risk-free interest rate	4.65%	4.11%	1.71%
Expected life	5.3 years	4.4 years	4.5 years

Prior to the adoption of SFAS 123R, the Company's Board of Directors approved the acceleration of vesting of all outstanding employee share options with an exercise price greater than $3.00 per share. Because the exercise price of all the accelerated options exceeded the market price per share of the common shares as of the new measurement date, the acceleration had no impact on the Company's earnings in 2005. Since the accelerated options had exercise prices in excess of the current market value of the Company's common shares, the options had limited economic value and were not fully achieving their original objective of incentive compensation and employee retention. The modification allows expense recognized after the adoption of SFAS 123R to better reflect the Company's compensation strategies.

Unvested share activity for the year ended December 31, 2006, is summarized below:

	Unvested Number of Shares	Weighted-Average Grant-Date Fair Value
Unvested balance at December 31, 2005	1,234,838	$ 1.56
Granted	1,480,300	1.70
Vested	(585,553)	1.55
Forfeited	(145,457)	1.64
Unvested balance at December 31, 2006	1,984,128	1.66

At December 31, 2006, there was $1.2 million of unrecognized share-based compensation expense related to unvested share options with a weighted average remaining recognition period of 2.6 years. Total fair value of options vested during 2006 was $0.5 million.

Income Taxes

Income taxes are computed using the asset and liability method, under which deferred income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and

XOMA Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

liabilities and are measured using the currently enacted tax rates and laws. A valuation allowance is provided for the amount of deferred tax assets that, based on available evidence, are not expected to be realized.

Net Income (Loss) Per Common Share

Basic and diluted net income (loss) per common share is based on the weighted average number of common shares outstanding during the period.

The following outstanding securities were considered in the computation of diluted net income (loss) per share. Those that are antidilutive were not included in the computation of diluted net income (loss) per share (in thousands):

	December 31,		
	2006	2005	2004
Options for common shares	6,230	5,422	5,790
Warrants for common shares	125	125	375
Convertible preference shares, notes and related interest, as if converted	29,459	38,827	3,818

The following is a reconciliation of the numerators and denominators of the basic and diluted net income (loss) per share (in thousands):

	Year ended December 31,		
	2006	2005	2004
Numerator			
Net income (loss) used for basic and diluted net income (loss) per share	$(51,841)	$ 2,779	$(78,942)
Denominator			
Weighted average shares outstanding used for basic net income (loss) per share	95,961	86,141	84,857
Effect of dilutive share options	—	104	—
Effect of convertible preference shares	—	3,818	—
Weighted-average shares outstanding and dilutive securities used for diluted net income (loss) per share	95,961	90,063	84,857

Cash and Cash Equivalents

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. At December 31, 2006 and 2005, cash and cash equivalents consisted of overnight deposits, money market funds, commercial paper, repurchase agreements and debt securities with initial maturities of less than 90 days and are reported at fair value. Debt securities classified as cash equivalents totaled $20.1 million and $18.0 million at December 31, 2006 and 2005, respectively.

Short-Term Investments

Short-term investments include debt securities classified as available-for-sale. Available-for-sale securities are stated at fair value, with unrealized gains and losses, net of tax, if any, reported in other comprehensive

income (loss). Realized gains and losses and declines in value judged to be other-than-temporary on available-for-sale securities are included in investment and other income. The cost of investments sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are also included in investment and other income.

Available-for-sale securities at December 31, 2006 and 2005, were as follows (in thousands):

	December 31, 2006		
	Cost Basis	Unrealized Losses	Estimated Fair Value
Corporate notes and bonds	$ 3,097	$ (9)	$ 3,088
State and municipal debt securities	14,595	—	14,595
Government sponsored enterprises	700	(2)	698
Total Short-Term Investments	$18,392	$ (11)	$ 18,381

	December 31, 2005		
	Cost Basis	Unrealized Losses	Estimated Fair Value
Corporate notes and bonds	$11,801	$ (29)	$ 11,772
State and municipal debt securities	8,200	—	8,200
Government sponsored enterprises	2,800	(40)	2,760
Total Short-Term Investments	$22,801	$ (69)	$ 22,732

As of December 31, 2006, five investments with an aggregate fair value of approximately $3.8 million, had aggregate unrealized losses of $11,000, compared with 18 investments with an aggregate fair value of $14.5 million with aggregate unrealized losses of $69,000 at December 31, 2005. The unrealized losses were recorded in other comprehensive income. The Company reviews its instruments for other-than-temporary impairment whenever the value of the instrument is less than the amortized cost. All such investments have been or were in an unrealized loss position for, and have holding periods of, less than twelve months. The Company has not sold similar investments at a loss and currently has the financial ability to hold short-term investments with an unrealized loss until maturity and not incur any recognized losses. As a result, the Company does not believe any unrealized losses represent an other-than-temporary impairment. During the years ended December 31, 2006, 2005 and 2004, there were zero, $0.3 million and zero in realized gains on short-term investments. The 2005 gain was related to equity securities. Gains and losses are determined on a specific identification basis.

The estimate of fair value is based on publicly available market information or other estimates determined by the Company.

Restricted Cash

Under the terms of its loan agreement with Goldman Sachs Specialty Lending Holdings, Inc. (“Goldman Sachs”), the Company maintains a custodial account for the deposit of RAPTIVA®, LUCENTIS® and CIMZIA™ royalty revenues in addition to a standing reserve of the next semi-annual interest payment due on the loan. This cash account and the interest earned thereon can be used solely for the payment of the semi-annual interest amounts due in March and September of each year and, at that time, amounts in excess of the interest reserve requirement may be used to pay down principal or be distributed back to the Company, at the discretion of the lender. At December 31, 2006, the restricted cash was invested in money market funds.

XOMA Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

See Note 4, "Convertible Notes and Other Arrangements," to the Consolidated Financial Statements for additional discussion of the Goldman Sachs term loan.

Receivables

Receivables consisted of the following at December 31, 2006 and 2005, (in thousands):

	December 31,	
	2006	2005
Trade receivables	$ 12,859	$ 4,796
Unbilled receivables	148	—
Other receivables	383	390
Total	$ 13,390	$ 5,186

Property and Equipment

Property and equipment is stated at cost. Equipment depreciation is calculated using the straight-line method over the estimated useful lives of the assets (three 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 fifteen years).

Property and equipment consisted of the following at December 31, 2006 and 2005, (in thousands):

	December 31,	
	2006	2005
Furniture and equipment	$ 27,373	$ 22,946
Buildings, leasehold and building improvements	18,669	14,555
Construction in progress	1,644	2,215
Land	310	310
	47,996	40,026
Less: Accumulated depreciation and amortization	(25,562)	(20,970)
Property and equipment, net	$ 22,434	$ 19,056

At December 31, 2006 and 2005, there was no property and equipment acquired under capital lease obligations.

Depreciation and amortization expense was $5.1 million, $5.1 million and $4.6 million for the years ended December 31, 2006, 2005 and 2004, respectively.

During 2005, the Company completed an annual review of leasehold improvements. Based on this review, the Company decided to abandon its plan to add a fermentation unit to its existing research and development facility. As certain leasehold improvements related to this project no longer prolonged the life of the related building nor enhanced its functional use, the Company expensed approximately $0.6 million to depreciation expense for research and development in December 2005.

XOMA Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Accrued Liabilities

Accrued liabilities consisted of the following at December 31, 2006 and 2005, (in thousands):

	December 31,	
	2006	2005
Accrued management incentive compensation	$ 2,053	$ 1,758
Accrued payroll costs	2,015	2,084
Accrued co-development	1,952	—
Accrued legal fees	535	813
Accrued accounting fees	341	52
Customer advances	—	750
Other	190	260
Total	$ 7,086	$ 5,717

Deferred Revenue

The Company defers revenue until all requirements under its revenue recognition policy are met. In 2006, the Company deferred $26.6 million of revenue from eight contracts including Schering Plough Research Institute ("SPRI"), the National Institute of Allergy and Infectious Diseases ("NIAID"), Takeda Pharmaceutical Company Limited ("Takeda") and Taligen Therapeutics, Inc. and recognized $16.1 million in revenue from the eight contracts in addition to the amortization of the $10.0 million in upfront payments received from Novartis AG ("Novartis," formerly known as Chiron Corporation) for our February 2004 oncology collaboration contract. The Novartis payments are being recognized as revenue over the five year expected term of the agreement. The 2005 $8.3 million beginning balance is the unamortized balance on the Novartis contract, the $1.5 million of revenue deferred relates to NIAID and the $2.0 million of revenue recognized is the Novartis amortization. The following table shows the activity in deferred revenue for the years ended December 31, 2006 and 2005, (in thousands):

	Year ended December 31,	
	2006	2005
Beginning deferred revenue	$ 7,860	$ 8,333
Revenue deferred	26,605	1,527
Revenue recognized	(16,096)	(2,000)
Ending deferred revenue	$ 18,369	$ 7,860

The $18.4 million balance in deferred revenue at December 31, 2006, is expected to be recognized as revenue over the next four years.

Fair Value of Financial Instruments

The fair value of marketable debt and equity securities is based on quoted market prices. The carrying value of these securities approximates their fair value.

Supplemental Cash Flow Information

Cash paid for interest was $3.8 million, $2.4 million and $0.7 million during the years ended December 31, 2006, 2005 and 2004, respectively. There were no dividends paid on common shares during the years ended December 31, 2006, 2005 and 2004.

XOMA Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Non-cash transactions from financing activities consisted of the conversion of $27.5 million in convertible notes to equity and payment of the additional interest feature in common shares for the year ended December 31, 2006. In addition, interest of $1.0 million and $0.3 million on the Novartis secured loan was capitalized for the years ended December 31, 2006 and 2005, respectively. See Note 4, "Convertible Notes and Other Arrangements," to the Consolidated Financial Statements for additional discussion of the convertible debt and Novartis loan.

Cash paid for income taxes was approximately $500, $3,000 and zero during the years ended December 31, 2006, 2005 and 2004, respectively. Income taxes paid are related to activities of the Company's foreign operations.

Segment Information

The Company currently operates in a single business segment as there is only one measurement of profit (loss) for its operations. Revenues attributed to the following countries for each of the years ended December 31, 2006, 2005 and 2004, were as follows (in thousands):

	Year ended December 31,		
	2006	2005	2004
United States	$ 26,642	$ 15,475	$ 1,757
Ireland	645	3,042	1,794
Bermuda	2,211	152	114
Total	$ 29,498	$ 18,669	$ 3,665

Recent Accounting Pronouncements

In July of 2006, the Financial Accounting Standards Board issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), an interpretation of FASB Statement No. 109, "Accounting for Income Taxes" ("FAS 109"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FAS 109 and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 will be effective beginning with the first annual period after December 15, 2006. The Company is still evaluating what impact, if any, the adoption of this standard will have on its financial position or results of operations.

In September of 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 provides guidance for using fair value to measure assets and liabilities and responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value and the effect of fair value measurements on earnings. SFAS 157 applies whenever other standards require or permit assets or liabilities to be measured at fair value and does not expand the use of fair value in any new circumstances. SFAS will be effective beginning with the first annual period after November 15, 2007. The Company is still evaluating what impact, if any, the adoption of this standard will have on its financial position or results of operations.

2. License Agreements

XOMA has granted over 45 licenses to biotechnology and pharmaceutical companies for use of patented and proprietary technologies relating to bacterial expression of recombinant pharmaceutical products. Eight of

these are cross-license arrangements related to the use of XOMA's Bacterial Cell Expression ("BCE") system technology in phage display. Under the agreements, Affimed Therapeutics AG, Affitech AS, BioInvent International AB, Biosite Incorporated, Cambridge Antibody Technology Limited, Diversa Corporation, Dyax Corp. and MorphoSys AG received licenses to use XOMA's antibody expression technology for developing products using phage display-based antibody libraries. XOMA, in exchange, receives license and other fees as well as access to these companies' antibody display libraries, intellectual property and/or services that complement XOMA's existing development capabilities and support the Company's own antibody product development pipeline.

These agreements also generally provide releases of the licensee companies and their collaborators from claims under the XOMA patents arising from past activities using the companies' respective technologies to the extent they also used XOMA's antibody expression technology. Licensees are generally also allowed to use XOMA's technology in combination with their own technology in future collaborations.

3. Collaborative and Licensing Agreements

Total research and development expenses incurred related to the Company's collaborative agreements were approximately $20.1 million, $16.6 million and $20.0 million in 2006, 2005 and 2004, respectively.

Genentech

In April of 1996, the Company entered into a collaboration agreement with Genentech for the development of RAPTIVA®. In March of 2003, it entered into amended and expanded agreements related to all aspects of the collaboration, to reflect the then current understanding between the companies. The agreements called for the Company to share in the development costs and to receive a 25% share of future United States operating profits and losses and a royalty on sales outside the United States. The agreements also called for Genentech to finance the Company's share of development costs up until first FDA marketing approval via a convertible subordinated loan, and its share of pre-launch marketing and sales costs via an additional commercial loan facility. Under the loan agreement, upon FDA approval of the product, which occurred October 27, 2003, the Company elected to pay $29.6 million of the development loan in convertible preference shares and to defer repayment of the remaining $40.0 million as an offset against future proceeds from the Company's 25% share of United States operating profits on the product. On December 22, 2003, the Company issued the preference shares to Genentech which are convertible into approximately 3.8 million common shares at a price of $7.75 per common share. The $13.4 million of outstanding principal and interest on the commercial loan was payable only in cash and was paid in January and May of 2004.

In January of 2005, the Company announced a restructuring of its arrangement with Genentech on RAPTIVA®. Under the restructured arrangement, effective January 1, 2005, the Company is entitled to receive mid-single digit royalties on worldwide sales of RAPTIVA® in all indications. The previous cost and profit sharing arrangement for RAPTIVA® in the United States was discontinued and Genentech is responsible for all operating and development costs associated with the product. Genentech may elect and the Company may agree to provide further clinical trial or other development services at Genentech's expense. In addition, the Company's obligation to pay the outstanding balance to Genentech of $40.9 million under the development loan, including accrued interest, was extinguished.

See Note 4, "Convertible Notes and Other Arrangements," to the Consolidated Financial Statements for additional discussion of the financing arrangement between XOMA and Genentech.

XOMA Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In December of 1998, the Company licensed its BCE technology to Genentech, which utilized it to develop LUCENTIS® for the treatment of neovascular (wet) age-related macular degeneration. The Company is entitled to receive an undisclosed royalty on worldwide sales of LUCENTIS®.

The Company is recognizing RAPTIVA® and LUCENTIS® royalty revenue when the underlying sales occur.

Novartis

In February of 2004, XOMA entered into an exclusive multi-product collaboration with Novartis for the development and commercialization of antibody products for the treatment of cancer. Under the terms of the agreement, the companies agreed to share costs and profits on a 70-30 basis, with XOMA's share being 30%. Novartis' profit share is subject to a limited upward adjustment, which, in turn, may be reduced if the Company achieves certain milestones. XOMA received initial payments totaling $10.0 million in 2004 which is being recognized ratably over five years, the expected term of the agreement, as license and collaborative fees.

A loan facility of up to $50.0 million is available to the Company to fund up to 75% of its share of development expenses incurred beginning in 2005.

See Note 10, "Subsequent Events," to the Consolidated Financial Statements for an update to this agreement. See Note 4, "Convertible Notes and Other Arrangements," to the Consolidated Financial Statements for additional discussion of the financing arrangement between XOMA and Novartis.

Lexicon

In June of 2005, XOMA entered into a collaboration agreement with Lexicon Pharmaceuticals, Inc. ("Lexicon") to jointly develop and commercialize antibody drugs for certain targets discovered by Lexicon. The initial term of the collaboration is three years and it is designed to combine Lexicon's target discovery and biotherapeutics capabilities with XOMA's antibody generation, process development and manufacturing expertise to accelerate the development and commercialization of novel therapeutic antibodies. The Company will generate or engineer antibodies that modulate the collaboration's targets using phage display libraries and its proprietary Human Engineering ("HE™") technology and will have principal responsibility for manufacturing antibodies for use in clinical trials and commercial sales. Lexicon and XOMA will share the responsibility and costs for research, preclinical, clinical and commercialization activities on a 65-35 basis, with the Company's share being 35%.

NIAID

In July of 2006, the Company was awarded a $16.3 million contract (Contract No. HHSN266200600008C/N01-Al-60008) funded with Federal funds from NIAID, a part of the National Institutes of Health, Department of Health and Human Services, to produce monoclonal antibodies for the treatment of botulism to protect United States citizens against the harmful effects of botulinum neurotoxins used in bioterrism. The contract work is being performed on a cost plus fixed fee basis over a three year period. The Company is recognizing revenue as the services are being performed on a proportional performance basis.

In March of 2005, the Company was awarded a $15.0 million contract from NIAID to develop three anti-botulinum neurotoxin monoclonal antibody therapeutics. The contract work was performed over an 18-month period and was 100% funded with Federal funds from NIAID under Contract No. HHSN266200500004C. The

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Company recognized revenue over the life of the contract as the services were performed on a proportional performance basis, and, as per the terms of the contract, a 10% retention on all revenue was deferred and classified as a receivable until final acceptance of the contract which was achieved in October of 2006.

Schering Plough

In May of 2006, the Company entered into a collaboration agreement with the SPRI division of Schering Corporation for therapeutic monoclonal antibody discovery and development. Under the agreement, SPRI will make upfront, annual maintenance and milestone payments to the Company, fund the Company's R&D and manufacturing activities related to the agreement and pay the Company royalties on sales of products resulting from the collaboration. During the collaboration, the Company will discover therapeutic antibodies against one or more targets selected by SPRI, use the Company's proprietary HE™ technology to humanize antibody candidates generated by hybridoma techniques, perform pre-clinical studies to support regulatory filings, cell line and process development and produce antibodies for initial clinical trials. The Company will recognize revenue on the upfront payments on a straight-line basis over the expected term of each target antibody discovery, on the R&D and manufacturing services as they are performed, on the maintenance fees when they are due, on the milestones when they are achieved and on the royalties when the underlying sales occur.

Takeda

In November of 2006, the Company entered into a collaboration agreement with Takeda for therapeutic monoclonal antibody discovery and development. Under the agreement, Takeda will make upfront, annual maintenance and milestone payments to the Company, fund its R&D and manufacturing activities for preclinical and early clinical supplies and pay royalties on sales of products resulting from the collaboration. Takeda will be responsible for clinical trials and commercialization of drugs after a Investigational New Drug Application ("IND") submission and is granted the right to manufacture once the product enters into Phase II clinical trials. During the collaboration, the Company will discover therapeutic antibodies against multiple targets selected by Takeda. The Company will recognize revenue on the upfront payments on a straight-line basis over the expected term of each target antibody discovery, on the R&D and manufacturing services as they are performed, on the maintenance fees when they are due, on the milestones when they are achieved and on the royalties when the underlying sales occur.

See Note 10, "Subsequent Events," to the Consolidated Financial Statements for an update to this agreement.

Millennium

In November of 2001, XOMA entered into a collaboration agreement with Millennium Pharmaceuticals, Inc. ("Millennium") to develop two of Millennium's biotherapeutic agents for certain vascular inflammation indications. In October of 2003, the companies announced the discontinuation of development of one of these products and the resulting amendment of the agreement. In October of 2004, the Company further amended its agreements with Millennium whereby Millennium assumed responsibility for all development work on the remaining product, MLN2222, upon initiation of Phase II testing. In 2005, the Company completed a Phase I trial of MLN2222 and transferred the relevant clinical data from the trial to Millennium. XOMA is obligated to continue to provide quantities of bulk drug substance and services requested and paid for by Millennium for future clinical trials. The Company will be entitled to receive an undisclosed royalty on future net sales of MLN2222, as well as payments related to the achievement of certain clinical and regulatory milestones. Revenue on the royalties will be recognized when the underlying sales occur and on the milestones when they are achieved.

See Note 4, "Convertible Notes and Other Arrangements," to the Consolidated Financial Statements for a discussion of the related financing arrangement between XOMA and Millennium.

Alexion

In December of 2003, XOMA entered into a collaboration agreement with Alexion Pharmaceuticals, Inc. ("Alexion") to jointly develop and commercialize a rationally designed TPO mimetic antibody to treat chemotherapy-induced thrombocytopenia. Thrombocytopenia is an abnormal blood condition in which the number of platelets is reduced, potentially leading to bleeding complications. Under the terms of the agreement, XOMA agreed to share development and commercialization expenses with Alexion, including preclinical development, manufacturing and marketing costs world-wide, as well as revenues, generally on a 70-30 basis, with XOMA's share being 30%. Alexion received a payment from the Company tied to initiation of the collaboration and was entitled to receive a payment tied to achievement of a regulatory milestone. XOMA was entitled to royalty payments and milestones related to the Company's bacterial expression technology. In November of 2004, XOMA and Alexion determined that the lead molecule in the Company's TPO mimetic collaboration did not meet the criteria established in the program for continued development. In the first quarter of 2005, XOMA and Alexion determined not to continue with this development program and, in the second quarter of 2005, the collaboration was terminated.

Aphton

In September of 2004, XOMA announced a worldwide collaboration with Aphton Corporation ("Aphton") to develop treatments for gastrointestinal and other gastrin-sensitive cancers using anti-gastrin monoclonal antibodies. Under the terms of the agreement, the companies agreed to share all development expenses and all commercialization profits and losses for all product candidates on a 70-30 basis, with the Company's share being 30%. In May of 2006, Aphton filed for bankruptcy protection under Chapter 11, Title 11 of the United States Bankruptcy Code and the agreement was terminated.

4. Convertible Notes and Other Arrangements

Term Loan

On November 9, 2006, XOMA (US) LLC entered into a five-year, $35.0 million term loan facility ("the facility") with Goldman Sachs and borrowed the full amount thereunder. The loan is guaranteed by the Company. Indebtedness under the facility will bear interest at an annual rate equal to six-month LIBOR plus 5.25%, which was 10.637% at December 31, 2006, and is secured by all rights to receive payments due XOMA (US) LLC relating to RAPTIVA®, LUCENTIS® and CIMZIA™ and other assets of the Company. Payments received by XOMA (US) LLC in respect of these payment rights, in addition to a standing reserve of the next semi-annual interest payment, will be held in a custodial account which is classified as restricted cash. This cash account and the interest earned thereon can be used solely for the payment of the semi-annual interest amounts due in March and September of each year and, at that time, amounts in excess of the interest reserve requirement may be used to pay down principal or be distributed back to the Company, at the discretion of the lender. XOMA (US) LLC may prepay indebtedness under the facility at any time, subject to certain prepayment premiums. XOMA (US) LLC is required to comply with a debt covenant determined by the ratio of royalties collected to interest payable. Proceeds from the loan will be used for general corporate purposes.

At December 31, 2006, the outstanding principal amount under this loan totaled $35.0 million and related restricted cash was $4.3 million. Debt issuance costs of $1.5 million are being amortized on a straight-line basis over the five year life of the loan and are disclosed as current and long-term debt issuance costs on the balance sheet. In 2006, the Company incurred interest expense payable of $0.5 million and amortization of debt issuance costs of $42,000.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Convertible Senior Notes

In February of 2005, XOMA issued $60.0 million of 6.5% convertible senior notes due in 2012, the proceeds of which were used for general corporate purposes, including current research and development projects, the development of new products or technologies, equipment acquisitions, general working capital purposes and operating expenses. The notes were initially convertible into approximately 32 million common shares at a conversion rate of 533.4756 of the Company's common shares per $1,000 principal amount of notes, which is equivalent to a conversion price of approximately $1.87 per common share. The convertible senior notes were issued, to the initial purchasers, for net proceeds of $56.6 million. The issuance costs of approximately $3.4 million are being amortized on a straight-line basis over the 84 month life of the notes, and are disclosed as current and long-term debt issuance costs on the balance sheet.

In February of 2006, the Company completed an exchange offer with holders of its 6.5% convertible senior notes due 2012 in which the Company exchanged $60.0 million aggregate principal amount of its new 6.5% Convertible SNAPs$_{SM}$ due 2012 (the "New Notes") for all $60.0 million aggregate principal amount of its then outstanding convertible senior notes due 2012. The Company also issued an additional $12.0 million of New Notes to the public for cash at a public offering price of 104% of principal, or $12.5 million. The New Notes are initially convertible into approximately 38.4 million common shares at a conversion rate of 533.4756 of common shares per $1,000 principal amount of New Notes, which is equivalent to a conversion price of approximately $1.87 per common share. Before February 10, 2010, the Company may not redeem the New Notes. On or after February 10, 2010, the Company may redeem any or all of the New Notes at 100% of the principal amount, plus accrued and unpaid interest. In addition, the Company may automatically convert some or all of the New Notes on or prior to the maturity date if the closing price of its common shares has exceeded 150% of the conversion price then in effect for at least 20 trading days during any consecutive 30 trading day period ending within five trading days prior to the notice of auto-conversion. If the Company elects to automatically convert, or if holders elect to voluntarily convert, some or all of the New Notes on or prior to February 10, 2010, it must pay or provide for additional interest equal to four years' worth of interest less any interest paid or provided for, on the principal amount so converted, prior to the date of conversion. Additional interest, if any, shall be paid in cash or, solely at the Company's option and subject to certain limitations, in its common shares valued at the conversion price then in effect.

In accounting for the New Notes, the Company applied guidance as set forth in EITF 96-19, Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended ("SFAS 133"), EITF 05-7, EITF 00-19, and EITF 01-6 as follows. The exchange offer is a modification of existing debt, rather than an extinguishment. The additional interest payment upon conversion is an embedded derivative requiring separate accounting. The Company considered the provisions of EITF 05-2 and concluded that this is not conventional convertible debt.

In accordance with SFAS 133, the Company has separately accounted for the additional interest payment feature of the New Notes as an embedded derivative instrument, which is measured at fair value and classified on the balance sheet with the convertible debt. Changes in the fair value of the embedded derivative are recognized in earnings as a component of other income (expense). At the time of issuance, the Company estimated the fair value of the additional interest payment feature to be $5.8 million, including approximately $1.0 million related to the New Notes issued for cash, based on current information including share price. For the New Notes issued in the exchange offer and in the new money offering, this amount was subtracted from the carrying value of the debt, reflected as a debt discount, which is amortized as interest expense using the effective interest method through the date the notes are scheduled to mature, and separately reported as a derivative liability.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

At December 31, 2006 and 2005, convertible debt consisted of the following (in thousands):

	December 31,	
	2006	2005
Convertible debt	$ 41,363	$ 60,000
Embedded derivative	5,207	—
Premium	253	—
Total	$ 46,823	$ 60,000

The additional New Notes were issued, to the initial purchasers, for net proceeds of $11.8 million. Debt issuance costs related to the New Notes of approximately $0.7 million are being amortized on a straight-line basis over the 72 month life of the notes. Additional debt issuance costs of $2.0 million, related to the modification of the existing debt, were expensed as incurred with $1.1 million and $0.9 million expensed during 2006 and 2005, respectively.

For the year ended December 31, 2006, $27.5 million of New Notes were converted into 18,262,264 common shares including 3,602,879 shares related to the additional interest payment feature of the notes. As of December 31, 2006, the Company has elected to pay all additional interest owed in common shares. The Company recorded a $6.9 million charge to interest expense during the year ended December 31, 2006, as a result of an increase in the fair value of the embedded derivative on its convertible debt including $4.8 million related to the additional interest feature of the converted notes. The remaining principal of $44.5 million is convertible into 23,750,873 common shares and 1,889,317 common shares remain available for payment of the additional interest feature.

For the years ended December 31, 2006 and 2005, the Company incurred $3.4 million and $3.5 million, respectively, in interest expense payable on its convertible debt. Interest expense is payable on a semi-annual basis. Additionally, the Company amortized a net of $1.0 million in debt issuance costs, premium and discount for the year ended December 31, 2006, and $0.5 million in debt issuance costs for the year ended December 31, 2005.

See Note 10, “Subsequent Events,” to the Consolidated Financial Statements for an update on convertible debt.

Novartis

In May of 2005, the Company executed a secured note agreement with Novartis. Under the note agreement, Novartis agreed to make semi-annual loans to the Company, to fund up to 75% of the Company’s research and development and commercialization costs under the collaboration arrangement, not to exceed $50.0 million in an aggregate principal amount. Any unpaid principal amount together with accrued and unpaid interest shall be due and payable in full on June 21, 2015, the tenth anniversary date of the advance date on which the first loan was made. Interest on the unpaid balance of the principal amount of each loan shall accrue six-month LIBOR plus 2%, which was equal to 7.37% at December 31, 2006, and is payable semi-annually in June and December of each year. At the Company’s election, the semi-annual interest payments can be added to the outstanding principal amount, in lieu of a cash payment, as long as the aggregate principal amount does not exceed $50.0 million. Loans under the note agreement are secured by the Company’s interest in its collaboration with Novartis, including its share of any profits arising therefrom. At December 31, 2006, the outstanding principal balance under this note agreement totaled $16.4 million and for the years ended December 31, 2006, and 2005, the Company incurred and capitalized interest expense of $1.0 million and $0.3 million, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Genentech

Under an arrangement with Genentech, the Company received financing for its share of RAPTIVA® development costs through the issuance of convertible subordinated notes due at the earlier of April of 2005 or upon first regulatory approval of RAPTIVA®, which occurred on October 27, 2003. The interest rate was LIBOR plus 1%.

The agreement was amended March 31, 2003, to provide the following terms:

- The credit limit under the convertible subordinated debt agreement to finance XOMA's share of development costs was increased to $80.0 million. The convertible subordinated note was to mature upon the earlier of (a) April of 2005, except for advances made after April of 2003, in which case payment would be due on the second anniversary date(s) of such advances or (b) within 90 days after first product approval which occurred on October 27, 2003. At XOMA's election, the convertible subordinated note was to be repaid in cash or with shares with the conversion price to be calculated at the time of payment based on the fair market value at the time of election. If repayment were triggered by product approval, XOMA could elect to defer payment of up to $40.0 million as an offset against the Company's proceeds from its 25% share of United States operating profits on the product. Following product approval, on November 3, 2003, XOMA announced its election to defer payment of approximately $40.0 million of this debt as provided above and on December 22, 2003, the Company issued 2,959 of convertible preference shares to repay the approximately $29.6 million remaining outstanding balance.
- An additional $15.0 million debt facility was established to finance XOMA's share of United States commercialization costs. The note payable was to mature upon the earlier of (a) April of 2005, except for advances made after April of 2003 in which case payment was due on the second anniversary date(s) of such advances or (b) within 90 days after first product approval by the FDA which occurred on October 27, 2003. At December 31, 2003, the outstanding balance under this note totaled approximately $13.2 million. Under the terms of the agreement, the outstanding balance of $3.0 million related to 2002 commercialization costs was repaid in cash in January of 2004. The balance of $10.2 million which relates to 2003 commercialization costs was repaid in cash in May of 2004.
- XOMA granted Genentech a security interest in the Company's profit share on RAPTIVA® as collateral against any unpaid past due amounts of the loans.

The agreement was further amended in January of 2005, wherein XOMA's liability for the remaining $40.9 million balance outstanding under the development loan, including accrued interest, was extinguished and the profit sharing arrangement was terminated. The Company recorded a one-time gain to other income of $40.9 million related to the extinguishment of the loan. The Company has no further obligation under the loan arrangement.

Millennium

In conjunction with the Millennium development agreements, Millennium committed to purchase, at XOMA's option, the Company's common shares over three years, through a combination of equity at prevailing market prices in return for cash and retirement of XOMA's convertible debt with Millennium. In 2004, the Company exercised its option to sell 920,284 shares to Millennium for gross proceeds of $3.7 million. In 2003, the Company exercised its option to sell 1,372,485 for gross proceeds of $9.4 million. In 2004, the Company repaid the final $5.0 million of convertible debt, in cash.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

5. Share Capital

Common Shares

As of December 31, 2006, the Company had the authority to issue 210,000,000 common shares with a par value $0.0005 per share of which 105,454,389 were outstanding.

In July of 2004, the Company issued 920,284 common shares for net proceeds of $3.7 million related to the Millennium investment agreement.

Preference Shares

As of December 31, 2006, the Company has the authority to issue 1,000,000 preference shares, par value $0.05 per share. Of these, 210,000 preference shares have been designated Series A Preference Shares and 8,000 preference shares have been designated Series B Preference Shares.

- Series A: As of December 31, 2006, the Company has authorized 210,000 Series A Preference Shares of which none were outstanding at December 31, 2006 and 2005. (See "Shareholder Rights Plan" below.)
- Series B: As of December 31, 2006, the Company has authorized 8,000 Series B Preference Shares. In December of 2003, the Company issued 2,959 of the Series B preference shares to Genentech in repayment of $29.6 million of the outstanding balance under the convertible subordinated debt agreement. Pursuant to the rights of the Series B preference shares, the holders of Series B preference shares will not be entitled to receive any dividends on the Series B preference shares. The Series B preference shares will rank senior with respect to rights on liquidation, winding-up and dissolution of XOMA to all classes of common shares. Upon any voluntary or involuntary liquidation, dissolution or winding-up of XOMA, holders of Series B preference shares will be entitled to receive $10,000 per share of Series B preference shares before any distribution is made on the common shares. The holder of the Series B preference shares has no voting rights, except as required under Bermuda law.

  The holder of Series B preference shares has the right to convert Series B preference shares into common shares at a conversion price equal to $7.75 per common share, subject to adjustment in certain circumstances. Accordingly, the 2,959 issued Series B preference shares are convertible into approximately 3,818,000 common shares.

  The Series B preference shares will be automatically converted into common shares at its then effective conversion rate immediately upon the transfer by the initial holder to any third party which is not an affiliate of such holder. The Company will have the right, at any time and from time to time, to redeem any or all Series B preference shares for cash in an amount equal to the conversion price multiplied by the number of common shares into which each such share of Series B preference shares would then be convertible.

  See Note 4, "Convertible Notes and Other Arrangements," to the Consolidated Financial Statements.

Management Incentive Compensation Plans

The Board of Directors of the Company established a Management Incentive Compensation Plan ("MICP") effective July 1, 1993, 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. The Chief Executive Officer is covered under a CEO Incentive Compensation Plan ("CICP") which was established by the Board of Directors of the Company effective January 1, 2004.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

As of January 1, 2004, awards earned under the MICP and CICP vest immediately upon the distribution date which occurs during the first quarter of the following fiscal year with half of the award payable in cash and half in common shares, so long as the participant remains an employee of the Company.

Awards earned under the MICP prior to 2004 vested over a three-year period with 50% of each award payable during 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 remained an employee of the Company. The 50% on the first distribution date was payable half in cash and half in common shares. The balance on the next two annual distribution dates was payable, at the election of the participant, all in cash, all in common shares or half in cash and half in common shares or, for elections not made in a timely manner, all in common shares. The final payout under this plan occurred in 2006.

The number of common shares issued pursuant to awards made for the years ended December 31, 2006 and 2005, under the two plans were 177,180 and 276,251, respectively, and these shares have been reserved under the Restricted Plan (as defined below).

The amounts charged to expense under the MICP and CICP were $1.9 million, $1.5 million and $2.3 million for the plan years 2006, 2005 and 2004, respectively. As of December 31, 2006, $2.1 million was accrued related to these plans.

Employee Share Purchase Plan

In 1998, the shareholders approved the 1998 Employee Share Purchase Plan (“Share Purchase Plan”) which provides employees of the Company the opportunity to purchase common shares through payroll deductions. The Company has reserved 1,500,000 common shares for issuance under the Share Purchase Plan. An employee may elect to have payroll deductions made under the Share Purchase Plan for the purchase of common shares in an amount not to exceed 15% of the employee’s compensation.

Prior to December 31, 2004, the purchase price per common share was either (i) an amount equal to 85% of the fair market value of a common share on the first day of a 24-month offering period or on the last day of such offering period, whichever was lower, or (ii) such higher price as may be set by the Compensation Committee of the Board at the beginning of such offering period.

Effective January 1, 2005, the plan was amended to reduce future offering periods to three months and to change the purchase price per common share to 95% of the closing price of XOMA shares on the exercise date.

In 2006 and 2005, employees purchased 234,535 and 129,433 common shares, respectively under the Share Purchase Plan. Net payroll deductions under the Share Purchase Plan totaled $9,000, $47,000 and $0.3 million for 2006, 2005 and 2004, respectively.

Shareholder Rights Plan

On February 26, 2003, the Company’s Board of Directors unanimously adopted a Shareholder Rights Plan (“Rights Plan”), which is designed to extend the provisions of a similar rights plan originally adopted in October of 1993. Under the Rights Plan, Preference Share Purchase Rights (“Rights”) are authorized and granted at the rate of one Right for each outstanding common share. Each Right entitles the registered holder of common shares to buy a fraction of a share of the new series of Preference Shares (“Series A Preference Shares”) at an exercise price of $30.00, subject to adjustment. The Rights will be exercisable and will detach from the common share,

only if a person or group acquires 20 percent or more of the common shares, announces a tender or exchange offer that if consummated will result in a person or group beneficially owning 20 percent or more of the common shares or if the Board of Directors declares a person or group owning 10 percent or more of the outstanding common shares 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 Preference Share (or, in certain circumstances, common shares of the acquiring person) with a value of twice the Rights exercise price. The Company will generally be entitled to redeem the Rights at $0.001 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 February 26, 2013.

Shares Reserved for Future Issuance

The Company has reserved common shares for future issuance as of December 31, 2006, as follows:

Share option plans	11,888,176
Convertible debt and related interest	25,640,190
Convertible preference shares	3,818,395
Employee share purchase plan	555,554
Warrants	125,000
Total	42,027,315

Share Options and Warrants

At December 31, 2006, the Company had share-based compensation plans, as described below. The aggregate number of common shares that may be issued under these plans is 15,215,000 shares.

Share Option Plan

Under the Company's amended 1981 Share Option Plan ("Option Plan") the Company grants qualified and non-qualified share options to employees and other individuals, as determined by the Board of Directors, at exercise prices of not less than the fair market value of the Company's common shares on the date of grant. Options granted under the Option Plan may be exercised when vested and generally expire ten years from the date of the grant or three months from the date of termination of employment (longer in case of death or certain retirements). Options granted generally vest over four years and certain options may fully vest upon a change of control of the Company. The Option Plan will terminate on November 15, 2011.

Up to 14,600,000 shares are authorized for issuance under the Option Plan. As of December 31, 2006, options covering 5,697,871 common shares were outstanding under the Option Plan.

Restricted Share Plan

The Company also has a Restricted Share Plan ("Restricted Plan") which provides for the issuance of options or grants of common shares to certain employees and other individuals as determined by the Board of Directors at fair market value of the common shares on the grant date. Prior to 2005, options or shares could be granted at not less than 85% of fair market value of the common shares on the grant date. Each option issued under the Restricted Plan will be a non-statutory share option under the federal tax laws and will have a term not in excess of ten years from the grant date or three months from the date of termination of employment (longer in the case of death or certain retirements). Options granted generally vest over four years and certain options may fully vest upon a change of control of the Company. The Restricted Plan will terminate on November 15, 2011.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Up to 2,250,000 shares are authorized for issuance under the Restricted Plan, subject to the condition that not more than 14,600,000 shares are authorized under both the Option Plan and the Restricted Plan. As of December 31, 2006, options covering 160,493 common shares were outstanding under the Restricted Plan.

Directors Share Option Plan and Other Options

In 1992, the shareholders approved a Directors Share Option Plan ("Directors Plan") which provides for the issuance of options to purchase common shares to non-employee directors of the Company at 100% of the fair market value of the shares on the date of the grant. Up to 600,000 shares are authorized for issuance during the term of the Directors Plan. Options generally vest on the date of grant and have a term of up to ten years. As of December 31, 2006, options for 356,500 common shares were outstanding under the Directors Plan.

In addition, in July of 2002, the Company granted a non-qualified fully-vested option to a director to purchase 15,000 common shares at 100% of the fair market value of the shares on the date of grant, which will expire in ten years. This option was not issued as part of the Directors Plan.

Share Option Plans Summary

A summary of the status of the all of Company's share option plans as of December 31, 2006, 2005 and 2004, and changes during years ended on those dates is presented below:

	2006		2005		2004	
Options:	**Shares**	**Price***	**Shares**	**Price***	**Shares**	**Price***
Outstanding at beginning of year	5,422,096	$ 4.96	5,789,555	$ 5.42	5,544,676	$ 5.44
Granted						
(1)	—	—	2,000	1.52	1,000	3.26
(2)	1,480,300	1.70	1,376,000	1.50	1,196,200	5.07
Exercised	(3,733)	1.41	—	—	(248,319)	2.60
Forfeited, expired or cancelled (3)	(668,799)	4.68	(1,745,459)	3.78	(704,002)	5.96
Outstanding at end of year	6,229,864	4.22	5,422,096	4.96	5,789,555	5.42
Exercisable at end of year	4,245,736		4,187,258		3,841,358	
Weighted average fair value of options granted						
(1)		—		$ 0.96		$ 2.32
(2)		$ 1.16		$ 0.96		$ 3.56

* Weighted-average exercise price:

(1) Option price less than market price on date of grant as provided for in the Restricted Share Plan; shares issued in 2005 were canceled in order to conform to revised terms of the plan, applied retroactively.

(2) Option price equal to market price on date of grant.

(3) The Company adjusts for forfeitures as they occur.

Total cash received from share option exercises was $5,300 during 2006, total intrinsic value of options exercised during was $1,400.

XOMA Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table summarizes information about share options outstanding at December 31, 2006:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number	Life *	Price **	Number	Price **
$ 1.08 – 1.41	889,356	8.18	$ 1.40	475,782	$ 1.40
1.44 – 1.68	1,110,600	9.16	1.68	8,126	1.49
1.69 – 2.31	630,746	8.98	1.83	191,708	1.85
2.35 – 3.33	637,750	6.07	3.23	608,708	3.27
3.38 – 4.94	626,528	4.13	3.96	626,528	3.96
4.95 – 5.70	655,100	4.37	5.40	655,100	5.40
5.77 – 7.05	625,534	4.59	6.19	625,534	6.19
7.50 – 9.75	640,000	3.92	8.93	640,000	8.93
9.99 – 12.60	384,250	4.97	10.26	384,250	10.26
12.99 – 12.99	30,000	4.41	12.99	30,000	12.99
1.08 – 12.99	6,229,864	6.40	4.22	4,245,736	5.41
Options expected to vest	5,965,530		4.33		

* Weighted-average remaining contractual life

** Weighted-average exercise price

The weighted average remaining contractual term of outstanding share options at December 31, 2006, was 6.4 years and the aggregate intrinsic value was $1.5 million. The weighted average remaining contractual term of exercisable share options at December 31, 2006, was 5.2 years and the aggregate intrinsic value was $0.5 million.

Warrants

In July of 1998, warrants to purchase 250,000 common shares at $6.00 per share were issued to Incyte Corporation in partial payment of license fees. The warrants were exercisable upon issuance. These warrants expire in July of 2008. As of December 31, 2006, there were 125,000 of these warrants outstanding.

6. Commitments and Contingencies

Collaborative Agreements and Royalties

The Company is obligated to pay royalties, ranging generally from 1.5% to 5% of the selling price of the licensed component and up to 25% of any sublicense fees 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, 2006, the Company leased administrative, research facilities, and office equipment under operating leases expiring on various dates through May of 2014.

XOMA Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Future minimum lease commitments are as follows (in thousands):

	Operating Leases
2007	$ 3,251
2008	1,970
2009	1,349
2010	1,379
2011	1,259
Thereafter	3,028
Minimum lease payments	$ 12,236

Total rental expense was approximately $3.1 million, $2.9 million and $2.9 million for the years ended December 31, 2006, 2005 and 2004, respectively.

Legal Proceedings

In September of 2004, XOMA (US) LLC entered into a collaboration with Aphton for the treatment of gastrointestinal and other gastrin-sensitive cancers using anti-gastrin monoclonal antibodies. In May of 2006, Aphton filed for bankruptcy protection under Chapter 11, Title 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware, No. 06-10510 (CSS). XOMA (US) LLC filed a proof of claim in the proceeding, as an unsecured creditor of Aphton, for approximately $594,000. Recently, Aphton and the Official Committee of Unsecured Creditors filed a Proposed Plan of Reorganization that would result in a liquidation of Aphton and the process of seeking approval of that Plan has commenced. It is not presently known what, if any, distributions will be made to holders of unsecured claims.

7. Income Taxes

The significant components of net deferred tax assets as of December 31, 2006 and 2005, are as follows (in millions):

	December 31,	
	2006	2005
Capitalized research and development expenses	$ 70.9	$ 60.1
Net operating loss carryforwards	65.3	70.7
Research and development and other credit carryforwards	20.4	20.9
Other	6.7	5.7
Total deferred tax assets	163.3	157.4
Valuation allowance	(163.3)	(157.4)
Net deferred tax assets	$ —	$ —

The net increase (decrease) in the valuation allowance was $5.9 million, $(15.8) million and $45.4 million for the years ended December 31, 2006, 2005 and 2004, respectively. Approximately $28.1 million and $32.3 million in unutilized net operating loss carryforwards (“NOLs”) expired in 2006 and 2005, respectively.

FASB Statement No. 109, “Accounting for Income Taxes,” (“SFAS 109”) provides for the recognition of deferred tax assets if realization of such assets is more likely than not. Based upon the weight of available

evidence, which includes the Company's historical operating performance and carryback potential, the Company has determined that total deferred tax assets should be fully offset by a valuation allowance.

XOMA's accumulated federal and state tax net operating loss carryforwards and credit carryforwards as of December 31, 2006, are as follows:

	Amounts (in millions)	Expiration Dates
Federal		
NOLs	$ 173.5	2007 – 2026
Credits	11.3	2007 – 2026
State		
NOLs	108.8	2007 – 2016
Credits	13.6	Do not expire

The availability of the Company's net operating loss and tax credit carryforwards may be subject to substantial limitation if it should be determined that there has been a change in ownership of more than 50 percent of the value of the Company's shares over a three year period.

In 2006, income tax expense was zero compared with $3,000 in 2005 and zero in 2004. The expense in 2005 is related to activities of the Company's foreign operations.

8. Related Party Transactions

Related party transactions consist of relocation loans to two employees. The initial loans of $70,000 and $150,000 were granted in 2001 and 2004, respectively, and are being forgiven, along with related interest, over five and two-thirds and four years, respectively, contingent on the employees continued employment with the Company. The final forgiveness will be in November of 2008.

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 50% of their eligible compensation per payroll period, up to a maximum for 2006 of $15,000 (or $20,000 for employees over 50 years of age). The Company may, at its sole discretion, make contributions each plan year, in cash or in the Company's common shares, in amounts which match up to 50% of the salary deferred by the participants. The expense related to these contributions was $0.8 million; $0.6 million and $0.6 million for the years ended December 31, 2006, 2005 and 2004, respectively.

10. Subsequent Events

On February 26, 2007, Jack Castello, Chairman of the Board, President and Chief Executive Officer of XOMA, announced his plans to retire. Mr. Castello will continue to serve in his present capacities during the candidate search and transition period.

On February 28, 2007, the Company announced that pursuant to the terms of its collaboration agreement with Novartis, the parties' mutual obligations to conduct antibody discovery, development and commercialization work together on an exclusive basis in oncology have expired, except with respect to existing collaboration projects which have reached the development stage. Unamortized deferred revenue of $4.3 million,

XOMA Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

at December 31, 2006, associated with the upfront collaboration fee of $10.0 million will be recognized during the first quarter of 2007. Prior to the expiration of the exclusivity period, the upfront fee was being amortized over the expected five-year term of the exclusivity provision, or at a rate of $0.5 million a quarter. All other terms of the collaboration remain in effect.

On February 28, 2007, the Company and Takeda announced that they had amended their existing collaboration agreement to increase the number of potential therapeutic antibody programs in oncology under the collaboration initiated in November of 2006.

As of March 7, 2007, an additional $42.0 million of the Company's New Notes were converted into 24,223,414 common shares, including 1,790,759 shares related to the additional interest payment feature of the notes. As a result of the limitation on shares available to satisfy the additional interest feature, the Company also paid $4.9 million of additional interest in cash. At the time of the note conversions, the Company recorded a $5.8 million charge to interest expense as a result of the revaluation to fair value of the embedded derivative related to the additional interest feature of the notes. The remaining outstanding principal amount of the notes of $2.5 million is convertible into 1,416,776 common shares with 98,558 shares available to pay the additional interest feature.

On March 7, 2006, the Company announced that the conditions necessary for the auto-conversion of the remaining $2.5 million principal outstanding of its convertible debt had been met and that it had elected to notify note holders of its intention to redeem any notes not converted and still outstanding as of March 27, 2007.

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Index to Exhibits

Exhibit Number	
1	Underwriting Agreement dated as of September 19, 2003 by and between XOMA Ltd. and the several underwriters named therein (Exhibit 2)[1]
3.1	Memorandum of Continuance of XOMA Ltd. (Exhibit 3.4)[2]
3.2	Bye-Laws of XOMA Ltd. (as amended) (Exhibit 3.2)[3]
4.1	Shareholder Rights Agreement dated as of February 26, 2003, by and between XOMA Ltd. and Mellon Investor Services LLC as Rights Agent (Exhibit 4.1)[3]
4.2	Form of Resolution Regarding Preferences and Rights of Series A Preference Shares (Included as Exhibit A to Exhibit 4.1 above) (Exhibit 4.2)[3]
4.3	Form of Resolution Regarding Preferences and Rights of Series B Preference Shares (Exhibit 4.3)[2]
4.4	Form of Common Stock Purchase Warrant (Incyte Warrants) (Exhibit 2)[4]
4.5	Indenture between XOMA Ltd. and Wells Fargo Bank, National Association, as trustee, relating to the Company's 6.50% Convertible SNAPs$_{SM}$ due February 1, 2012 (Exhibit 2)[30]
10.1	1981 Share Option Plan as amended and restated (Exhibit 10.1)[5]
10.1A	Form of Share Option Agreement for 1981 Share Option Plan (Exhibit 10.2)[5]
10.1B	Amendment to 1981 Share Option Plan (Exhibit 10.1B)[26]
10.1C	Amendment No. 2 to 1981 Share Option Plan (Exhibit 10.1C)[26]
10.2	Restricted Share Plan as amended and restated (Exhibit 10.3)[5]
10.2A	Form of Share Option Agreement for Restricted Share Plan (Exhibit 10.4)[5]
10.2B	Form of Restricted Share Purchase Agreement for Restricted Share Plan (Exhibit 10.5)[5]
10.2C	Amendment to Restricted Share Plan (Exhibit 10.2C)[26]
10.2D	Amendment No. 2 to Restricted Share Plan (Exhibit 10.2D)[26]
10.3	1992 Directors Share Option Plan as amended and restated (Exhibit 10.7) (Exhibit 10.3)[26]
10.3A	Form of Share Option Agreement for 1992 Directors Share Option Plan (initial grants) (Exhibit 10.8)[5]
10.3B	Form of Share Option Agreement for 1992 Directors Share Option Plan (subsequent grants) (Exhibit 10.9)[5]
10.3C	2002 Director Share Option Plan (Exhibit 10.10)[5]
10.4	Management Incentive Compensation Plan as amended and restated (Exhibit 10.6)[5]
10.4A	Amendment to Management Incentive Compensation Plan (Exhibit 10.4A)[26]
10.5	1998 Employee Share Purchase Plan (Exhibit 10.11)[5]
10.5A	Amendment to 1998 Employee Share Purchase Plan (Exhibit 10.5A)[26]
10.5B	Amendment to 1998 Employee Share Purchase Plan (Exhibit 10.5B)[26]
10.6	Form of Amended and Restated Indemnification Agreement for Officers
10.7	Form of Amended and Restated Indemnification Agreement for Employee Directors
10.8	Form of Amended and Restated Indemnification Agreement for Non-employee Directors
10.9	Form of Employment Agreement entered into between XOMA (US) LLC and certain of its executives, with reference schedule[31]

Exhibit Number	
10.10	Form of Change of Control Severance Agreement entered into between XOMA Ltd. and certain of its executives, with reference schedule[31]
10.11	Lease of premises at 890 Heinz Street, Berkeley, California dated as of July 22, 1987 (Exhibit 10.12)[6]
10.12	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 (Exhibit 10.13)[6]
10.13	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 (Exhibit 10.14)[6]
10.14	Letter of Agreement regarding CPI adjustment dates for leases of premises at Buildings C, E and F at Aquatic Park Center, Berkeley, California dated as of July 22, 1987 (Exhibit 10.15)[6]
10.15	Lease of premises at 2910 Seventh Street, Berkeley, California dated March 25, 1992 (Exhibit 10.16)[6]
10.16	Lease of premises at 5860 and 5864 Hollis Street, Emeryville, California dated as of November 2, 2001 (with addendum) (Exhibit 10.19)[8]
10.17	Lease of premises at 2850 Seventh Street, Second Floor, Berkeley, California dated as of December 28, 2001 (with addendum and guaranty) (Exhibit 10.20)[8]
10.18	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) (Exhibit 10.28)[6]
10.19A	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) (Exhibit 10.28A)[6]
10.19B	Fourth Amendment to License Agreement dated December 23, 1998, between the Company and New York University (Exhibit 10.22B)[9]
10.22C	Fifth Amendment to License Agreement dated June 25, 1999, between the Company and New York University (Exhibit 10.21C)[10]
10.19D	Sixth Amendment to License Agreement dated January 25, 2000, 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) (Exhibit 10.1)[11]
10.19E	Seventh Amendment to License Agreement by and among New York University, XOMA Technology Limited and XOMA Ireland Limited effective as of November 10, 2004, (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)[25]
10.20	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)[7]
10.21A	Amendment Number One to Technology Acquisition Agreement dated December 8, 1999, between Connetics Corporation and XOMA (US) LLC (with certain confidential information deleted) (Exhibit 10.23A)[10]
10.21B	Agreement dated December 8, 1999, by and between The Immune Response Corporation and XOMA (US) LLC (with certain confidential information deleted) (Exhibit 10.23B)[10]

Exhibit Number	
10.22	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 request and has been filed separately with the Securities and Exchange Commission) (Exhibit 10.1)[11]
10.22A	Amendment to Collaboration Agreement, dated as of April 14, 1999, 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 10.5)[12]
10.22B	Amended and Restated Collaboration Agreement, dated March 31, 2003, by and between XOMA (US) LLC and Genentech, Inc. (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 2)[17]
10.22C	Second Amended and Restated Collaboration Agreement dated January 12, 2005, by and between XOMA (US) LLC and Genentech, Inc. (with certain confidential information omitted, which omitted information is the subject of a confidential treatment request and has been filed separately with the Securities and Exchange Commission) (Exhibit 10.26C)[26]
10.23	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)[13]
10.23A	Amendment to Common Stock and Convertible Note Purchase Agreement, dated as of April 14, 1999, between XOMA Ltd. and Genentech, Inc. (Exhibit 10.6)[12]
10.24	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)[13]
10.24A	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)[13]
10.24B	Second Amendment to Convertible Subordinated Note Agreement, dated as of April 14, 1999, between the XOMA Ltd. 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 10.7)[12]
10.24C	Amended and Restated Convertible Secured Note Agreement (Development Loan), dated as of March 31, 2003 (Exhibit 3)[7]
10.24D	Secured Note Agreement (Commercial Launch Loan), dated as of March 31, 2003 (Exhibit 4)[7]
10.24E	Security Agreement, dated as of March 31, 2003, by and between XOMA Ltd. and Genentech, Inc. (Exhibit 5)[7]
10.24F	Registration Rights Agreement, dated as of March 31, 2003, by and between XOMA Ltd. and Genentech, Inc. (Exhibit 6)[7]
10.25	License Agreement between Incyte Pharmaceuticals, Inc. and XOMA Corporation effective as of July 9, 1998, (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 1)[4]

Exhibit Number	
10.25A	Amendment No. 1 to License Agreement by and among Incyte Corporation, XOMA Technology Limited and XOMA Ireland Limited effective as of November 10, 2004, (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)[25]
10.26	Registration Rights Agreement dated as of July 9, 1998, by and among the Company and Incyte Pharmaceuticals, Inc. (Exhibit 3)[7]
10.27	Development and License Agreement, dated November 26, 2001, by and among XOMA (US) LLC, XOMA Ireland Limited and Millennium Pharmaceuticals, 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 2)[14]
10.27A	Omnibus Agreement dated as of October 8, 2004, by and among XOMA (US) LLC, XOMA Ireland Limited and Millennium Pharmaceuticals, 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)[23]
10.28	Investment Agreement, dated as of November 26, 2001, by and among XOMA, Millennium Pharmaceuticals, Inc. and mHoldings Trust (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 3)[14]
10.28A	Letter Agreement, dated May 16, 2003, by and among XOMA Ltd., Millennium Pharmaceuticals, Inc. and mHoldings Trust (Exhibit 6)[8]
10.28B	Letter Agreement, dated February 24, 2004, by and between XOMA Ltd. and Millennium Pharmaceuticals, Inc. (Exhibit 8)[11]
10.29	Convertible Subordinated Promissory Note dated November 26, 2001 (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 4)[14]
10.29A	Amendment No. 1 to Convertible Subordinated Promissory Note dated November 5, 2002 (Exhibit 10.3A)[5]
10.30	Registration Rights Agreement dated as of November 26, 2001, by and among XOMA, Millennium Pharmaceuticals, Inc. and mHoldings Trust (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 5)[14]
10.31	License Agreement by and between XOMA Ireland Limited and MorphoSys AG, dated as of February 1, 2002, (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 10.43)[16]
10.32	Amended and Restated License Agreement by and between XOMA Ireland Limited and DYAX Corp., dated as of October 27, 2006, (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)
10.33	License Agreement by and between XOMA Ireland Limited and Cambridge Antibody Technology Limited, dated as of December 22, 2002, (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 10.46)[3]

Exhibit Number	
10.34	Co-Development and Co-Commercialization Agreement, dated as of December 17, 2003, by and between Alexion Pharmaceuticals, Inc. and XOMA (US) LLC (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 2)[19]
10.35	License Agreement, dated as of December 29, 2003, by and between Diversa Corporation and XOMA Ireland Limited (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 2)[20]
10.36A	Agreement, dated February 27, 2004, by and between Chiron Corporation and XOMA (US) LLC (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 10.50)[22]
10.36B	Research, Development and Commercialization Agreement, dated as of May 26, 2005, by and between Chiron Corporation and XOMA (US) LLC (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)[27]
10.36C	Secured Note Agreement, dated as of May 26, 2005, by and between Chiron Corporation and XOMA (US) LLC (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)[27]
10.37	Collaboration Agreement, dated as of September 23, 2004, by and between Aphton Corporation and XOMA (US) LLC (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)[24]
10.38	License Agreement by and between Zephyr Sciences Inc. and XOMA Ireland Limited effective as of November 10, 2004, (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)[25]
10.53	Agreement dated March 8, 2005, between XOMA (US) LLC and the National Institute of Allergy and Infectious Diseases (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 10.53)[26]
10.39	License Agreement, effective as of June 20, 2005, by and between Merck & Co., Inc. and XOMA Ireland Limited (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)[27]
10.40	Letter Agreement dated September 20, 2005, between XOMA (US) LLC and Cubist Pharmaceuticals, 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 10.54)[28]
10.41	Form of Dealer Manager Agreement relating to the Company's 6.50% Convertible SNAPs$_{SM}$ due February 1, 2012 (Exhibit 1.1)[29]
10.45	Form of Placement Agreement relating to the Company's 6.50% Convertible SNAPs$_{SM}$ due February 1, 2012 (Exhibit 1.2)[29]
10.43	Fifth amendment to lease of premises at 2910 Seventh Street, Berkeley, California dated June 1, 2006[2]

Exhibit Number	
10.44	Collaboration Agreement dated as of May 22, 2006, by and between Schering Corporation, acting through its Schering-Plough Research Institute division, and XOMA (US) LLC (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[32]
10.45	Agreement dated July 28, 2006, between XOMA (US) LLC and the National Institute of Allergy and Infectious Diseases[32]
10.46	Collaboration Agreement, dated as of November 1, 2006, between the Company and Takeda Pharmaceutical Company Limited (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)
10.47	Loan Agreement, dated as of November 9, 2006, between Goldman Sachs Specialty Lending Holdings, Inc., XOMA (US) LLC and XOMA Ltd.
21.1	Subsidiaries of the Company
23.1	Consent of Independent Registered Public Accounting Firm
31.1	Certification of John L. Castello, filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of J. David Boyle II, filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of John L. Castello, furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of J. David Boyle II, furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1	Press Release dated March 8, 2007, furnished herewith

Footnotes:

1. Incorporated by reference to the referenced exhibit to the Company's Current Report on Form 8-K dated September 19, 2003, filed September 24, 2003.
2. Incorporated by reference to the referenced exhibit to the Company's Registration Statement on Form S-4 filed November 17, 1998, as amended.
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, 2002.
4. Incorporated by reference to the referenced exhibit to the Company's Current Report on Form 8-K dated July 9, 1998 filed July 16, 1998.
5. Incorporated by reference to the referenced exhibit to the Company's Registration Statement on Form S-8 filed August 28, 2003.
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, 1997, as amended.
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, 1994.
8. Incorporated by reference to the referenced exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.
9. Incorporated by reference to the referenced exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1998.
10. Incorporated by reference to the referenced exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1999.
11. Incorporated by reference to the referenced exhibit to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2000.
12. Incorporated by reference to the referenced exhibit to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1999.

13. Incorporated by reference to the referenced exhibit to the Company's Registration Statement on Form S-3 filed June 28, 1996.
14. Incorporated by reference to the referenced exhibit to the Company's Amendment No. 1 to Current Report on Form 8-K/A dated and filed December 13, 2001, as amended by Amendment No. 2 to Current Report on Form 8-K/A dated and filed October 24, 2002.
15. Incorporated by reference to the referenced exhibit to the Company's Registration Statement on Form S-3 filed November 6, 2002.
16. Incorporated by reference to the referenced exhibit to Amendment No. 2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2002, dated and filed on December 12, 2002.
17. Incorporated by reference to the referenced exhibit to the Company's Amendment No. 1 to Form 8-K/A, dated March 31, 2003, filed April 18, 2003.
18. Incorporated by reference to the referenced exhibit to the Company's Amendment No. 3 on Form 8-K/A, dated November 26, 2001, filed May 21, 2003.
19. Incorporated by reference to the referenced exhibit to the Company's Amendment No. 2 on Form 8-K/A dated December 18, 2003, filed March 19, 2004.
20. Incorporated by reference to the referenced exhibit to the Company's Amendment No. 2 on Form 8-K/A dated January 6, 2004, filed March 19, 2004.
21. Incorporated by reference to the referenced exhibit to the Company's Amendment No. 4 on Form 8-K/A dated November 26, 2001, filed February 24, 2004.
22. Incorporated by reference to the referenced exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003.
23. Incorporated by reference to the referenced exhibit to the Company's Amendment No. 6 on Form 8-K/A dated November 26, 2001, filed October 20, 2004.
24. Incorporated by reference to the referenced exhibit to the Company's Current Report on Form 8-K dated September 23, 2004, filed October 26, 2004.
25. Incorporated by reference to the referenced exhibit to the Company's Amendment No. 1 on Form 8-K/A dated November 10, 2004, filed November 30, 2004.
26. Incorporated by reference to the referenced exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004.
27. Incorporated by reference to the referenced exhibit to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2005.
28. Incorporated by reference to the referenced exhibit to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2005.
29. Incorporated by reference to the referenced exhibit to Amendment #2 to the Company's Registration Statement on Form S-4 filed January 11, 2006.
30. Incorporated by reference to the referenced exhibit to the Company's Current Report on Form 8-K dated February 10, 2006, filed February 13, 2006.
31. Incorporated by reference to the referenced exhibit to the Company's Current Report on Form 8-K dated July 7, 2006, filed July 12, 2006.
32. Incorporated by reference to the referenced exhibit to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006.

Exhibit 10.6

AMENDED AND RESTATED
INDEMNIFICATION AGREEMENT

THIS AMENDED AND RESTATED INDEMNIFICATION AGREEMENT, effective as of [insert date of original agreement], is between XOMA LTD., a Bermuda company (the "Company"), and _____ ("Officer").

WITNESSETH THAT:

WHEREAS, Officer is an officer of the Company and/or one or more of its subsidiaries and performs valuable services in such capacity for the Company; and

WHEREAS, the shareholders of the Company have adopted Bye-laws (the "Bye-laws") providing for the indemnification of the officers, directors and employees of the Company to the maximum extent possible except as prohibited by the Companies Act 1981 of Bermuda (the "Act"); and

WHEREAS, such Bye-laws, by their non-exclusive nature, permit contracts between the Company and its officers with respect to indemnification of such officers; and

WHEREAS, the Company 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 the Company and its subsidiaries; and

WHEREAS, there remains general uncertainty as to the extent of protection afforded directors and officers of the Company and its subsidiaries by such D & O Insurance and bye-law indemnification provisions; and

WHEREAS, the Company and Officer have previously entered into an Indemnification Agreement, effective as of [insert date of original agreement]; and

WHEREAS, in order to induce Officer to continue to serve as an officer of the Company and/or one or more of its subsidiaries, the Company has determined and agreed to enter into this amended and restated agreement with Officer;

NOW, THEREFORE, in consideration of Officer's continued service as an officer, the parties hereto agree as follows:

1. Indemnity of Officer. Subject to Section 5 hereof, the Company hereby agrees to hold harmless and indemnify Officer in respect of Officer's serving or having served as an officer, director, employee or agent of the Company or one or more of its subsidiaries or at the

request of the Company as an officer, director, employee or agent of another company, corporation, partnership, limited liability company, joint venture, trust or other enterprise, to the fullest extent authorized or permitted by applicable law in effect on the date hereof and as may be amended from time to time, but not for fraudulent or dishonest acts or omissions.

2. Additional Indemnity. Subject to Section 5 hereof and to the exclusions set forth in Section 3 hereof, the Company 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 the Company), to which Officer is, was or at any time becomes, 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 the Company or one or more of its subsidiaries or at the request of the Company as an officer, director, employee or agent of another company, corporation, partnership, limited liability company, joint venture, trust or other enterprise; and

(b) otherwise to the fullest extent as may be provided to Officer by the Company under the non-exclusivity provisions of Article VII, Section 8 of the Bye-laws of the Company.

3. Limitations on Additional Indemnity. No indemnity pursuant to Section 2 hereof shall be paid by the Company:

(a) except to the extent the aggregate of amounts to be indemnified thereunder exceeds the amount 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 the Company;

(b) in respect of 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 the Company pursuant to the provisions of Section 16(b) of the U.S. 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 fraudulent or dishonest; 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), (d), and (e) of Section 3, then in respect of any threatened, pending or completed action, suit or proceeding in which the Company is jointly liable with Officer (or would be if joined in such

action, suit or proceeding), the Company 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 the Company on the one hand and by Officer on the other from the transaction from which such action, suit or proceeding arose, and (ii) the relative fault of the Company 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 the Company 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. The Company 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. (a) All agreements and obligations of the Company contained herein shall terminate on the date that Officer ceases to be an officer of either the Company or any of its subsidiaries (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, administrative 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 the Company, an officer of one or more subsidiaries of the Company or serving in any other capacity referred to herein on or prior to the Termination Date.

(b) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.

6. Partial Indemnification. Officer shall be entitled under this Agreement to indemnification by the Company for a portion of the expenses (including attorneys' fees), witness fees, damages, judgments, fines and amounts paid in settlement and any other amounts that Officer becomes legally obligated to pay in connection with any action, suit or proceeding referred to in Section 2 hereof even if not entitled hereunder to indemnification for the total amount thereof, and the Company shall indemnify Officer for the portion thereof to which Officer is entitled.

7. 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 the Company under this Agreement, notify the Company of the commencement thereof; but the omission to so notify the Company 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 the Company of the commencement thereof:

(a) the Company will be entitled to participate therein at its own expense;

(b) except as otherwise provided below, to the extent that it may wish, the Company, 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 the Company to Officer of its election to assume the defense thereof, the Company 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 the Company of its assumption of the defense thereof shall be at the expense of Officer unless (i) the employment of counsel by Officer has been authorized by the Company, (ii) Officer shall have reasonably concluded that there may be a conflict of interest between the Company and Officer in the conduct of the defense of such action, or (iii) the Company shall not in fact have employed counsel reasonably satisfactory to Officer to, or otherwise does not, assume the defense of such action, in each of which cases the fees and expenses of counsel shall be at the expense of the Company. The Company shall not be entitled to assume the defense of any action, suit or proceeding brought by or on behalf of the Company or as to which Officer shall have made the conclusion provided for in (ii) above; and

(c) the Company 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. The Company 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 the Company nor Officer will unreasonably withhold its consent to any proposed settlement.

8. Advancement and Repayment of Expenses.

(a) In the event that Officer employs his own counsel pursuant to Section 7(b)(i) through (iii) above, the Company 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 the Company for all reasonable expenses paid by the Company in defending any civil, criminal, administrative or investigative 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 the next sentence that Officer is not entitled, under the provisions of the Bye-laws, this Agreement or otherwise, to be indemnified by the Company for such expenses. Such determination shall be made (1) by a majority vote of the directors of the Company who are not parties to such action, suit or proceeding, even though less than a quorum, or (2) by a committee of such directors designated by majority vote of such directors, even though less than a quorum, or (3) if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion, or (4) by the shareholders of the Company, or (5) by a court of competent jurisdiction.

9. Enforcement.

(a) The Company expressly confirms and agrees that it has entered into this Agreement and assumed the obligations imposed on the Company hereby in order to induce Officer to continue as an officer of the Company and/or one or more subsidiaries of the Company, 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, the Company shall reimburse Officer for all of Officer's reasonable fees and expenses in bringing and pursuing such action.

10. Non-Exclusivity of Rights. The rights conferred on Officer by this Agreement shall not be exclusive of any other right which Officer may have or hereafter acquire under any statute, provision of the Company's Memorandum of Continuance or the Bye-laws, insurance policy, agreement, vote of shareholders or directors, or otherwise, both as to action in his official capacity and as to action in another capacity while holding office.

11. 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.

12. Governing Law. This Agreement shall be interpreted and enforced in accordance with the laws of Bermuda.

13. Binding Effect. This Agreement shall be binding upon Officer and upon the Company, its successors and assigns, and shall inure to the benefit of Officer, his heirs, personal representatives and assigns and to the benefit of the Company, its successors and assigns.

14. 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, and it shall be effective as of the day and year first above written.

XOMA LTD.

By: _____

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

_____

[Name]
[Title]

Exhibit 10.7

AMENDED AND RESTATED
INDEMNIFICATION AGREEMENT

THIS AMENDED AND RESTATED INDEMNIFICATION AGREEMENT, effective as of [insert date of original agreement], is between XOMA LTD., a Bermuda company (the "Company"), and _____ ("Officer/Director").

WITNESSETH THAT:

WHEREAS, Officer/Director is a director of the Company and an officer of the Company and/or one or more of its subsidiaries and performs valuable services in such capacities for the Company; and

WHEREAS, the shareholders of the Company have adopted Bye-laws (the "Bye-laws") providing for the indemnification of the officers, directors and employees of the Company to the maximum extent possible except as prohibited by the Companies Act 1981 of Bermuda (the "Act"); and

WHEREAS, such Bye-laws, by their non-exclusive nature, permit contracts between the Company and its directors and officers with respect to indemnification of such directors and officers; and

WHEREAS, the Company 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 the Company and its subsidiaries; and

WHEREAS, there remains general uncertainty as to the extent of protection afforded directors and officers of the Company and its subsidiaries by such D & O Insurance and bye-law indemnification provisions; and

WHEREAS, the Company and Officer/Director have previously entered into an Indemnification Agreement, effective as of [insert date of original agreement]; and

WHEREAS, in order to induce Officer/Director to continue to serve as a director of the Company and an officer of the Company and/or one or more of its subsidiaries, the Company has determined and agreed to enter into this amended and restated agreement with Officer/Director;

NOW, THEREFORE, in consideration of Officer/Director's continued service as a director and an officer, the parties hereto agree as follows:

1. Indemnity of Officer/Director. Subject to Section 5 hereof, the Company hereby agrees to hold harmless and indemnify Officer/Director in respect of Officer/Director's serving or having served as an officer, director, employee or agent of the Company or one or more of its subsidiaries or at the request of the Company as an officer, director, employee or agent of another company, corporation, partnership, limited liability company, joint venture, trust or other enterprise, to the fullest extent authorized or permitted by applicable law in effect on the date hereof and as may be amended from time to time, but not for fraudulent or dishonest acts or omissions.

2. Additional Indemnity. Subject to Section 5 hereof and to the exclusions set forth in Section 3 hereof, the Company hereby further agrees to hold harmless and indemnify Officer/Director:

(a) against any and all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by Officer/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 the Company), to which Officer/Director is, was or at any time becomes, or is threatened to be made, a party, by reason of the fact that Officer/Director is or was an officer, director, employee or agent of the Company or one or more of its subsidiaries or at the request of the Company as an officer, director, employee or agent of another company, corporation, partnership, limited liability company, joint venture, trust or other enterprise; and

(b) otherwise to the fullest extent as may be provided to Officer/Director by the Company under the non-exclusivity provisions of Article VII, Section 8 of the Bye-laws of the Company.

3. Limitations on Additional Indemnity. No indemnity pursuant to Section 2 hereof shall be paid by the Company:

(a) except to the extent the aggregate of amounts to be indemnified thereunder exceeds the amount for which Officer/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 the Company;

(b) in respect of remuneration paid to Officer/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 Officer/Director for an accounting of profits made from the purchase or sale by Officer/Director of securities of the Company pursuant to the provisions of Section 16(b) of the U.S. Securities Exchange Act of 1934 and amendments thereto or similar provisions of any federal, state or local statutory law;

(d) on account of Officer/Director's conduct which is fraudulent or dishonest; 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/Director for any reason other than those set forth in paragraphs (b), (c), (d), and (e) of Section 3, then in respect of any threatened, pending or completed action, suit or proceeding in which the Company is jointly liable with Officer/Director (or would be if joined in such action, suit or proceeding), the Company 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/Director in such proportion as is appropriate to reflect (i) the relative benefits received by the Company on the one hand and by Officer/Director on the other from the transaction from which such action, suit or proceeding arose, and (ii) the relative fault of the Company on the one hand and of Officer/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 the Company on the one hand and of Officer/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. The Company 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. (a) All agreements and obligations of the Company contained herein shall terminate on the date that Officer/Director ceases to be either a director or an officer of either the Company or any of its subsidiaries (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, administrative or investigative, to which Officer/Director is or becomes subject on or subsequent to the Termination Date by reason of the fact that Officer/Director was a director of the Company, an officer of the Company, an officer of one or more subsidiaries of the Company or serving in any other capacity referred to herein on or prior to the Termination Date.

(b) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.

6. Partial Indemnification. Officer/Director shall be entitled under this Agreement to indemnification by the Company for a portion of the expenses (including attorneys' fees), witness fees, damages, judgments, fines and amounts paid in settlement and any other amounts that Officer/Director becomes legally obligated to pay in connection with any action, suit or proceeding referred to in Section 2 hereof even if not entitled hereunder to indemnification for the total

amount thereof, and the Company shall indemnify Officer/Director for the portion thereof to which Officer/Director is entitled.

7. Notification and Defense of Claim. Promptly after receipt by Officer/Director of notice of the commencement of any action, suit or proceeding, Officer/Director will, if a claim in respect thereof is to be made against the Company under this Agreement, notify the Company of the commencement thereof; but the omission to so notify the Company will not relieve it from any liability which it may have to Officer/Director otherwise than under this Agreement. With respect to any such action, suit or proceeding as to which Officer/Director notifies the Company of the commencement thereof:

(a) the Company will be entitled to participate therein at its own expense;

(b) except as otherwise provided below, to the extent that it may wish, the Company, jointly with any other indemnifying party similarly notified, will be entitled to assume the defense thereof, with counsel reasonably satisfactory to Officer/Director. After notice from the Company to Officer/Director of its election to assume the defense thereof, the Company will not be liable to Officer/Director under this Agreement for any legal or other expenses subsequently incurred by Officer/Director in connection with the defense thereof other than reasonable costs of investigation or as otherwise provided below. Officer/Director shall have the right to employ counsel to represent Officer/Director in such action, suit or proceeding, but the fees and expenses of such counsel incurred after notice from the Company of its assumption of the defense thereof shall be at the expense of Officer/Director unless (i) the employment of counsel by Officer/Director has been authorized by the Company, (ii) Officer/Director shall have reasonably concluded that there may be a conflict of interest between the Company and Officer/Director in the conduct of the defense of such action, or (iii) the Company shall not in fact have employed counsel reasonably satisfactory to Officer/Director to, or otherwise does not, assume the defense of such action, in each of which cases the fees and expenses of counsel shall be at the expense of the Company. The Company shall not be entitled to assume the defense of any action, suit or proceeding brought by or on behalf of the Company or as to which Officer/Director shall have made the conclusion provided for in (ii) above; and

(c) the Company shall not be liable to indemnify Officer/Director under this Agreement for any amounts paid in settlement of any action or claim effected without its written consent. The Company shall not settle any action or claim in any manner which would impose any penalty or limitation on Officer/Director without Officer/Director's written consent. Neither the Company nor Officer/Director will unreasonably withhold its consent to any proposed settlement.

8. Advancement and Repayment of Expenses.

(a) In the event that Officer/Director employs his own counsel pursuant to Section 7(b)(i) through (iii) above, the Company shall advance to Officer/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 Officer/Director for such expenses.

(b) Officer/Director agrees that Officer/Director will reimburse the Company for all reasonable expenses paid by the Company in defending any civil, criminal, administrative or investigative action, suit or proceeding against Officer/Director in the event and only to the extent it shall be ultimately determined pursuant to the procedure specified in the next sentence that Officer/Director is not entitled, under the provisions of the Bye-laws, this Agreement or otherwise, to be indemnified by the Company for such expenses. Such determination shall be made (1) by a majority vote of the directors of the Company who are not parties to such action, suit or proceeding, even though less than a quorum, or (2) by a committee of such directors designated by majority vote of such directors, even though less than a quorum, or (3) if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion, or (4) by the shareholders of the Company, or (5) by a court of competent jurisdiction.

9. Enforcement.

(a) The Company expressly confirms and agrees that it has entered into this Agreement and assumed the obligations imposed on the Company hereby in order to induce Officer/Director to continue as a director of the Company and an officer of the Company and/or one or more subsidiaries of the Company, and acknowledges that Officer/Director is relying upon this Agreement in continuing in such capacity.

(b) In the event Officer/Director is required to bring any action to enforce rights or to collect moneys due under this Agreement and is successful in such action, the Company shall reimburse Officer/Director for all of Officer/Director's reasonable fees and expenses in bringing and pursuing such action.

10. Non-Exclusivity of Rights. The rights conferred on Officer/Director by this Agreement shall not be exclusive of any other right which Officer/Director may have or hereafter acquire under any statute, provision of the Company's Memorandum of Continuance or the Bye-laws, insurance policy, agreement, vote of shareholders or directors, or otherwise, both as to action in his official capacity and as to action in another capacity while holding office.

11. 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.

12. Governing Law. This Agreement shall be interpreted and enforced in accordance with the laws of Bermuda.

13. Binding Effect. This Agreement shall be binding upon Officer/Director and upon the Company, its successors and assigns, and shall inure to the benefit of Officer/Director, his heirs, personal representatives and assigns and to the benefit of the Company, its successors and assigns.

14. 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, and it shall be effective as of the day and year first above written.

XOMA LTD.

By: _____

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

_____

[Name]
[Title]

Exhibit 10.8

AMENDED AND RESTATED
INDEMNIFICATION AGREEMENT

THIS AMENDED AND RESTATED INDEMNIFICATION AGREEMENT, effective as of [insert date of original agreement], is between XOMA LTD., a Bermuda company (the "Company"), and _____ ("Director").

WITNESSETH THAT:

WHEREAS, Director is a director of the Company and performs valuable services in such capacity for the Company; and

WHEREAS, the shareholders of the Company have adopted Bye-laws (the "Bye-laws") providing for the indemnification of the officers, directors and employees of the Company to the maximum extent possible except as prohibited by the Companies Act 1981 of Bermuda (the "Act"); and

WHEREAS, such Bye-laws, by their non-exclusive nature, permit contracts between the Company and its directors with respect to indemnification of such directors; and

WHEREAS, the Company 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 the Company and its subsidiaries; and

WHEREAS, there remains general uncertainty as to the extent of protection afforded directors and officers of the Company by such D & O Insurance and bye-law indemnification provisions; and

WHEREAS, the Company and Director have previously entered into an Indemnification Agreement, effective as of [insert date of original agreement]; and

WHEREAS, in order to induce Director to continue to serve as a director of the Company, the Company has determined and agreed to enter into this amended and restated agreement with Director;

NOW, THEREFORE, in consideration of Director's continued service as a director, the parties hereto agree as follows:

1. Indemnity of Director. Subject to Section 5 hereof, the Company hereby agrees to hold harmless and indemnify Director in respect of Director's serving or having served as an officer, director, employee or agent of the Company or one or more of its subsidiaries or at the

request of the Company as an officer, director, employee or agent of another company, corporation, partnership, limited liability company, joint venture, trust or other enterprise, to the fullest extent authorized or permitted by applicable law in effect on the date hereof and as may be amended from time to time, but not for fraudulent or dishonest acts or omissions.

2. Additional Indemnity. Subject to Section 5 hereof and to the exclusions set forth in Section 3 hereof, the Company 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 the Company), to which Director is, was or at any time becomes, 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 the Company or one or more of its subsidiaries or at the request of the Company as an officer, director employee or agent of another company, corporation, partnership, limited liability company, joint venture, trust or other enterprise; and

(b) otherwise to the fullest extent as may be provided to Director by the Company under the non-exclusivity provisions of Article VII, Section 8 of the Bye-laws of the Company.

3. Limitations on Additional Indemnity. No indemnity pursuant to Section 2 hereof shall be paid by the Company:

(a) except to the extent the aggregate of amounts to be indemnified thereunder exceeds the amount 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 the Company;

(b) in respect of 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 the Company pursuant to the provisions of Section 16(b) of the U.S. 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 fraudulent or dishonest; 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), (d), and (e) of Section 3, then in respect of any threatened, pending or completed action, suit or proceeding in which the Company is jointly liable with Director (or would be if joined in such

action, suit or proceeding), the Company 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 Director in such proportion as is appropriate to reflect (i) the relative benefits received by the Company on the one hand and by Director on the other from the transaction from which such action, suit or proceeding arose, and (ii) the relative fault of the Company 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 the Company 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. The Company 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. (a) All agreements and obligations of the Company contained herein shall terminate on the date that Director ceases to be a director of the Company (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, administrative 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 the Company or serving in any other capacity referred to herein on or prior to the Termination Date.

(b) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.

6. Partial Indemnification. Director shall be entitled under this Agreement to indemnification by the Company for a portion of the expenses (including attorneys' fees), witness fees, damages, judgments, fines and amounts paid in settlement and any other amounts that Director becomes legally obligated to pay in connection with any action, suit or proceeding referred to in Section 2 hereof even if not entitled hereunder to indemnification for the total amount thereof, and the Company shall indemnify Director for the portion thereof to which Director is entitled.

7. 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 the Company under this Agreement, notify the Company of the commencement thereof; but the omission to so notify the Company 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 the Company of the commencement thereof:

(a) the Company will be entitled to participate therein at its own expense;

(b) except as otherwise provided below, to the extent that it may wish, the Company, 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 the Company to Director of its election to assume the defense thereof, the Company 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, but the fees and expenses of such counsel incurred after notice from the Company of its assumption of the defense thereof shall be at the expense of Director unless (i) the employment of counsel by Director has been authorized by the Company, (ii) Director shall have reasonably concluded that there may be a conflict of interest between the Company and Director in the conduct of the defense of such action, or (iii) the Company shall not in fact have employed counsel reasonably satisfactory to Director to, or otherwise does not, assume the defense of such action, in each of which cases the fees and expenses of counsel shall be at the expense of the Company. The Company shall not be entitled to assume the defense of any action, suit or proceeding brought by or on behalf of the Company or as to which Director shall have made the conclusion provided for in (ii) above; and

(c) the Company shall not be liable to indemnify Director under this Agreement for any amounts paid in settlement of any action or claim effected without its written consent. The Company 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 the Company nor Director will unreasonably withhold its consent to any proposed settlement.

8. Advancement and Repayment of Expenses.

(a) In the event that Director employs his own counsel pursuant to Section 7(b)(i) through (iii) above, the Company 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 the Company for all reasonable expenses paid by the Company in defending any civil, criminal, administrative or investigative 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 the next sentence that Director is not entitled, under the provisions of the Bye-laws, this Agreement or otherwise, to be indemnified by the Company for such expenses. Such determination shall be made (1) by a majority vote of the directors of the Company who are not parties to such action, suit or proceeding, even though less than a quorum, or (2) by a committee of such directors designated by majority vote of such directors, even though less than a quorum, or (3) if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion, or (4) by the shareholders of the Company, or (5) by a court of competent jurisdiction.

9. Enforcement.

(a) The Company expressly confirms and agrees that it has entered into this Agreement and assumed the obligations imposed on the Company hereby in order to induce Director to continue as a director of the Company 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, the Company shall reimburse Director for all of Director's reasonable fees and expenses in bringing and pursuing such action.

10. Non-Exclusivity of Rights. The rights conferred on Director by this Agreement shall not be exclusive of any other right which Director may have or hereafter acquire under any statute, provision of the Company's Memorandum of Continuance or the Bye-laws, insurance policy, agreement, vote of shareholders or directors, or otherwise, both as to action in his official capacity and as to action in another capacity while holding office.

11. 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.

12. Governing Law. This Agreement shall be interpreted and enforced in accordance with the laws of Bermuda.

13. Binding Effect. This Agreement shall be binding upon Director and upon the Company, its successors and assigns, and shall inure to the benefit of Director, his heirs, personal representatives and assigns and to the benefit of the Company, its successors and assigns.

14. 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, and it shall be effective as of the day and year first above written.

XOMA LTD.

By: _____

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

_____

[Name]

Exhibit 10.32

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

AMENDED AND RESTATED

LICENSE AGREEMENT

This AMENDED AND RESTATED LICENSE AGREEMENT (this "Agreement"), dated effective as of October 27, 2006 (the "Effective Date of this Agreement"), is entered into by and between XOMA Ireland Limited, a company with limited liability organized under the laws of the Republic of Ireland having offices at Shannon Airport House, Shannon, County Clare, Ireland (with its Affiliates, "XOMA") and DYAX Corp., a corporation organized under the laws of the State of Delaware having offices at 300 Technology Square, Cambridge, Massachusetts 02139, U.S.A. (with its Affiliates, "DYAX").

BACKGROUND

A. XOMA is the owner or exclusive licensee of certain patent rights and know-how relating to bacterial cell expression, and DYAX wishes to acquire non-exclusive licenses under such patent rights and know-how; and

B. DYAX is the owner or exclusive licensee of certain patent rights relating to phage display technologies (generally known as the Ladner and related patent rights), and XOMA wishes to acquire non-exclusive licenses under such patent rights; and

C. XOMA and DYAX previously executed a License Agreement, dated effective as of October 16, 2002 (the "Effective Date of the Original Agreement"), under which (i) XOMA granted to DYAX certain non-exclusive licenses to engage in certain research, development and commercial activities, and (ii) DYAX granted to XOMA certain non-exclusive licenses to engage in certain research, development and commercial activities (the "Original Agreement"); and

D. XOMA has requested that DYAX provide XOMA with certain quantities of its most recently developed antibody phage display libraries to use in connection with the license granted herein by DYAX to XOMA; and

E. DYAX is willing to provide such libraries to XOMA if the terms of the Original Agreement are amended and restated as set forth herein.

NOW, THEREFORE, in consideration of the promises and the mutual covenants hereinafter recited, the parties agree that, from and after the date hereof, the Original Agreement shall be amended and restated as follows:

ARTICLE 1. DEFINITIONS

In this Agreement, the following terms shall have the meanings set forth in this Article.

1.1 "Affiliate" means any corporation or other entity which is directly or indirectly controlling, controlled by or under common control with a party hereto. For purposes of this Agreement, "control" (including, with correlative meanings, the terms "controlled" and "controlling") means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of the subject corporation or other entity, whether through the ownership of voting securities, by agreement or otherwise.

1.2 "Antibody Phage Display" means the authorized use of Licensed Antibody Phage Display Materials to conduct Research and Development.

1.3 "Change in Control" means, with respect to Dyax Corp. or XOMA Ltd., any transaction or series of transactions as a result of which any person or group (as defined under the U.S. Securities Exchange Act of 1934, as amended) becomes, directly or indirectly, the beneficial owner of more than fifty percent (50%) of the total voting power of such entity's equity securities or otherwise gains control of such entity.

1.4 "Commercial Antibody Phage Display Business" means, with respect to immunoglobulin or antibody phage display services, immunoglobulin or antibody phage display libraries, immunoglobulin or antibody phage display products or immunoglobulin or antibody phage display materials, the out-licensing, commercial manufacture, sale, offer for sale, import for sale or export for sale of such immunoglobulin or antibody phage display services, libraries, products and materials.

1.5 "Confidential Information" means any proprietary or confidential information or material disclosed by a party to the other party pursuant to this Agreement, which is (i) disclosed in tangible form hereunder and is designated thereon as "Confidential" at the time it is delivered to the receiving party, or (ii) disclosed orally hereunder and identified as confidential or proprietary when disclosed and such disclosure of confidential information is confirmed in writing within thirty (30) days by the disclosing party.

1.6 "Development Partner" means a Third Party from whom a party either in- licenses a target for development and/or commercialization by the in-licensing party or with whom a party shares the economic risk of development or commercialization of a target or product being developed or commercialized on behalf of the applicable party.

1.7 "Dispose" means to transfer, assign, lease, or in any other fashion dispose of control, ownership or possession, but shall not mean to license or sell. "Disposition" shall have the correlative meaning.

1.8 "DYAX Collaborator" means any person or entity who is an authorized end-user of Licensed Antibody Phage Display Materials, the intended recipient of Licensed Immunoglobulins or Licensed Immunoglobulin Information transferred from DYAX and/or a person or entity on whose behalf DYAX knowingly engages in Antibody Phage Display. Except as expressly set forth on Schedule 2.9(i).

no person or entity shall be deemed to be a DYAX Collaborator if such person or entity is engaged in a Commercial Antibody Phage Display Business unless, pursuant to a written agreement (other than this Agreement), executed after the Effective Date of the Original Agreement, XOMA has granted to such person or entity a valid license or covenant not to sue under the XOMA Patent Rights which explicitly extends to the activities identified in this third to last sentence of Section 1.8. XOMA shall provide DYAX prompt written notice of those written agreements or covenants not to sue which satisfy the requirements of the prior sentence. No person or entity may claim the status of DYAX Collaborator with respect to any acts or activities which are unrelated to the use of Licensed Antibody Phage Display Materials provided by DYAX.

1.9 "DYAX Patent Rights" means the patent applications and patents listed on Schedule 1.9 hereto and, solely to the extent any Valid Claim would cover or be included in the license grants provided for herein, all divisions, continuations, continuations-in-part, applications claiming priority thereto, and substitutions thereof; all foreign patent applications corresponding to the preceding applications; all U.S. and foreign patents issuing on any of the preceding applications, including extensions, reissues and re-examinations; and any other patent rights owned or licensed by DYAX, whether now existing or obtained in the future, which DYAX has the right to license or sublicense and which would be infringed by the activities of XOMA contemplated hereunder but for this Agreement. DYAX Patent Rights shall also include (i) any improvements of the foregoing that are owned or controlled by DYAX and (ii) any patents or patent applications, whether now existing or obtained in the future, owned or controlled by DYAX containing a claim that is dominating over the foregoing patent rights (i.e., is necessarily infringed by the practicing of a claim in one of the foregoing applications).

1.10 "First Commercial Sale" means the initial transfer by DYAX (either directly or through a Third Party, including without limitation any joint venture or similar arrangement in which DYAX and/or a Development Partner of DYAX is a participant) of a Product for value and not for demonstration, testing or promotional purposes.

1.11 "Immunoglobulin" means any molecule, including without limitation, full immunoglobulin molecules (e.g., IgG, IgM, IgE, IgA and IgD molecules) and ScFv, Fv and Fab molecules, that has an amino acid sequence by virtue of which it specifically interacts with an antigen and wherein that amino acid sequence consists essentially of a functionally operating region of an antibody variable region including, without limitation, any naturally occurring or recombinant form of such a molecule.

1.12 "Licensed Antibody Phage Display Materials" means (i) any collection or library of polynucleotide sequences, created by and under the exclusive control of DYAX, which encodes at least one Immunoglobulin and which is contained in filamentous bacteriophage and/or bacteriophage or phagemid cloning vectors capable of propagation in bacteria; or (ii) any collection or library of bacteriophage, created by or under the exclusive control of DYAX, wherein an Immunoglobulin is expressed as a fusion protein comprising an Immunoglobulin or at least a functionally operating region of an antibody variable region and an outer surface polypeptide of a bacteriophage. For the avoidance of doubt, and without expanding the definition thereof, specifically excluded from the definition of Licensed Antibody Phage Display Materials are (x) any article of manufacture or composition of matter suitable for display,

expression or secretion of an Immunoglobulin in or from any organism or system other than bacteria and (y) any materials or composition of matter otherwise meeting the definition of Licensed Antibody Phage Display Materials but created by or under the control of any entity, other than DYAX, engaged in a Commercial Antibody Phage Display Business; *provided,* that, notwithstanding the foregoing, any materials or composition of matter otherwise meeting the definition of Licensed Antibody Phage Display Materials but created by or under the exclusive control of a DYAX Collaborator shall constitute Licensed Antibody Phage Display Materials, but only to the extent derived by such DYAX Collaborator exclusively from Licensed Antibody Phage Display Materials created by or under the exclusive control of DYAX and properly transferred by DYAX to such DYAX Collaborator in accordance with the applicable provisions of this Agreement and such DYAX Collaborator acknowledges that the transfer restrictions and other provisions hereof apply thereto.

1.13 "Licensed Immunoglobulin" means any Immunoglobulin discovered, isolated or characterized by DYAX or a DYAX Collaborator (as defined above) through the use of Licensed Antibody Phage Display Materials.

1.14 "Licensed Immunoglobulin Information" means any data, know-how or other information relating, concerning or pertaining to a Licensed Immunoglobulin, including, without limitation, data, know-how or other information characterizing or constituting such Licensed Immunoglobulin's polynucleotide or amino acid sequence, purported function or utility, antigen binding affinity, or physical or biochemical property.

1.15 "Net Sales" means, solely with respect to sales by DYAX (either directly or through a Third Party, including without limitation any joint venture or similar arrangement in which DYAX and/or a Development Partner of DYAX is a participant), the gross amount invoiced by DYAX (or such joint venture or similar arrangement) to an independent Third Party less the following items:

(a) Trade, cash and quantity discounts actually allowed and taken directly with respect to such sales;

(b) Excises, sales taxes or other taxes imposed upon and paid directly with respect to such sales (excluding national, state or local taxes based income);

(c) Amounts repaid or credited by reason of rejections, defects, recalls or returns or because of rebates or retroactive price reduction; and

(d) Freight, transportation and insurance.

Net Sales shall not include any consideration received by DYAX (or any such joint venture or similar arrangement) in respect of the sale, use or other disposition of such Product in a country as part of a clinical trial prior to the receipt of all regulatory approvals required to commerce full commercial sales of such Product in such country, except sales under "treatment INDs," "named patient sales," "compassionate use sales," or their equivalents pursuant to which DYAX (or any such joint venture or similar arrangement) is

entitled, under applicable laws, regulations and regulatory policies, to recover costs incurred in providing such Product to patients.

1.16 "Product" means any composition of matter or article of manufacture, including without limitation any diagnostic, prophylactic or therapeutic product, which (a) contains a Licensed Immunoglobulin; or (b) was discovered or created by, arose out of or is related to use of Licensed Antibody Phage Display Materials or the conduct of Antibody Phage Display by DYAX or a DYAX Collaborator; or (c) is sold by or on behalf of DYAX or a DYAX Collaborator under conditions which, if unlicensed, would constitute infringement of the XOMA Patent Rights.

1.17 "Research and Development" means the identification, selection, isolation, purification, characterization, study and/or testing of an Immunoglobulin for any purpose, including, without limitation, any activities relating to the discovery and development of human therapeutic or diagnostic products. Included within the definition of "Research and Development" shall be all *in vitro* screening or assays customarily performed in pre-clinical and clinical research and uses associated with obtaining FDA or equivalent agency regulatory approval. Notwithstanding anything to the contrary contained herein, "Research and Development" shall not include use of the XOMA Expression Technology in commercial or industrial manufacture or any activities solely directed to the creation of such capacities.

1.18 "Research Quantities" means those quantities of an Immunoglobulin reasonably required for Research and Development purposes.

1.19 "Third Party" means any person or entity other than DYAX or XOMA.

1.20 "Valid Claim" means (i) a claim of an issued and unexpired patent included within the DYAX Patent Rights or the XOMA Patent Rights, as the case may be, which has not been held invalid in a final decision of a court of competent jurisdiction from which no appeal may be taken, and which has not been disclaimed or admitted to be invalid or unenforceable through reissue or otherwise, or (ii) a claim of a pending patent application within the DYAX Patent Rights or the XOMA Patent Rights, as the case may be.

1.21 "XOMA Expression Technology" means any method, composition of matter or article of manufacture suitable for the expression of a functional Immunoglobulin in a prokaryote.

1.22 "XOMA Field of Use" means all fields.

1.23 "XOMA Know-How" means unpatented and/or unpatentable technical information, including ideas, concepts, inventions, discoveries, data, designs, formulas, specifications, procedures for experiments and tests and other protocols, results of experimentation and testing, fermentation and purification techniques, and assay protocols, whether now existing or obtained in the future, owned by XOMA which XOMA has the right to license or sublicense and which may be necessary for the practice of the applicable XOMA Patent Rights or which would be misappropriated by the activities of DYAX or the

DYAX Collaborators contemplated hereunder but for this Agreement. XOMA Know-How shall not include the XOMA Patent Rights. All XOMA Know-How shall be confidential information of XOMA.

1.24 "XOMA Patent Rights" means the patent applications and patents listed on Schedule 1.24 hereto and, solely to the extent any Valid Claim would cover or be included in the license grants provided for herein, all divisions, continuations, continuations-in-part, applications claiming priority thereto, and substitutions thereof; all foreign patent applications corresponding to the preceding applications; all U.S. and foreign patents issuing on any of the preceding applications, including extensions, reissues and re-examinations; and any other patent rights owned by XOMA which XOMA has the right to license or sublicense and which would be infringed by the activities contemplated hereunder but for this Agreement. XOMA Patent Rights shall also include (i) any improvements of the foregoing that are owned or controlled by XOMA and (ii) any patents or patent applications, whether now existing or obtained in the future, owned or controlled by XOMA containing a claim that is dominating over the foregoing patent rights (i.e., is necessarily infringed by the practicing of a claim in one of the foregoing applications).

The above definitions are intended to encompass the defined terms in both the singular and plural forms.

ARTICLE 2. XOMA GRANT OF RIGHTS TO DYAX

2.1 License Grants. Subject to the other terms and conditions of this Agreement, XOMA hereby grants to DYAX a worldwide, non-exclusive, non-transferable (other than as provided in Section 9.2) license, without any right to sublicense, under the XOMA Patent Rights and the XOMA Know-How to:

(a) on its own behalf and on behalf of a DYAX Development Partner or DYAX Collaborator, make or have made Licensed Antibody Phage Display Materials;

(b) on its own behalf and on behalf of a DYAX Collaborator, transfer Licensed Antibody Phage Display Materials;

(c) on its own behalf and on behalf of a DYAX Development Partner or DYAX Collaborator, conduct Antibody Phage Display to identify and isolate Licensed Immunoglobulin;

(d) on its own behalf and on behalf of a DYAX Development Partner or DYAX Collaborator, use the XOMA Expression Technology in connection with the use of Licensed Antibody Phage Display Materials to make or have made Research Quantities of Licensed Immunoglobulin;

(e) on its own behalf and on behalf of a DYAX Development Partner or DYAX Collaborator, use Licensed Immunoglobulin or Licensed Immunoglobulin Information to research and develop, make, have made, use, offer for sale, sell and have

sold, import and have imported Products for use in the treatment, prophylaxis, diagnosis or monitoring of a human disease state or condition; and

(f) on its own behalf and on behalf of a DYAX Development Partner, to make, have made, use, offer for sale, sell and have sold, import and have imported Products for use in the treatment, prophylaxis, diagnosis or monitoring of a human disease state or condition.

For the sake of clarity, (i) the licenses granted in Section 2.1 are personal to DYAX and are to be used on behalf of any DYAX Collaborator or Development Partner of DYAX only in respect of or in connection with the activities that such DYAX Collaborator or Development Partner of DYAX is engaged in that are the basis for meeting the definition of DYAX Collaborator or Development Partner of DYAX, as the case may be, and not any other activities, and (ii) without limiting the foregoing, the license granted in Section 2.1(f) is not to be used on behalf of any DYAX Collaborator or any other Third Party that is not a Development Partner of DYAX.

2.2 XOMA Transfer to DYAX. Within thirty (30) days of the Effective Date of this Agreement, XOMA shall transfer to DYAX, at a reasonable place and time of DYAX's direction, the materials identified on Schedule 2.2.

2.3 Covenant Not To Sue. In partial consideration for the payments set forth in Sections 4.1 and 4.2, XOMA covenants that it shall not initiate or permit any Third Party over whom it has control to initiate or assist in any way in the initiation or prosecution of any action asserting a claim of infringement under the XOMA Patent Rights or misappropriation of the XOMA Know-How against DYAX, any Development Partner of DYAX or any DYAX Collaborator solely to the extent reasonably necessary to permit the authorized use of Licensed Antibody Phage Display Materials, Licensed Immunoglobulins or Licensed Immunoglobulin Information for activities or in a manner otherwise permitted under the provisions of this Agreement. The parties agree that the covenant not to sue provided by this Section 2.3 (i) is a covenant that transfers with any assignment or sale of, or grant of an exclusive license (with the right to enforce) under, the applicable XOMA Patent Rights by XOMA and (ii) without limiting or expanding the provisions of Section 9.2, shall be binding upon any permitted successors or assigns of XOMA. XOMA agrees to use commercially reasonable efforts to assist DYAX in recording in a form reasonably acceptable to XOMA the covenant not to sue provided by this Section 2.3, as permitted, with the U.S. Patent and Trademark Office. The covenant not to sue provided by this Section 2.3:

(a) shall not extend to the use of the XOMA Expression Technology to make any amount of a Licensed Immunoglobulin or Product other than Research Quantities; *provided, however,* that this limitation shall not preclude the manufacture, in commercial quantities, of a Licensed Immunoglobulin discovered using the XOMA Expression Technology in accordance with this Agreement when produced in a production system other than a prokaryote;

(b) is personal to DYAX, such Development Partner of DYAX and such DYAX Collaborator and cannot be assigned or transferred;

(c) does not constitute a release or waiver of past, present or future infringement of the XOMA Patent Rights or misappropriation of the XOMA Know-How by DYAX or any Third Party, including, without limitation, any DYAX Collaborator acting outside of the scope of the written agreement with DYAX provided for in Section 2.5; and

(d) shall become void and without effect as to any entity or person who claims its benefit but fails to materially discharge or comply with any term of its written agreement with DYAX provided for in Section 2.5.

2.4 No Implied Rights. Only the rights and licenses granted pursuant to the express terms of this Agreement shall be of any legal force or effect. No license or other rights shall be deemed to have been granted to DYAX, a Development Partner of DYAX or a DYAX Collaborator other than as expressly provided for in this Agreement. For the avoidance of doubt, the grants of rights made pursuant to Sections 2.1 and 2.3 do not include, and expressly exclude, the following:

(a) any right or license under the XOMA Patent Rights and the XOMA Know-How to engage in any activities on behalf of or in collaboration with any Third Party, other than a Development Partner of DYAX or a DYAX Collaborator;

(b) any right or license under the XOMA Patent Rights and the XOMA Know-How to use the XOMA Expression Technology to make or have made any amount of a Licensed Immunoglobulin or Product other than Research Quantities*; provided, however,* that DYAX or, as applicable, a DYAX Collaborator shall be permitted to make or have made any Licensed Immunoglobulin by any means of its selection other than those which otherwise infringe a Valid Claim of the XOMA Patent Rights or utilize the XOMA Know-How; and/or

(c) any right to release any Third Party, including a Development Partner of DYAX or a DYAX Collaborator, from any claim of infringement under the XOMA Patent Rights.

2.5 Transfer Restrictions.

(a) DYAX shall not undertake any Antibody Phage Display activities on behalf of a Third Party or Dispose of Licensed Antibody Phage Display Materials or the product of the practice of any method within the scope of the XOMA Patents ("Transferred Materials") to any Third Party until such time as such Third Party has entered into a written agreement with DYAX pursuant to which such Third Party acknowledges and expressly agrees:

(i) that the "first sale" doctrine does not apply to any such Disposition;

(ii) to further Dispose of Transferred Materials only to a Third Party who otherwise meets the definition of a Development Partner or DYAX Collaborator and who executes a written agreement in which its undertakes all of the obligations applied to the transferring party, *provided*, *however*, that this Section 2.5(a)(ii) shall not apply to the Disposition of any Licensed Immunoglobulin where such Third Party is not a Dyax Development Partner and no royalty is or will otherwise be due under Section 4.1;

(iii) that the covenant not to sue provided by Section 2.3 does not extend use of the XOMA Expression Technology to make any amount of a Licensed Immunoglobulin or Product other than Research Quantities;

(iv) that the covenant not to sue provided by Section 2.3 does not constitute a release or waiver of past, present or future infringement of the XOMA Patent Rights or misappropriation of the XOMA Know-How by such Third Party;

(v) that the covenant not to sue provided by Section 2.3 shall be subject to such Third Party's compliance with Section 8.4;

(vi) that the covenant not to sue provided by Section 2.3 is personal to such Third Party (as a DYAX Collaborator or DYAX Development Partner) and cannot be assigned or transferred;

(vii) that the covenant not to sue provided by Section 2.3 shall become void and without effect as to any entity or person who claims its benefit but fails to materially discharge or comply with the foregoing provisions; and

(viii) that XOMA shall be an intended third party beneficiary with respect to the foregoing provisions.

(b) Without expanding or limiting the scope of the licenses and covenants not to sue granted by this Agreement, the provisions of Section 2.5(a) requiring a written agreement prior to any Disposition of any Transferred Materials shall not apply to a transfer of (i) a Licensed Immunoglobulin discovered by Dyax to a Third Party who is not a Dyax Development Partner where the making, selling, offering for sale, importing or exporting of such Licensed Immunoglobulin will occur under conditions which will not give rise to any obligation to pay XOMA any royalties under Section 4.1, or (ii) a Licensed Immunoglobulin discovered exclusively by Dyax to any Third Party where such Disposition is made pursuant to a bona fide material transfer agreement that confers no commercial rights to such Third Party for the sole purpose of permitting such Third Party to evaluate the transferred Licensed Immunoglobulin; *provided*, *however*, that upon the execution of any subsequent agreement relating to such Licensed Immunoglobulin, as applicable, the provisions of Section 2.5(a) shall be incorporated therein.

2.6 Reports, Records and Audits.

(a) Thirty (30) days after the end of each calendar quarter, commencing with the first calendar quarter commencing after the Effective Date of the Original Agreement, DYAX shall deliver to XOMA a written report which shall specify the name, address and contact person for each and every DYAX Collaborator and any person or entity receiving Licensed Antibody Phage Display Materials or a Licensed Immunoglobulin. The reports delivered by DYAX to XOMA pursuant to this Section 2.6(a) shall be Confidential Information of DYAX.

(b) Not later than thirty (30) days after the end of each calendar year, commencing with the first calendar year to commence after the Effective Date of the Original Agreement, as and to the extent publicly disclosed by DYAX (whether in press releases, government filings or otherwise), DYAX shall deliver to XOMA written materials pertaining to the current status of activities or compositions of matter as to which DYAX claims the right of license hereunder.

(c) DYAX shall maintain records fully and properly reflecting those activities to be reported to XOMA pursuant to Sections 2.6(a) and (b) (the "Records"), in sufficient detail and in good scientific manner appropriate for patent, regulatory and manufacturing purposes for at least three (3) years. Upon the written request of XOMA and not more than once in each calendar year, DYAX shall permit an independent consultant appointed by XOMA, at XOMA's expense, to have access during normal business hours to such of the records of DYAX as may be reasonably necessary to verify compliance with the terms of this Agreement, as well as the accuracy of the reports hereunder. DYAX shall certify any statements by DYAX personnel as to their accuracy and correctness. The consultant shall not be permitted to see or receive any specific information concerning targets or antibodies of either DYAX or any of its collaborators and shall disclose to XOMA only the results and conclusions of its review and the specific details concerning any discrepancies. No other information shall be shared by the consultant without the prior consent of DYAX unless disclosure is required by law, regulation or judicial order.

2.7 Ownership; Enforcement. At all times XOMA will retain ownership of the XOMA Patent Rights and may use and commercialize such XOMA Patent Rights itself or with any Third Party. XOMA retains the right, at its sole discretion, to enforce, maintain and otherwise protect the XOMA Know-How and the XOMA Patent Rights. In addition to the requirements of Section 2.6, DYAX shall give XOMA prompt notice of any infringement of any of the XOMA Patent Rights by a Third Party engaging in a Commercial Antibody Phage Display Business which comes to DYAX's attention during the term of this Agreement. DYAX will reasonably cooperate with XOMA with respect to any actions XOMA may choose to take related to the enforcement, maintenance or protection of the XOMA Patent Rights.

2.8 Oppositions and/or Appeals to Oppositions. DYAX hereby agrees not to enter into any opposition to and/or appeal from any decision by the patent authorities of any country on the XOMA Patent Rights and shall not assist or otherwise cooperate with another party in any such opposition or appeal.

2.9 Release From Past Infringement. XOMA releases DYAX from any claims, demands, and rights of action arising out of and/or based upon any act or omission committed by DYAX prior to the Effective Date of the Original Agreement, including, without limitation, claims of infringement under the XOMA Patent Rights (the "Release") and XOMA releases those Third Parties identified upon Schedule 2.9(i) from any claims, demands, and rights of action arising out of and based upon any infringement of the XOMA Patent Rights (the "Third Party Release"): *provided, however,* that the Release and Third Party Release provided for in this Section 2.9 shall extend only to claims, demands or rights of action existing as of the Effective Date of the Original Agreement and which arose solely out of those activities specified in Schedule 2.9(ii). Nothing in this Section 2.9 shall be deemed to be a release of any claim, demand or right of action XOMA may now or in the future have against [*] or any other entity or person engaged in a Commercial Antibody Phage Display Business or any of their collaborators (except, in the case of any such collaborator that is also a collaborator of DYAX, to the extent such collaborator's activities with DYAX are directly and exclusively within the scope of the Third Party Release). The Release and the Third Party Release shall become irrevocable only upon receipt by XOMA of payment in full by DYAX of all installments of the amounts set forth in Section 4.1 and shall be revoked in their entirety and null and void *ab initio,* immediately and without further action of the parties, in the event any installment of such amounts is not received by XOMA on or prior to the fifteenth day following written notice to DYAX from XOMA of DYAX's breach in the payment of the full amount of such installment on or prior to the payment date for such installment as set forth in Section 4.1, regardless of any payment received thereafter.

ARTICLE 3. DYAX GRANT OF RIGHTS TO XOMA

3.1 License Grants. Subject to the other terms and conditions of this Agreement, DYAX hereby grants to XOMA, on its own behalf and on behalf of its Development Partners, a fully paid up, non-exclusive, royalty-free, worldwide license under the DYAX Patent Rights, to discover, isolate, optimize, develop, offer to use, use, offer for sale, sell, make, have made, export and import Immunoglobulins or products containing or comprising an Immunoglobulin in the XOMA Field of Use, including without limitation the right to conduct phage display under the DYAX Patent Rights but excluding the conduct of phage display as a Commercial Antibody Phage Display Business. XOMA shall not have the right to sublicense its license rights under the DYAX Patent Rights to any Third Party. XOMA may not transfer to any Third Party any phage display library the use of which by XOMA is otherwise licensed hereunder if the use thereof by such Third Party would infringe a Valid Claim of the DYAX Patent Rights. For the avoidance of doubt, nothing herein is intended to prevent XOMA from transferring any Immunoglobulin or any product containing or comprising an Immunoglobulin to a Development Partner of XOMA or a Third Party working on behalf of XOMA or a Development Partner of XOMA to make, have made, use, sell, have sold and import products, *provided* that the use of such Immunoglobulin or product by the Development Partner or Third Party does not infringe a Valid Claim of the DYAX Patent Rights. XOMA is licensed hereby to use phage display materials, including without limitation phage display libraries, received from any Third Party, free from any contractual obligations or limitations otherwise applicable thereto, so long as XOMA otherwise abides by the terms and conditions of this Agreement. Any use of such phage display materials by XOMA shall be governed in all respects by the provisions of this Agreement and not the provisions of any agreements between DYAX and any Third Party providing phage

display materials to XOMA. Furthermore, for the avoidance of doubt, solely within the XOMA Field of Use, DYAX grants to XOMA, consistent with the other terms and conditions of this Agreement, a fully paid-up, non-exclusive, royalty-free worldwide right and license to use the DYAX Materials (as defined below).

3.2 Covenant Not To Sue. DYAX covenants that it shall not initiate or permit any Third Party over whom it has control to initiate or assist in any way in the initiation or prosecution of any action asserting a claim of infringement under the DYAX Patent Rights against XOMA or any Development Partner of XOMA or misappropriation of the DYAX Materials against XOMA solely to the extent such claims arise out of (a) use of the DYAX Materials by XOMA as permitted under the provisions of this Agreement or (b) the discovery, isolation, optimization or development by XOMA, or the manufacture, use, offer for use, sale, offer for sale, importation and exportation, of any Immunoglobulin or product containing or comprising an Immunoglobulin which were discovered under conditions which but for this license would constitute misappropriation or infringement of the DYAX Patent Rights.

3.3 DYAX Transfer to XOMA.

(a) DYAX has previously transferred to XOMA, under the terms of the Original Agreement, all of the materials, including without limitation the Licensed Antibody Phage Display Materials, specified on Schedule 3.3 of the Original Agreement. Within thirty (30) days after the Effective Date of this Agreement, DYAX shall transfer to XOMA those additional Licensed Antibody Phage Display Materials specified on Schedule 3.3 hereof. Collectively, the Licensed Antibody Phage Display Materials delivered to XOMA under the Original Agreement and those additional Licensed Antibody Phage Display Materials delivered hereunder, are referred to herein as the "DYAX Materials." XOMA will be able to consult with DYAX scientific staff at $2,500/person-day (based on an eight hour day) in the use of the DYAX Materials. The cost of all reasonable travel-related expenses will be fully reimbursed to DYAX by XOMA. The DYAX Materials shall be Confidential Information subject to Article 5. For the avoidance of doubt, all activities of XOMA using the DYAX Materials on or after the Effective Date of this Agreement shall be subject to the provisions of this Agreement and not the Original Agreement.

(b) DYAX represents and warrants that the DYAX Materials comprise the Licensed Antibody Phage Display Materials, including the know-how and protocols for using such Licensed Antibody Phage Display Materials, that DYAX customarily provides to licensees of antibody phage display libraries for screening purposes.

3.4 Ownership: Enforcement. At all times DYAX will retain ownership or control of the DYAX Patent Rights and may use and commercialize such DYAX Patent Rights itself or with any Third Party. DYAX retains the right, at its sole discretion, to enforce, maintain and otherwise protect the DYAX Patent Rights. XOMA will reasonably cooperate with DYAX with respect to any actions DYAX may choose to take related to the enforcement, maintenance or protection of the DYAX Patent Rights.

3.5 Oppositions and/or Appeals to Oppositions. XOMA hereby agrees not to enter into any oppositions to and/or appeal from any decision by the patent authorities of any country on the DYAX

Patent Rights and shall not assist or otherwise cooperate with another party in any such opposition or appeal.

ARTICLE 4. PAYMENTS

4.1 Technology Access and Release Fee. In consideration for the rights granted to DYAX and DYAX Collaborators pursuant to Sections 2.1, 2.2, 2.3 and 2.9, DYAX has previously paid to XOMA, under the terms of the Original Agreement, a fee of Three Million Five Hundred Thousand United States Dollars (US$3,500,000). XOMA hereby acknowledges receipt of such amount. To the extent that DYAX requires any further assistance in connection with the transfer of XOMA Expression Technology hereunder, DYAX will be able to consult with XOMA scientific staff at $2,500/person-day (based on an eight hour day). The cost of all reasonable travel-related expenses will be fully reimbursed to XOMA by DYAX.

4.2 Royalties.

(a) During the term of this Agreement, DYAX shall pay to XOMA a royalty in cash equal to [*] percent ([*]%) of the Net Sales of any Product(s) in each calendar quarter, commencing with the first calendar quarter ending after the Effective Date of the Original Agreement. Notwithstanding the foregoing, no royalty shall be payable on Net Sales by or on behalf of a DYAX Collaborator that is not a Development Partner of DYAX where neither DYAX nor any Development Partner of DYAX directly or indirectly sells the Product.

(b) Royalties due under this Article 4 shall be payable on a country-by-country and Product-by-Product basis from the First Commercial Sale of such Product until the expiration of the last-to-expire XOMA Patent Right in such country with respect to which a Valid Claim covers the manufacture, use, sale, offer for sale, import or export of such Product or the tenth anniversary of such First Commercial Sale, whichever is later.

4.3 Commercially Reasonable Efforts. DYAX will use its commercially reasonable efforts to exploit the XOMA Patent Rights, generate and use Licensed Antibody Phage Display Materials, conduct Antibody Phage Display, discover, identify, characterize, develop and commercially launch Licensed Immunoglobulins and Products and/or maximize the amounts available to be shared with XOMA pursuant to this Article 4. DYAX shall also use commercially reasonable efforts to collect or receive any payments or other consideration due to it relating to any activities that would give rise to an obligation under Section 4.2.

4.4 Payments; Currency. All payments due hereunder shall be paid by wire transfer in United States dollars in immediately available funds to an account designated by XOMA. Payments required pursuant to Section 4.2 hereof shall be due and payable to XOMA when the corresponding Net Sales are received by DYAX (or any joint venture or similar arrangement in which DYAX is a participant) and shall be paid within thirty (30) days of the end of each calendar quarter. If any currency conversion shall be required in connection with the payment of any royalties hereunder, such conversion shall be made by

using the exchange rate for the purchase of U.S. dollars quoted in the U.S. version of the Wall Street Journal on the last business day of the calendar quarter to which such payments relate.

4.5 Payment Reports. After the First Commercial Sale of a Product on which royalties are required to be paid hereunder, DYAX shall make quarterly written reports to XOMA within thirty (30) days after the end of each calendar quarter, stating in each such report, by country, the number, description, and aggregate Net Sales of each Product sold during the calendar quarter. XOMA shall treat all such reports as Confidential Information of DYAX. Concurrently with the making of such reports, DYAX shall pay XOMA the amounts specified in Section 4.2 hereof.

4.6 Payment Records and Inspection. DYAX shall keep complete, true and accurate books of account and records for the purpose of determining the amounts payable under this Agreement. Such books and records shall be kept at the principal place of business of DYAX for at least three (3) years following the end of the calendar quarter to which they pertain. Upon the written request of XOMA and not more than once in each calendar year, DYAX shall permit an independent consultant appointed by XOMA and reasonably acceptable to DYAX to have access during normal business hours to such of the records of DYAX as may be reasonably necessary to verify the accuracy of the royalty reports hereunder for any year ending not more than thirty-six (36) months prior to the date of such request, unless a discrepancy is found. The consultant shall disclose to XOMA only the results and conclusions of its review and the specific details concerning any discrepancies. No other information shall be shared by the consultant without the prior consent of DYAX unless disclosure is required by law, regulation or judicial order. The consultant may be obliged to execute a reasonable confidentiality agreement prior to commencing any such inspection. Inspections conducted under this Section 4.6 shall be at the expense of XOMA, unless an underpayment exceeding five percent (5%) of the amount stated for the full period covered by the inspection is identified, in which case all out-of-pocket costs relating to the inspection will be paid promptly by DYAX. Any underpayments or unpaid amounts discovered by such inspections or otherwise will be paid promptly by DYAX, with interest from the date(s) such amount(s) were due at a rate equal to the lesser of the prime rate reported by the Bank of America plus two percent (2%) or the highest interest rate permitted under applicable law.

ARTICLE 5. CONFIDENTIALITY

5.1 Confidential Information. Except as expressly provided herein, the parties agree that, for the term of this Agreement and for five (5) years thereafter, the receiving party shall keep completely confidential and shall not publish or otherwise disclose and shall not use for any purpose except for the purposes contemplated by this Agreement any Confidential Information furnished to it by the disclosing party hereto, except to the extent that it can be established by the receiving party by written proof that such Confidential Information:

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

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

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

(d) was subsequently lawfully disclosed to the receiving party by a person other than a party hereto.

5.2 Permitted Use and Disclosures. Each party hereto may use or disclose information disclosed to it by the other party to the extent such use or disclosure is reasonably necessary in complying with applicable law or government regulations or conducting clinical trials; *provided, however,* that if a party is required to make any such disclosure of another party's Confidential Information, other than pursuant to a confidentiality agreement, it will give reasonable advance notice to the latter party of such disclosure and, will use its reasonable efforts to secure confidential treatment of such information prior to its disclosure (whether through protective orders or otherwise). Attached hereto as Schedule 5.2 is a redacted copy of this Agreement which DYAX shall be free, without obtaining any consent from XOMA, to provide to Third Parties who indicate an interest in becoming a DYAX Collaborator or a Development Partner of DYAX.

5.3 Confidential Terms. Except as expressly provided herein, each party agrees not to disclose any terms of this Agreement to any Third Party without the consent of the other party; *provided,* that disclosures may be made as required by securities or other applicable laws, or to a party's accountants, attorneys and other professional advisors.

ARTICLE 6. REPRESENTATIONS AND WARRANTIES

6.1 Representations and Warranties.

(a) XOMA represents and warrants to DYAX that: (i) it is the sole and exclusive owner or exclusive licensee of all right, title and interest in the XOMA Patent Rights; (ii) XOMA has the legal right, authority and power to enter into this Agreement; (iii) this Agreement shall constitute a valid and binding obligation of XOMA enforceable in accordance with its terms; and (iv) the performance of obligations under this Agreement by XOMA shall not result in a breach of any agreements, contracts or other arrangements to which it is a party.

(b) DYAX represents and warrants to XOMA that: (i) it is the sole and exclusive owner or exclusive licensee of all right, title and interest in the DYAX Patent Rights, (ii) DYAX has the legal right, authority and power to enter into this Agreement; (iii) this Agreement shall constitute a valid and binding obligation of DYAX enforceable in accordance with its terms; and (iv) the performance of obligations under this Agreement by DYAX shall not result in a breach of any agreements, contracts or other arrangements to which it is a party.

6.2 Disclaimer. Nothing in this Agreement is or shall be construed as:

(a) A warranty or representation by XOMA or DYAX as to the validity or scope of any claim or patent within the XOMA Patent Rights or the DYAX Patent Rights, as the case may be;

(b) 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 any patent rights or other intellectual property right of any Third Party;

(c) An obligation to bring or prosecute actions or suits against Third Parties for infringement of any of the XOMA Patent Rights or the DYAX Patent Rights;

(d) An obligation to maintain any patent or to continue to prosecute any patent application included within the XOMA Patent Rights or the DYAX Patent Rights in any country; or

(e) Granting by implication, estoppel, or otherwise any licenses or rights under patents or other rights of XOMA, DYAX or Third Parties, regardless of whether such patents or other rights are dominant or subordinate to any patent within the XOMA Patent Rights or the DYAX Patent Rights, as the case may be.

6.3 No Other Warranties. EXCEPT AS OTHERWISE SET FORTH IN SECTION 6.1 ABOVE, NEITHER PARTY HERETO MAKES ANY WARRANTIES WITH RESPECT TO ANY OF THE PATENT RIGHTS, MATERIALS OR KNOW-HOW LICENSED HEREUNDER, EXPRESS OR IMPLIED, EITHER IN FACT OR BY OPERATION OF LAW, BY STATUTE OR OTHERWISE, AND EACH PARTY SPECIFICALLY DISCLAIMS ANY EXPRESS OR IMPLIED WARRANTY OF MERCHANTABILITY, OF FITNESS FOR A PARTICULAR PURPOSE, OF VALIDITY OF SUCH PATENT RIGHTS, MATERIALS OR KNOW-HOW, ARISING FROM COURSE OF DEALING OR OF NON-INFRINGEMENT OF THE INTELLECTUAL PROPERTY RIGHTS OF ANY THIRD PARTY.

6.4 Certain Agreements. DYAX represents and warrants that it has in its possession, and agrees that throughout the term of this Agreement it will maintain in an accessible location, true, complete and legible copies of each of the agreements set forth on Schedule 2.9 as in effect on the Effective Date of the Original Agreement, including all schedules, exhibits and other similar documents necessary for the correct interpretation of the provisions thereof.

ARTICLE 7. [RESERVED]

ARTICLE 8. TERM AND TERMINATION

8.1 Term. Subject to Sections 8.5 and 8.6 hereof, the term of this Agreement will commence on the Effective Date and (a) with regard to the license rights granted to XOMA by DYAX pursuant to Article 3, this Agreement shall remain in full force and effect until the last to expire of the DYAX Patent Rights, unless earlier terminated by DYAX pursuant to Section 8.2, 8.3 or 8.4; *provided, however,* that upon such expiration and absent any earlier termination pursuant to Section 8.2, 8.3 or 8.4, XOMA shall have a royalty-free, fully paid up right and license to continue to use the DYAX Materials as permitted by Article 3; and (b) with regard to the license and other rights granted to DYAX and any DYAX Collaborators or Development Partners of DYAX by XOMA pursuant to Article 2, this Agreement shall remain in full force and effect until the last to expire of the XOMA Patent Rights or the tenth anniversary of the First Commercial Sale of the last Product to be launched, whichever is later, unless earlier terminated by XOMA pursuant to Section 8.2, 8.3 or 8.4; *provided, however,* that, to the extent any of the XOMA Know-How is not included in the XOMA Patent Rights, upon such expiration and absent any earlier termination pursuant to Section 8.2, 8.3 or 8.4, DYAX shall have a royalty-free, fully paid up right and license to continue to use the XOMA Know-How as permitted by Article 2 .

8.2 Termination for Material Breach. With regard to (a) the license rights granted to XOMA by DYAX pursuant to Article 3, or (b) the license and other rights granted to DYAX and any DYAX Collaborators or Development Partners of DYAX by XOMA pursuant to Article 2, this Agreement may be terminated by either DYAX or XOMA upon any material breach by XOMA or DYAX, as the case may be, of any material obligation or condition of the Agreement, in either case effective fifteen (15) days after giving notice to the breaching party of such termination in the case of a payment breach and sixty (60) days after giving written notice to the breaching party of such termination in the case of any other breach, which notice shall describe such breach in reasonable detail. The foregoing notwithstanding, if such breach is cured or shown to be non-existent within the aforesaid fifteen (15) or sixty (60) day period, the notice shall be deemed automatically withdrawn and of no effect and the notifying party shall provide written notice to the breaching party of the withdrawal. A termination of the breaching party's rights and licenses pursuant to this Section 8.2 shall not effect the non-breaching party's rights and licenses, which shall continue until otherwise terminated in accordance with this Agreement.

8.3 Termination for Insolvency. If voluntary or involuntary proceedings by or against either party are instituted in bankruptcy under any insolvency law, or a receiver or custodian is appointed for either party, or proceedings are instituted by or against either party for corporate reorganization or the dissolution of such party, which proceedings, if involuntary, shall not have been dismissed within sixty (60) days after the date of filing, or if either party makes an assignment for the benefit of creditors, or substantially all of the assets of either party are seized or attached and not released within sixty (60) days thereafter, the other party may immediately terminate this Agreement effective upon notice of such termination.

8.4 Contested Validity. If DYAX, a DYAX Collaborator or any person or entity controlled by any of the foregoing contests the validity or enforceability of any of the XOMA Patent Rights licensed hereunder, XOMA shall have the right to terminate all of the rights and licenses hereby granted to DYAX and any DYAX Collaborator under the XOMA Patent Rights; *provided, however,* that in the event a DYAX Collaborator contests the validity or enforceability of any of the XOMA Patent Rights licensed

hereunder other than at the direction, and without the assistance or other involvement, of DYAX, then the foregoing termination right of XOMA shall apply only to the rights hereby granted to such DYAX Collaborator. If XOMA or any person or entity controlled by XOMA contests the validity or enforceability of any of the DYAX Patent Rights licensed hereunder, DYAX shall have the right to terminate all of the rights and licenses hereby granted to XOMA under the DYAX Patent Rights.

8.5 Effect of Termination.

(a) Termination of this Agreement shall not release any party hereto from any liability which, at the time of such termination, has already accrued to the other party or which is attributable to a period prior to such termination nor preclude either party from pursuing any rights and remedies it may have hereunder or at law or in equity with respect to any breach of this Agreement. It is understood and agreed that monetary damages may not be a sufficient remedy for any breach of this Agreement and that the non-breaching party may be entitled to injunctive relief as a remedy for any such breach. Such remedy shall not be deemed to be the exclusive remedy for any such breach of this Agreement, but shall be in addition to all other remedies available at law or in equity.

(b) Upon any termination of this Agreement, DYAX and XOMA shall promptly return to the other party all Confidential Information received from the other party (except that each party may retain one copy for its files solely for the purpose of determining its rights and obligations hereunder).

(c) Except as expressly provided in Sections 8.1 and 8.2, all licenses granted under Article 2 hereof shall terminate and be of no further effect upon the termination of this Agreement.

8.6 Survival. Sections 2.6(c), 2.7, 2.8, 2.9, 3.3, 3.4, 3.5, 4.2, 4.4, 4.5, 4.6, 8.2, 8.5 and 8.6, and Articles 1, 5, 6 and 9 of this Agreement shall survive any termination hereof. Without limiting the foregoing, Article 2 of this Agreement shall survive any termination hereof by DYAX, and Article 3 of this Agreement shall survive any termination hereof by XOMA.

ARTICLE 9. MISCELLANEOUS PROVISIONS

9.1 Governing Laws. This Agreement and any dispute, including without limitation any arbitration, arising from the performance or breach hereof shall be governed by and construed and enforced in accordance with the laws of the state of New York, without reference to conflicts of laws principles.

9.2 Assignment. Neither party may transfer or assign this Agreement, directly or indirectly, or any of its rights hereunder without the prior written consent of the other party, other than (a) to one or more Affiliates, (b) to a successor of XOMA Ltd. under a Change in Control of XOMA Ltd. or to a successor of DYAX Corp. under a Change in Control of DYAX Corp. to which Section 9.3 does not apply, or (c) to a Third Party in connection with the transfer or sale of all or substantially all or its business relating to antibody selection, development and production and the provision of related services (other than (i) with respect to such a transfer or sale by DYAX, such a transfer or sale to any Person listed or described in Section 9.3 and (ii) with respect to such a transfer or sale by XOMA, such a transfer or sale to [*]. Any

such attempted transfer or assignment in violation of this Section 9.2 shall be void;*provided,* that in the event of a permitted Change in Control, the original party's (or its successor's) obligations hereunder shall continue. This Agreement shall be binding upon and inure to the benefit of the parties and their permitted successors and assigns.

9.3 Certain Changes in Control. Notwithstanding any other provision of this Agreement to the contrary, the license and other rights granted pursuant to Article 2 shall automatically terminate, without further action by the parties, in the event of (a) a transaction or series of related transactions in which [*] is a party and which results in a Change of Control of DYAX, or (b) a transaction or series of related transactions in which DYAX is a party and which results in a Change in Control of a person or entity described in clause (a) above.

9.4 Waiver. No waiver of any rights shall be effective unless consented to in writing by the party to be charged and the waiver of any breach or default shall not constitute a waiver of any other right hereunder or any subsequent breach or default.

9.5 Severability. In the event that any provisions of this Agreement are determined to be invalid or unenforceable by a court of competent jurisdiction, the remainder of the Agreement shall remain in full force and effect without said provision.

9.6 Notices. All notices, requests and other communications hereunder shall be in writing and shall be delivered or sent in each case to the respective address specified below, or such other address as may be specified in writing to the other party hereto, and shall be effective on receipt:

DYAX:

DYAX Corp.
300 Technology Square
Cambridge, MA 02139
U.S.A.
Attn: General Counsel

XOMA:

XOMA Ireland Limited
Shannon Airport House
Shannon, County Clare
Ireland
Attn: Company Secretary

with a copy (which shall not constitute notice) to:

Cahill Gordon & Reindel LLP
80 Pine Street
New York, NY 10005
U.S.A.
Attn: Geoffrey E. Liebmann

9.7 Independent Contractors. Both parties are independent contractors under this Agreement. Nothing contained in this Agreement is intended nor is to be construed so as to constitute XOMA or DYAX as partners or joint venturers with respect to this Agreement. Except as expressly provided herein, neither party 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 other contract, agreement, or undertaking with any third party.

9.8 Compliance with Laws. In exercising their rights under this license, the parties shall comply in all material respects with the requirements of any and all applicable laws, regulations, rules and orders of any governmental body having jurisdiction over the exercise of rights under this Agreement.

9.9 Bankruptcy. All rights and licenses granted under or pursuant to this Agreement by one party to the other are, for all purposes of Section 365(n) of Title XI of the United States Code ("Title XI"), licenses of rights to "intellectual property" as defined in Title XI. During the term of this Agreement each party shall create and maintain current copies to the extent practicable of all such intellectual property. If a bankruptcy proceeding is commenced by or against one party under Title XI, the other party shall be entitled to a copy of any and all such intellectual property and all embodiments of such intellectual property, and the same, if not in the possession of such other party, shall be promptly delivered to it (a) upon such party's written request following the commencement of such bankruptcy proceeding, unless the party subject to such bankruptcy proceeding, or its trustee or receiver, elects within thirty (30) days to continue to perform all of its obligations under this Agreement, or (b) if not delivered as provided under clause (a) above, upon such other party's request following the rejection of this Agreement by or on behalf of the party subject to such bankruptcy proceeding. If a party has taken possession of all applicable embodiments of the intellectual property of the other party pursuant to this Section 9.9 and the trustee in bankruptcy of the other party does not reject this Agreement, the party in possession of such intellectual property shall return such embodiments upon request. If a party seeks or involuntarily is placed under Title XI and the trustee rejects this Agreement as contemplated under 11 U.S.C. 365(n)(1), the other party hereby elects, pursuant to Section 365(n) of Title XI, to retain all rights granted to it under this Agreement to the extent permitted by law.

9.10 Use of Name. Neither party shall use the name or trademarks of the other party, except to the extent that a party is permitted to use the Confidential Information of the other party pursuant to Article 5, without the prior written consent of such other party.

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

9.12 Entire Agreement: Amendment. This Agreement, together with the agreement of XOMA contained in that certain letter agreement, dated July 24, 2006 (which agreement shall also have effect with respect to this Agreement), constitutes the entire and exclusive Agreement between the parties with respect to the subject matter hereof and supersedes and cancels all previous discussions, agreements,

commitments and writings in respect thereof. No amendment or addition to this Agreement shall be effective unless reduced to writing and executed by the authorized representatives of the parties.

9.13 Arbitration.

(a) Solely with respect to any dispute between the parties to this Agreement (other than any dispute which arises out of or relates to infringement, validity and/or enforceability of the XOMA Patent Rights or the DYAX Patent Rights) upon ten (10) days written notice, any party involved in the dispute may initiate arbitration by giving notice to that effect to the other party or parties involved in the dispute and by filing the notice with the American Arbitration Association or its successor organization ("AAA") in accordance with its Commercial Arbitration Rules. Such dispute shall then be settled by arbitration in New York, New York, in accordance with the Commercial Arbitration Rules of the AAA or other rules agreed to by the parties involved in the dispute, by a panel of three neutral arbitrators, who shall be selected by the parties involved in the dispute using the procedures for arbitrator selection of the AAA.

(b) The parties acknowledge that this Agreement evidences a transaction involving interstate commerce. Insofar as it applies, the United States Arbitration Act shall govern the interpretation of, enforcement of, and proceedings pursuant to the arbitration clause in this Agreement. Except insofar as the United States Arbitration Act applies to such matters, the agreement to arbitrate set forth in this Section 9.13 shall be construed, and the legal relations among the parties shall be determined in accordance with, the substantive laws of the State of New York.

(c) The panel shall render its decision and award, including a statement of reasons upon which such award is based, within thirty (30) days after the arbitration hearing. The decision of the panel shall be determined by majority vote among the arbitrators, shall be in writing and shall be binding upon the parties involved in the dispute, final and non-appealable. Judgment upon the award rendered by the panel may be entered in any court having jurisdiction thereof in accordance with Section 9.14(a).

(d) Except as provided under the United States Arbitration Act and with respect to the infringement, validity and/or enforceability of the XOMA Patent Rights or the DYAX Patent Rights, no action at law or in equity based upon any dispute that is subject to arbitration under this Section 9.13 shall be instituted.

(e) All expenses of any arbitration pursuant to this Section 9.13, including fees and expenses of the parties' attorneys, fees and expenses of the arbitrators, and fees and expenses of any witness or the cost of any proof produced at the request of the arbitrators, shall be paid by the non-prevailing party.

9.14 Venue; Jurisdiction.

(a) Any action or proceeding brought by either party seeking to enforce any provision of, or based on any right arising out of, this Agreement must be brought against any of the parties in

the courts of the State of New York. Each party (i) hereby irrevocably submits to the jurisdiction of the state courts of the State of New York and to the jurisdiction of any United States District Court in the State of New York, for the purpose of any suit, action, or other proceeding arising out of or based upon this Agreement or the subject matter hereof brought by any party or its successors or assigns, (ii) hereby waives, and agrees not to assert, by way of motion, as a defense, or otherwise, in any such suit, action, or proceeding, any claim that it is not subject personally to the jurisdiction of the above-named courts, that its property is exempt or immune from attachment or execution, that the suit, action or proceeding is brought in an inconvenient forum, that the venue of the suit, action, or proceeding is improper or that this Agreement or the subject matter hereof may not be enforced in or by such court, and (iii) hereby waives and agrees not to seek any review by any court of any other jurisdiction that may be called upon to grant an enforcement of the judgment of any such New York state or federal court.

(b) Process in any action or proceeding seeking to enforce any provision of, or based on any right arising out of, this Agreement may be served on any party anywhere in the world. Each party consents to service of process by registered mail at the address to which notices are to be given pursuant to Section 9.6. Nothing herein shall affect the right of a party to serve process in any other manner permitted by applicable law. Each party further agrees that final judgment against it in any such action or proceeding arising out of or relating to this Agreement shall be conclusive and may be enforced in any other jurisdiction within or outside the United States of America by suit on the judgment, a certified or exemplified copy of which shall be conclusive evidence of the fact and of the amount of its liability.

(c) Each party agrees that it shall not, and that it shall instruct those in its control not to, take any action to frustrate or prevent the enforcement of any writ, decree, final judgment, award (arbitral or otherwise) or order entered against it with respect to this Agreement, the XOMA Patent Rights or the DYAX Patent Rights and shall agree to be bound thereby as if issued or executed by a competent judicial tribunal having personal jurisdiction situated in its country of residence or domicile.

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

IN WITNESS WHEREOF, XOMA and DYAX have executed this Agreement in duplicate originals by duly authorized officers.

DYAX CORP.

By: /s/ IVANA MAGOVCEVIC-LIEBISCH
Name: Ivana Magovcevic-Liebisch, Ph.D. J.D.
Title: General Counsel & Executive Vice President, Corporate Communications

XOMA IRELAND LIMITED

By: /s/ ALAN KANE
Alan Kane, Director
duly authorized for and on behalf of XOMA Ireland Limited in the presence of:

/s/ NIAMH COGHLAN

SCHEDULE 1.9

Dyax Patent Rights

Country	Application/ Publication No.	Filing Date	Patent No.	Issue Date	Expiration Date
US	07/664,989	03/01/91	5,223,409	06/29/93	06/29/10
US	08/009,319	01/26/93	5,403,484	04/04/95	04/04/12
US	08/057,667	06/18/93	5,571,698	11/05/96	06/29/10
US	08/415,922	04/03/95	5,837,500	11/17/98	06/29/10
US	09/781,988	02/14/01	6,979,538	12/27/05	06/29/10
US	09/893,878	06/29/01			
US	10/126,544	04/22/02			
US	10/207,797	07/31/02			
US	08/821,498	03/21/97	6,326,155	12/04/01	
PCT	PCT/US89/03731 W090/02809 (pub)	09/01/89		National Phase	
EP	89910702.3	09/01/89	EP 436,597	04//02/97	Revoked
EP	Divisional 96/112867.5 768377 (pub)	09/01/89			Abandoned
EP	Divisional 00106289.2	09/01/89			Abandoned
EP	Divisional 05000796.2 EP1541682	09/01/89			Published
Japan	510087/1989 JP4502700 (pub)	09/01/89	3771253	02/17/06	09/01/09
Canada	610,176	09/01/89	1,340,288	01/27/99	09/01/09
Canada	2105300	02/27/92	2105300	09/02/1992	02/27/12
Ireland	IR89/2834	09/04/89			
Israel	91501	09/01/89	91501	06/11/98	09/01/09
Israel	Divisional 120,941	09/01/89	120,941	09/20/2005	09/01/09
Israel	Divisional 120,940	09/01/89	120,940	09/20/2005	09/01/09
Israel	Divisional 120,939	09/01/89	120,939	10/25/2001	09/01/09
PCT	US92/01539 W092/15679 (pub)	02/28/92		National Phase	
EP	92/908799.7	02/28/92	0 573 611	03/17/04	02/28/12
EP	04/006079.0	02/28/92			
Japan	508216/1992	02/28/92	3447731	07/04/03	02/28/12
Japan	130929	05/09/03			
Japan	507558	02/27/92			

SCHEDULE 1.24

XOMA Patent Rights

Title: Modular Assembly of Antibody Genes, Antibodies Prepared Thereby and Use

Inventors: Robinson, Liu, Horwitz, Wall, Better

1) Based on PCT/US86/02269, which is a continuation-in-part of U.S. Application No. 06/793,980 filed November 1, 1985 (abandoned).

COUNTRY	APPLICATION NO.	PATENT NO.
Australia	65981/86	Issued 606,320
Denmark	3385/87	Issued PR 175680 B1
Taiwan	75105650	Expired
*United States	06/793,980	
*United States	U.S. National Phase of PCT/US86/02269	

* Cases abandoned in favor of a continuing application.

2) Based on PCT/US88/02514, which corresponds to U.S. Application No. 07/077,528, which is a continuation-in-part PCT/US86/02269 (abandoned), which is a continuation-in-part of U.S. Application No. 06/793,980 (abandoned).

COUNTRY	APPLICATION NO.	PATENT NO.
Australia	23244/88	Issued 632,462
Canada	572,398	Granted 1,341,235
Denmark	192/90	Granted 174824
Denmark	200301155	Granted PR 175654 B1
Denmark	200301156	Granted PR 175581 B1
Europe	EP 88907510.7	Granted EP 0371998
Austria	EP 88907510.7	Granted EP 0371998
Belgium	EP 88907510.7	Granted EP 0371998
France	EP 88907510.7	Granted EP 0371998
Germany	EP 88907510.7	Granted P 3888186.1
Italy	EP 88907510.7	Granted EP 0371998
Luxembourg	EP 88907510.7	Granted EP 0371998
Netherlands	EP 88907510.7	Granted EP 0371998
Sweden	EP 88907510.7	Granted EP 0371998
Switzerland/Liechtenstein	EP 88907510.7	Granted EP 0371998
United Kingdom	EP 88907510.7	Granted EP 0371998
Europe	EP 93100041.8	Granted EP 0550400
Austria	EP 93100041.8	Granted EP 0550400
Belgium	EP 93100041.8	Granted EP 0550400
France	EP 93100041.8	Granted EP 0550400
Germany	EP 93100041.8	Granted P 3855421.6
Italy	EP 93100041.8	Granted EP 0550400
Luxembourg	EP 93100041.8	Granted EP 0550400

Netherlands	EP 93100041.8	Granted EP 0550400
Sweden	EP 93100041.8	Granted EP 0550400
Switzerland/ Liechtenstein	EP 93100041.8	Granted EP 0550400
United Kingdom	EP 93100041.8	Granted EP 0550400
Europe	EP 95119798.7	Granted EP 0731167
Austria	EP 95119798.7	Granted EP 0731167
Belgium	EP 95119798.7	Granted EP 0731167
France	EP 95119798.7	Granted EP 0731167
Germany	EP 95119798.7	Granted P 3856440.12
Italy	EP 95119798.7	Granted EP 0731167
Luxembourg	EP 95119798.7	Granted EP 0731167
Netherlands	EP 95119798.7	Granted EP 0731167
Sweden	EP 95119798.7	Granted EP 0731167
Switzerland/ Liechtenstein	EP 95119798.7	Granted EP 0731167
United Kingdom	EP 95119798.7	Granted EP 0731167
Japan	506481/88	Granted 2991720
*United States	07/077,528	

* Cases abandoned in favor of a continuing application.

3) Based on U.S. Application No. 07/501,092 filed March 29, 1990, which is a continuation-in-part of U.S. Application No. 07/077,528 (Modular Assembly of Antibody Genes, Antibodies Prepared Thereby and Use; Robinson, Liu, Horwitz, Wall, Better) and of U.S. Application No. 07/142,039 (Novel Plasmid Vector with Pectate Lyase Signal Sequence; Lei, Wilcox).

COUNTRY	APPLICATION NO.	PATENT NO.
*United States	07/501,092	
*United States	07/987,555	
*United States	07/870,404	
*United States	08/020,671	
*United States	09/722,425	Abandoned
*United States	09/722,315	Abandoned
United States	08/235,225	5,618,920
United States	08/299,085	5,595,898
United States	08/472,691	6,204,023
United States	08/467,140	5,698,435
United States	08/450,731	5,693,493
United States	08/466,203	5,698,417
United States	10/040,945	Pending

* Cases abandoned in favor of a continuing application.

Title: AraB Promoters and Method of Producing Polypeptides, Including Cecropins, by Microbiological Techniques

Inventors: Lai, Lee, Lin, Ray, Wilcox

Based on PCT/US86/00131, which is a continuation-in-part of U.S. Application No. 06/695,309 filed January 28, 1985 (abandoned).

COUNTRY	APPLICATION NO.	PATENT NO.
Europe	EP 86900983.7	Granted EP 0211047
Austria	EP 86900983.7	Granted EP 0211047
Belgium	EP 86900983.7	Granted EP 0211047
France	EP 86900983.7	Granted EP 0211047
Germany	EP 86900983.7	Granted P3689598.9-08
Italy	EP 86900983.7	Granted EP 0211047
Luxembourg	EP 86900983.7	Granted EP 0211047
Netherlands	EP 86900983.7	Granted EP 0211047
Sweden	EP 86900983.7	Granted EP 0211047
Switzerland/ Liechtenstein	EP 86900983.7	Granted EP 0211047
United Kingdom	EP 86900983.7	Granted EP 0211047
Finland	863891	Granted 94774
Japan	500818/86	Granted 2095930
Japan	094753/94	Granted 2121896
Norway	863806	Granted 175870
*United States	06/695,309	
*United States	06/797,472	
United States	07/474,304	Granted 5,028,530

* Cases abandoned in favor of a continuing application.

Title: Novel Plasmid Vector with Pectate Lyase Signal Sequence

Inventors: Lei, Wilcox

Based on U.S. Application No. 07/142,039 filed January 11, 1988 and PCT/US89/00077.

COUNTRY	APPLICATION NO.	PATENT NO.
Australia	29377/89	Issued/627443
Canada	587,885	1,338,807
Europe	EP 89901763.6	Granted EP 0396612
Austria	EP 89901763.6	Granted EP 0396612
Belgium	EP 89901763.6	Granted EP 0396612
France	EP 89901763.6	Granted EP 0396612
Germany	EP 89901763.6	Granted 689 26 882 T2
Italy	EP 89901763.6	Granted EP 0396612
Luxembourg	EP 89901763.6	Granted EP 0396612
Netherlands	EP 89901763.6	Granted EP 0396612
Sweden	EP 89901763.6	Granted EP 0396612
Switzerland/ Liechtenstein	EP 89901763.6	Granted EP 0396612
United Kingdom	EP 89901763.6	Granted EP 0396612
Japan	501661/89	Granted 2980626

*United States	07/142,039	
United States	08/472,696	5,846,818
United States	08/357,234	5,576,195

* Cases abandoned in favor of a continuing application.

SCHEDULE 2.2

Transfer of XOMA Materials

[*]

SCHEDULE 2.9

Third Parties and Activities

[*]

SCHEDULE 3.3

Dyax Materials

[*]

SCHEDULE 5.2

Redacted Agreement

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

COLLABORATION AGREEMENT

This Collaboration Agreement (this "Agreement") is dated as of November 1, 2006 (the "Effective Date") and is made by and between Takeda Pharmaceutical Company Limited, a Japanese corporation having offices at 1-1, Doshomachi 4-chome, Chuo-ku, Osaka 540-8645, Japan (hereinafter "Takeda"); and XOMA (US) LLC, a Delaware limited liability company having offices at 2910 Seventh Street, Berkeley, California 94710, USA (hereinafter "XOMA"). Takeda and XOMA are sometimes referred to herein individually as a "Party" and collectively as the "Parties."

R E C I T A L S

WHEREAS, Takeda and XOMA are each in the business of, among other things, discovering and developing products for the prevention or treatment of human diseases and conditions;

WHEREAS, Takeda (a) has technology for and expertise in the identification and validation of targets for use in the discovery of such products, and has identified and validated, and continues to identify and validate, target antigens for use in the discovery of antibodies potentially useful for such purposes, and (b) has personnel with expertise in the development of such products;

WHEREAS, XOMA has technology for and expertise in the discovery, optimization, development and manufacturing of antibodies potentially useful for such purposes;

WHEREAS, Takeda and XOMA are interested in collaborating (a) in the discovery of antibodies to target antigens identified and validated by Takeda and (b) in the development of such antibodies for use in the prevention or treatment of human diseases and conditions;

WHEREAS, it is anticipated that XOMA will have primary responsibility for research and preclinical development activities relating to the target antigens that are the subject of the Parties' collaboration, including antibody discovery, identification of antibodies suitable for supporting Investigational New Drug application filing(s) and the manufacturing of clinical trial material for such antibodies during their clinical development; and

WHEREAS, it is anticipated that Takeda will have primary responsibility for all activities relating to development and commercialization of Collaboration Products including without limitation the filing of Investigational New Drug applications, clinical development and the sales and marketing of Collaboration Products.

NOW, THEREFORE, in consideration of the premises and of the covenants herein contained, the Parties hereto mutually agree as follows:

ARTICLE 1

DEFINITIONS

For purposes of this Agreement, the terms defined in this Article 1 shall have the respective meanings specified below:

1.1 "Additional Upfront Fee" has the meaning specified in Section 7.1 hereof.

1.2 "Adverse Drug Reaction" means any untoward medical occurrence in a patient or subject who is administered a Collaboration Product, the occurrence of which should be reported to one or more Regulatory Authorities in accordance with applicable Laws where the Collaboration Product is being administered to patients or subjects.

1.3 "Affiliate" means any corporation, company, partnership, joint venture and/or firm that controls, is controlled by or is under common control with a Party to this Agreement. For purposes hereof, "control" means (a) in the case of a corporate entity, direct or indirect ownership of more than fifty percent (50%) of the stock or shares entitled to vote for the election of directors; (b) in the case of a non-corporate entity, direct or indirect ownership of more than fifty percent (50%) of the equity interests with the power to direct the management and policies of such non-corporate entity; or (c) possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of the entity in question (whether through ownership of securities or other ownership interests, by contract or otherwise). Notwithstanding the foregoing, TAP Pharmaceutical Products, Inc. and its subsidiaries, TAP Pharmaceuticals Inc. and TAP Finance Inc., shall be deemed Affiliates of Takeda for purposes hereof so long as Takeda directly or indirectly owns fifty percent (50%) or more of the stock or shares entitled to vote for the election of directors thereof.

1.4 "Annual Maintenance Fee" has the meaning specified in Section 7.2 hereof.

1.5 "Antibody" means any immunoglobulin molecule whether in monospecific or any other form and shall include, without limitation, immunoglobulin fragments, such as Fv, Fab, F(ab') and single-chain antibodies.

1.6 "Antibody Product" means any composition of matter or article of manufacture consisting essentially of an Antibody (a) alone or (b) integrally associated with a composition of matter or article of manufacture (including without limitation conjugates bound to a toxin, label or other moiety) providing therapeutic, half-life, safety or other advantages to the Antibody.

1.7 "Antibody Related Claim" has the meaning specified in Section 6.1.1 hereof.

1.8 "Applicable Interest Rate" has the meaning specified in Section 7.12 hereof.

1.9 "Bankruptcy Code" has the meaning specified in Section 14.3 hereof.

1.10 "Batch" means a specific volume, produced in a [*] or larger size bioreactor, of cell culture fluid processed through to bulk drug substance that is intended to have a uniform character and quality, within specified limits, and that is produced according to a single manufacturing order during the same cycle of manufacture.

1.11 "Batch Price" means the price associated with the production of each Batch (excluding FTE Costs for internal analytical testing as provided in Section 1.59 and Third Party costs as provided in Section 7.6.2) and, during the period from the Effective Date until December 31, 2006, shall be as follows: [*] for each [*] scale Batch; [*] for each [*] scale Batch; and [*] for each [*] scale Batch. Batch Prices shall be adjusted annually beginning January 1, 2007 by XOMA, [*].

1.12 "BLA" means a Biologics Licensing Application (as defined in the FDC Act) and any other equivalent marketing authorization application or other license, registration or application seeking approval from a Regulatory Authority to market a Collaboration Product in the Field in the Territory.

1.13 "Cancer" means a condition or disease primarily characterized by uncontrolled growth or spread of abnormal and anaplastic cells, metastases, neoplasm, malignant tumors and/or invasion by abnormal and anaplastic cells into tissues regardless of cause. For the avoidance of doubt, Cancer shall not include inflammation, infection or conditions characterized solely by hypertrophy or hyperplasticity of normal cells.

1.14 "cGMP Guidelines" means the FDA's current good manufacturing practice guidelines as promulgated under the FDC Act and 21 C.F.R. (parts 210 and 211), and as further defined by FDA guidance documents, as amended from time to time.

1.15 "Change of Control" means a transaction or a series of related transactions (collectively, the "Transaction") wherein the shareholders of a company or its parent company immediately before the Transaction do not retain immediately after the Transaction, in substantially the same proportions as their ownership of voting shares of such company or its parent company immediately before the Transaction, direct or indirect beneficial ownership of more than two-thirds (66.67%) of the total combined voting power of the outstanding voting shares of the company or the entity or entities to which the assets of the company were transferred (the "Transferee Corporation"), as the case may be. For purposes of the preceding sentence, indirect beneficial ownership shall include, without limitation, an interest resulting from ownership of the voting shares of one or more entities which, as a result of the Transaction, own the company or the Transferee Corporation(s), as the case may be, either directly or through one or more subsidiaries.

1.16 "Chiron Agreement" has the meaning specified in Section 1.17 hereof.

1.17 "Chiron Exclusivity Period" shall mean the exclusivity period provided for in Section 3.2 of the May 26, 2005 Research, Development and Commercialization Agreement between Chiron Corporation and XOMA (the "Chiron Agreement"). As of the Effective Date, although the Chiron Exclusivity Period is scheduled to expire on February 27, 2007, it may be extended to not later than February 27, 2009. In the event that XOMA learns that such expiration date changes or is reasonably expected to change, XOMA shall inform Takeda within ten (10) business days of such change or expected change in writing as well as the known or anticipated new expiration date.

1.18 "Collaboration" has the meaning specified in Section 2.1.1 hereof.

1.19 "Collaboration Committee" means the Joint Steering Committee, JRDC or Joint Patent Committee. "Collaboration Committees" means any combination of the foregoing.

1.20 "Collaboration Product" means a Program Antibody that has been selected by Takeda at the Joint Steering Committee as a lead or backup development candidate for further development under the Collaboration.

1.21 "Collaboration Target" means any Proposed Target that has been selected for Research and Development in accordance with Section 2.2 hereof.

1.22 "Combination Product" has the meaning specified in Section 1.62 hereof.

1.23 "Commercially Reasonable and Diligent Efforts" means the carrying out of obligations or tasks by a Party in a sustained manner using good faith commercially reasonable and diligent efforts, which efforts shall be consistent with the exercise of prudent scientific and business judgment in accordance with either (a) the efforts such Party devotes to products or research and development projects of similar scientific and commercial potential, or (b) if such Party does not have and has not had any such products or projects, the efforts a peer company in the biopharmaceutical industry would devote, in accordance with industry standards and practices, to products or research and development projects of similar scientific and commercial potential, and subject in any event to any Pre-existing Obligations of such Party properly disclosed to the other Party in accordance herewith.

1.24 "Confidential Information" means any information and data received by a Party (the "Receiving Party") from the other Party or its Affiliates (the "Disclosing Party") in connection with this Agreement or the Confidential Disclosure Agreement made as of February 8, 2006 between the Parties (including, without limitation, any terms of this Agreement, all information disclosed by the Parties under Article 2 hereof and any research, testing, clinical, regulatory, marketing or other scientific or business information, plans, or data pertaining to any Collaboration Product of the Disclosing Party). Notwithstanding the foregoing, Confidential Information shall not include any part of such information or data:

(a) which is or becomes public knowledge (through no fault of the Receiving Party); or

(b) which is made available to the Receiving Party by a Third Party not under an obligation of confidentiality with the Disclosing Party (and such lawful right can be demonstrated by the Receiving Party's written records); or

(c) which is already rightfully in the Receiving Party's possession at the time of receipt from the Disclosing Party (and such prior possession can be demonstrated by the Receiving Party's written records); or

(d) which is independently developed by an employee of the Receiving Party and/or its Affiliates without the aid, application or use of confidential information disclosed by the Disclosing Party (and such independent development can be demonstrated by the Receiving Party's written records).

[*]

1.25 "Contract Quarters" has the meaning specified in Section 1.26 hereof.

1.26 "Contract Year" means, with respect to a particular Collaboration Target, (a) with respect to the first Contract Year, the period beginning on the date such Collaboration Target is accepted into the Collaboration (or, in the case of the first Collaboration Target, the Effective Date) and ending on December 31 of the calendar year in which such acceptance takes place (which in the case of the first Collaboration Target is December 31, 2006) (such period, the "First Contract Year"), and (b) with respect to each subsequent Contract Year, the twelve (12) month period beginning on the day following the end of the First Contract Year and each succeeding twelve (12) month period thereafter. Each Contract Year (other than the First and last Contract Years, as applicable) shall be divided into four (4) "Contract Quarters" comprised of successive three (3) month periods. In the First Contract Year, the first Contract Quarter shall begin on the first day of the First Contract Year and shall end on the last day of the calendar quarter in which the relevant Collaboration Target is accepted into the Collaboration (which in the case of the first Collaboration Target is December 31, 2006).

1.27 "Control" or "Controlled" means, with respect to any (a) material, document, item of information, method, data or other Know-How or (b) Patent Right or other intellectual property right, the possession (whether by ownership or license, other than by a license granted pursuant to this Agreement) by a Party or its Affiliates of the ability to grant to the other Party access, ownership, a license and/or a sublicense as provided herein under such item or right without violating the terms of any agreement or other arrangement with any Third Party as of the time such Party would first be required hereunder to grant the other Party such access, ownership, license or sublicense.

1.28 "Cover," "Covered" or "Covering" means, with respect to a Patent Right, that, but for rights granted to a person or entity under such Patent Right, the practice by such person or entity of an invention claimed in such Patent Right would infringe a Valid Claim included in such Patent Right, or in the case of a Patent Right that is a patent application, would infringe a Valid Claim in such patent application if it were to issue as a patent.

1.29 "Disclosing Party" has the meaning specified in Section 1.24 hereof.

1.30 "Effective Date" means the date specified in the initial paragraph of this Agreement.

1.31 "EMEA" means the European Medicines Agency, or any successor thereto.

1.32 "Escrow Agent" means an independent Third Party consultant hired by XOMA with whom XOMA has deposited a list of Excluded Targets, which XOMA may update from time to time, and who shall notify Takeda which, if any, Proposed Targets are Excluded Targets.

1.33 [*].

1.34 "Event of Default" means an event described in Section 13.4 hereof.

1.35 "Excluded Target" means a Target that XOMA has elected, in its sole discretion, to exclude from consideration for inclusion in the Collaboration and is identified on the list of Excluded Targets deposited with the Escrow Agent prior to such Target being designated as a Proposed Target by Takeda.

1.36 "FDA" means the United States Food and Drug Administration, or any successor thereto.

1.37 "FDC Act" means the United States Food, Drug and Cosmetic Act (or any successor thereto), as amended, and the rules and regulations promulgated thereunder.

1.38 "Field" means any and all uses except, until the expiration or termination of the Chiron Exclusivity Period, the diagnosis, prevention, control or treatment of Cancer; [*]. For avoidance of doubt, upon the expiration or termination of the Chiron Exclusivity Period, the Field shall become automatically any and all uses including but not limited to the diagnosis, prevention, control or treatment of Cancer.

1.39 "First Commercial Sale" means the first sale for use or consumption by the general public of a Collaboration Product in a country after Regulatory Approval has been obtained in such country. For the avoidance of doubt, First Commercial Sale shall not include the sale of any Collaboration Product for use in clinical trials or for compassionate use prior to Regulatory Approval.

1.40 "First Contract Year" has the meaning specified in Section 1.26 hereof.

1.41 "First Upfront Fee" has the meaning specified in Section 7.1 hereof.

1.42 "FTE" means a full-time person dedicated to the R&D Plan activities or Manufacturing Plan activities, as applicable, or in the case of less than a full-time, dedicated person, a full-time, equivalent person year, based, in either case, upon a total of [*] hours per year of work in connection with R&D Plan activities or Manufacturing Plan activities, as applicable.

1.43 "FTE Costs" means the amounts determined by multiplying (a) the number of FTEs contributed by a Party toward R&D Plan activities or Manufacturing Plan activities during the relevant time period, subject to any limitations set forth in the applicable R&D Plan or Manufacturing Plan and associated budget(s) or otherwise established by the Joint Steering Committee, by (b) the applicable FTE Rates.

1.44 "FTE Rate" means, for each functional area, the rate set forth below corresponding to such functional area, to be adjusted annually (beginning in January of 2007) for inflation using the latest available U.S. Producer Price Index for Total Manufacturing Industries, unadjusted (PCUOMFG#) as published by the Bureau of Labor Statistics; [*]. In addition, the Joint Steering Committee shall discuss and approve, as needed, further adjustments to FTE Rates [*] on a prospective basis beginning in [*]. Establishment of annual FTE Rates for functional areas not set forth in the table below shall be the responsibility of the JRDC based on XOMA's then-current FTE rates. Such rates will be used to determine the R&D Plan and related budget for the applicable annual period.

Functional Area	Annual FTE Rate
Preclinical	[*]
Clinical	[*]
Regulatory	[*]
Pilot Plant (Process Development)	[*]
Quality	[*]

Technical Development (Cell Line Work and Assay Development)	[*]
Project Management	[*]

1.45 "GAAP" means United States generally accepted accounting principles, as they exist from time to time, consistently applied.

1.46 "Human Engineering™ Technology" means the Human Engineering™ technology Controlled by XOMA, as more fully described in Schedule 1.46.

1.47 "IND" means an Investigational New Drug application filed with the U.S. Food and Drug Administration or a similar application for the clinical testing of a Collaboration Product in human subjects filed with a foreign Regulatory Authority.

1.48 "Indemnitee" has the meaning specified in Section 12.4 hereof.

1.49 "Indemnitor" has the meaning specified in Section 12.4 hereof.

1.50 "Joint Patent Committee" has the meaning specified in Section 3.1.3 hereof.

1.51 "Joint Project Team" has the meaning specified in Section 3.1.2 hereof.

1.52 "Joint Steering Committee" has the meaning specified in Section 3.1.1 hereof.

1.53 "JRDC" has the meaning specified in Section 3.1.2 hereof.

1.54 "Know-How" means any and all know-how, trade secrets, data, processes, techniques, procedures, compositions, materials, devices, methods, formulas, protocols, and research, preclinical and clinical data and information, including any and all chemical, biochemical, toxicological, and scientific research information, whether in written, electronic, graphic or video form or any other form or format. Know-How shall not include Patent Rights.

1.55 "Laws" means all laws, statutes, rules, regulations, ordinances and other pronouncements having the effect of law of any federal, national, multinational, state, provincial, county, city or other political subdivision, domestic or foreign.

1.56 "Lead Antibody" has the meaning specified in Section 7.3.4(a) hereof.

1.57 "License Agreements" means the license agreements listed in Schedule 1.57, which list shall be updated from time to time as necessary to reflect additional license agreements entered into by XOMA after the Effective Date, the inclusion of which in the Collaboration has been agreed to by the Joint Steering Committee as provided in Section 2.7.

1.58 "Manufacturing" or "Manufacture" means all activities set forth in the applicable Manufacturing Plan associated with the production, processing, formulating, filling, finishing and packaging of Collaboration Products in the Field, including pilot plant process development; pilot plant stability testing; manufacturing process development; manufacturing process and assay validation;

manufacturing scale-up; preclinical, clinical and commercial manufacture; and analytical development, quality assurance and quality control activities.

1.59 "Manufacturing Costs" means, with respect to the Manufacture of a Collaboration Product as set forth in the applicable Manufacturing Plan, the [*] internal costs of XOMA, which costs shall be determined based on (i) FTE Costs or (ii) with respect to Batches of the scale sizes referred to in Section 1.11, the Batch Price, and the [*] costs billed to XOMA by Third Parties, in each case consistent with and directly related to the budget set forth in the applicable Manufacturing Plan incurred in cell line development; pilot plant process and assay development; manufacturing process development; manufacturing process improvement; manufacturing scale-up; the development of manufacturing standard operating procedures, batch records, and quality assurance and quality control methods and procedures; and the time of manufacturing personnel for preparing, submitting, reviewing or developing data or information for the purpose of a drug master file or for submission to a Regulatory Authority.

1.60 "Manufacturing Plan" has the meaning specified in Section 5.1.1 hereof.

1.61 "Master Cell Bank" means an aliquot of a single pool of cells which generally has been prepared from the selected cell clone under defined conditions, dispensed into multiple containers and stored under defined conditions. The single pool of cells will be generated from a cell line having agreed upon characteristics established prior to the initiation of preparation of such Master Cell Bank pursuant to the R&D Program, or as subsequently agreed to by the Joint Steering Committee, based on relevant cGMP and GLP standards [*].

1.62 "Net Sales" means, with respect to a Collaboration Product, the gross amount invoiced for sales of such Collaboration Product to customers which are not Affiliates (or which are Affiliates but are end users of such Collaboration Product), less the following unreimbursed or non-refunded deductions with respect thereto, determined in accordance with GAAP and calculated in United States dollars and to the extent such amounts have not already been deducted from the amount invoiced: (a) amounts actually allowed as volume or quantity discounts, rebates, price reductions, returns (including recalls) and charge-backs (including without limitation, with respect to any Net Sales in Japan, any sales-based contribution for "Drug Induced Suffering" and any sales-based contribution for "Contribution for Measure for Drug Safety," in each case as required by applicable Laws or Regulatory Authority in the amount determined by and payable to the Pharmaceuticals and Medical Devices Agency (so-called "KIKO")), (b) sales, excise and turnover taxes and similar duties, levies and charges collected, charged or otherwise imposed directly upon and actually paid by such party and its Affiliates, and (c) all other direct expenses or discounts, including but not limited to cash discounts, custom duties and transportation and insurance charges.

In the event the Collaboration Product is sold as part of a Combination Product (as defined below), the Net Sales from the Combination Product, for the purposes of determining royalty payments, will be determined by [*].

In the event that the average sale price of the Collaboration Product can be determined but the average sale price of the other active compounds or active ingredients in the Combination Product cannot be determined, Net Sales for purposes of determining royalty payments will be calculated by [*]. If the average sale price of the other active compounds or active ingredients can be determined but the average price of the Collaboration Product cannot be determined, Net Sales for purposes of determining royalty payments will be calculated by [*].

In the event that the average sales price of both the Collaboration Product and the other active compounds or active ingredients in the Combination Product cannot be determined, the Net Sales of the Collaboration Product shall be negotiated in good faith by the Parties.

As used above, the term "Combination Product" means any Collaboration Product sold in conjunction with any other active component(s) (whether packaged together or in the same therapeutic formulation).

Free samples of Collaboration Product and the disposition of Collaboration Product for, or the use of Collaboration Product in, preclinical or clinical (Phase 1–3) trials or other market-focused (Phase 4) trials in which Collaboration Product is provided to patients without any payment shall not result in any Net Sales.

1.63 "Patent Prosecution" has the meaning specified in Section 9.2.1 hereof.

1.64 "Patent Rights" means all patents and patent applications existing as of the Effective Date and all patent applications thereafter filed and patents thereafter issued, including, without limitation, any continuations, continuations-in-part, divisionals, provisionals or any substitute applications, any patent issued with respect to any such patent applications, any reissue, reexamination, renewal or extension (including any supplemental protection certificate) of any such patent, and any confirmation patent or registration patent or patent of addition based on any such patent, and all foreign counterparts of any of the foregoing.

1.65 "Phage Display Technology" means an in vitro selection technique that enables polypeptides (e.g. human antibody fragment) with desired properties to be extracted from a repertoire of many different polypeptides or variants, utilizing the ability to display polypeptides on the surface of bacteriophage.

1.66 "Phase 1 Trial" means a human clinical trial in any country that is intended to initially evaluate the safety and/or pharmacological effect of a Collaboration Product in subjects or that would otherwise satisfy the requirements of 21 C.F.R. 312.21(a), or its foreign equivalent. For purposes of this Agreement, "commencement of a Phase 1 Trial" for a Collaboration Product means the first introduction of such Collaboration Product into a human patient in a Phase 1 Trial.

1.67 "Phase 2 Trial" means a human clinical trial in any country that is intended to initially evaluate the effectiveness of a Collaboration Product for a particular indication or indications in patients with the disease or indication under study or that would otherwise satisfy the requirements of 21 C.F.R. 312.21(b), or its foreign equivalent. For purposes of this Agreement, "commencement of a Phase 2 Trial" for a Collaboration Product means the first introduction of such Collaboration Product into a human patient in a Phase 2 Trial.

1.68 "Phase 3 Trial" means a pivotal human clinical trial in any country, the results of which could be used to establish safety and efficacy of a Collaboration Product as a basis for a BLA or that would otherwise satisfy the requirements of 21 C.F.R. 312.21(c) or its foreign equivalent. For purposes of this Agreement, "commencement of a Phase 3 Trial" for a Collaboration Product means the first introduction of such Collaboration Product into a human patient in a Phase 3 Trial. In the event of a Phase 2/3 trial, initiation of Phase 3 shall be deemed to have occurred upon a decision by Takeda to continue enrollment for the pivotal portion of such trial.

1.69 "Plan" means the R&D Plan or Manufacturing Plan, as the case may be.

1.70 "Pre-existing Obligations" means the obligations of Takeda or XOMA, as the case may be, existing (a) with respect to Takeda Background Technology or XOMA Background Technology, under agreements in effect prior to the Effective Date and listed on Schedule 1.70, and (b) with respect to any Collaboration Target other than the initial Collaboration Target referred to in Section 2.2.1, under agreements in effect at the time such Collaboration Target is designated as such pursuant to Section 2.2 and disclosed in writing by the Party subject to such obligation(s) to the other Party.

1.71 "Program Antibody" means an Antibody Product that (a) is identified or discovered by XOMA in the course of the Collaboration, or (b) the Parties agree to acquire from a Third Party, and, in the case of clauses (a) and (b), selectively binds to and acts through a Collaboration Target; *provided*, *however*, that in no event shall an Antibody Product that is subject to one or more Pre-existing Obligations become a Program Antibody unless such designation is affirmatively agreed to by the Joint Steering Committee after disclosure of the nature of such Pre-existing Obligation(s) by the applicable Party, such agreement not to be unreasonably withheld or delayed.

1.72 "Program Director" has the meaning specified in Section 3.2 hereof.

1.73 "Program Materials" means (a) any Program Antibodies and (b) any materials other than Program Antibodies Controlled by a Party or jointly by the Parties that are first identified, discovered or created in the conduct of the Collaboration and during the applicable Program Term including, but not limited to, (i) a cell line producing a Program Antibody and (ii) plasmid DNA incorporating the cDNA with respect to a Program Antibody.

1.74 "Program Patent Rights" means any Patent Rights Controlled by a Party or jointly by the Parties that Cover any Program Technology or Program Materials.

1.75 "Program Technology" means any and all Know-How and inventions Controlled by a Party or jointly by the Parties that are first invented, identified, discovered, made, conceived, reduced to practice or otherwise licensed or acquired in the conduct of the Collaboration and during the applicable Program Term; *provided* that Know-How or inventions that constitute an improvement to the Human Engineering™ Technology (including any Know-How or inventions otherwise meeting this definition and constituting an improvement thereto) shall not be included in Program Technology. For clarity, Program Technology excludes Program Materials.

1.76 "Program Term" has the meaning specified in Section 2.1.2 hereof.

1.77 "Proposed Targets" has the meaning specified in Section 2.2.2 hereof.

1.78 "Qualified Generic" means, with respect to a particular Collaboration Product in a given country, a generic product (i.e., referred to as a follow-on biologic in the U.S. or a biosimilar medicinal product in the E.U.) that has received Regulatory Approval in such country in the Territory (i) on the basis of the quality, safety and efficacy of such Collaboration Product and (ii) as a substitute for such Collaboration Product in such country has achieved sales revenues exceeding [*] of the sales revenues of Collaboration Product sold by Takeda or its sublicensees in such country based on monthly IMS data if available, or equivalent data for that country if IMS data is not available.

1.79 "R&D Costs" means costs and expenses that are incurred after the Effective Date by either Party in performing Research and Development activities consistent with and directly related to an applicable R&D Plan and associated budget, including:

(a) the [*] costs of internal scientific, medical, technical, and/or managerial personnel engaged in R&D Plan activities, which costs shall be determined based on FTE Costs, unless another basis is otherwise agreed upon by the Parties in writing; and

(b) all [*] costs and expenses incurred in performing R&D Plan activities, including payments to investigators, contract research organizations, and consultants, for preclinical studies, pharmacodynamic or pharmacokinetic studies, molecular biology, toxicology studies, data management, statistical design, programming and analysis, clinical studies, clinical trial management, document preparation and review, subject recruitment and reimbursement, insurance, contract negotiation and travel;

(c) all [*] fees and costs incurred in connection with the preparation, filing and submission of INDs, BLAs and other regulatory filings with Regulatory Authorities for Collaboration Products (including pharmacoeconomic studies and any other clinical studies reasonably necessary for Regulatory Approval by relevant Regulatory Authorities to sell such Collaboration Product in each country);

(d) subject to reduction under Section 7.4.2 hereof, [*] costs incurred after the Effective Date and directly attributed to the Collaboration under any Third Party licenses based on the intellectual property rights of such Third Parties (i) entered into prior to the Effective Date and disclosed to the other Party prior to the Effective Date or (ii) entered into after written agreement by the JRDC in accordance with Section 2.7;

(e) [*] costs and expenses relating to clinical supplies, lab supplies, animals and other direct charges incurred in performing R&D Plan activities as set forth in the R&D Plan, including: (i) costs and expenses incurred to purchase and/or package comparator or combination drugs or devices; and (ii) costs and expenses of disposal of clinical samples;

(f) [*]; and

(g) any other costs incurred that are specifically included in the budget for such R&D Plan.

1.80 "R&D Plan" means the plan relating to a particular Collaboration Target for each Contract Year prepared, developed and approved in accordance with Section 2.2.5 or Section 4.2.1, as applicable. An outline of the tasks to be considered for inclusion in each R&D Plan is set forth in Schedule 1.80.

1.81 "R&D Program" means the Research and Development activities relating to a particular Collaboration Target and to be conducted in accordance with an applicable R&D Plan.

1.82 "Receiving Party" has the meaning specified in Section 1.24 hereof.

1.83 "Regulatory Approval" means any and all approvals (including any applicable governmental price and reimbursement approvals), licenses, registrations, or authorizations of any

federal, national, multinational, state, provincial or local regulatory agency, department bureau or other governmental entity that are necessary for the manufacture, use, storage, import, transport, promotion, marketing and sale of a Collaboration Product in the Field in a country or group of countries.

1.84 "Regulatory Authority" means any governmental authority in a country or region that regulates the manufacture or sale of pharmaceutical products, including the FDA and the EMEA, and any successors thereto.

1.85 "Relevant Third Party IP" has the meaning specified in Section 11.2.8 hereof.

1.86 "Representatives" has the meaning specified in Section 3.8.2.2 hereof.

1.87 "Research and Development" means the conduct of activities relating to the discovery of Antibodies for Collaboration Targets, the identification, characterization, selection, optimization and research of Program Antibodies and Collaboration Products and the conduct of all tests, clinical and other studies and other activities (including test method development, toxicology studies, statistical analysis and report writing, preclinical and other testing, packaging and regulatory affairs, product approval and registration activities) set forth in, or required to obtain the information set forth in, applicable R&D Plan(s). Research and Development may include without limitation (a) the discovery of Program Antibodies that selectively bind to and act through Collaboration Targets, (b) the development of assays for Program Antibodies to, inter alia, confirm the activity of such Program Antibodies or Collaboration Target, (c) if applicable, the Human Engineering™ of non-human Antibodies that selectively bind to and act through such Collaboration Target, and (d) the performance of affinity maturation on such Program Antibodies, in each case with the objective of identifying Program Antibodies that meet the criteria for designation as Collaboration Products. Such criteria for the initial Collaboration Target referred to in Section 2.2.1 are set forth on Schedule 2.2.1, and criteria for any Proposed Target shall be agreed upon between the Parties as a part of the initial R&D Plan prepared pursuant to Section 2.2.5.

1.88 "Specifications" means, with respect to any Collaboration Product, the applicable written specifications for such Collaboration Product in effect at a particular time including, but not limited to, specifications provided in any Regulatory Approval for such Collaboration Product.

1.89 "Subsequent Lead Antibody" has a meaning specified in Section 7.3.4(b) hereof.

1.90 "Takeda Background Technology" means any and all Know-How and Patent Rights Controlled by Takeda as of the Effective Date [*] and, in particular, any such Patent Rights and Know-How Covering any Collaboration Target, Program Antibody or Collaboration Product, for purposes of conducting Research and Development or Manufacturing activities in connection with the Collaboration. For the avoidance of doubt, the Parties acknowledge that, to the extent any Takeda Background Technology is covered by a license or other agreement with a Third Party, such Takeda Background Technology shall, for all purposes of this Agreement, be subject to the limitations, restrictions and financial obligations established in such Third Party license or agreement, with Takeda being responsible for the payment of all payments due thereunder.

1.91 "Target" means a gene and the products encoded by such gene, including, without limitation, [*].

1.92 "Territory" means all of the countries and territories of the world.

1.93 "Third Party" means any person or entity other than Takeda, XOMA and their respective Affiliates.

1.94 "Valid Claim" means either (a) a claim of an issued and unexpired patent which has not been held permanently revoked, unenforceable or invalid by a decision of a court or other governmental agency of competent jurisdiction, unappealable or unappealed within the time allowed for appeal and that is not admitted to be invalid or unenforceable through reissue, disclaimer or otherwise, or (b) a claim of a pending parent patent application that has not been abandoned or finally rejected without the possibility of appeal or refiling.

1.95 "XOMA Background Technology" means any and all Know-How and Patent Rights owned by XOMA as of the Effective Date [*] and, in particular, any such Patent Rights and Know-How Covering any Collaboration Target, Program Antibody or Collaboration Product, that are necessary for (a) research related to Collaboration Target(s) or (b) Research and Development, Manufacture or commercialization of Program Antibody(ies) or Collaboration Product(s). For the avoidance of doubt, the Parties acknowledge that, to the extent any XOMA Background Technology is covered by a license or other agreement with a Third Party, such XOMA Background Technology shall, for all purposes of this Agreement, be subject to the limitations, restrictions and financial obligations established in such Third Party license or agreement, with Takeda being responsible for payment of the portion of the financial obligations related to this Agreement arising as a result of the Collaboration, subject to Section 7.4.2. XOMA Background Technology excludes the Human Engineering™ Technology.

ARTICLE 2

COLLABORATION OVERVIEW

2.1 General.

2.1.1 Objectives. The Parties intend to carry out one or more programs in which Takeda and XOMA will collaborate to identify and characterize Program Antibodies and to carry out the Research and Development and Manufacturing of Antibody Products that act through Collaboration Targets for use in the Field (the "Collaboration"), consistent with the objectives set forth in the applicable Plan(s). It is intended that the Collaboration will be conducted as a unified collaborative effort with activities by the Parties carried out primarily at each Party's respective facilities, and this intent shall be reflected in the applicable Plan(s).

2.1.2 Program Term. Subject to the termination right under Section 13.2, each R&D Program shall have its own term, which will commence on the date the R&D Program is initiated and shall continue until XOMA completes transfer to Takeda of and Takeda assumes full responsibility for the relevant Collaboration Product(s) in accordance with the applicable R&D Plan(s) (each, a "Program Term"). A detailed schedule for each R&D Program will be provided in the R&D Plan for such R&D Program. Notwithstanding Section 13.2, Takeda may suspend or terminate any given R&D Program at any of the scheduled research milestones mentioned in the R&D Plan for such R&D Program in the event that Takeda reasonably judges that it is not commercially feasible to pursue further such R&D Program based on the data and information then available with regard to such R&D Program, subject to XOMA's rights under Section 13.6. In no event shall XOMA be obligated, without its prior approval, to carry out activities relating to an R&D Program beyond those listed in Section 4.1 or otherwise reasonably anticipated to be performed in view of the R&D Plan for such Collaboration Target.

2.1.3 Certain Restrictions.

2.1.3.1 Once a Proposed Target is disclosed to and accepted by XOMA as a Collaboration Target (as provided in Section 2.2), neither Party will conduct work on its own, or will work with any Third Party (except as provided in Section 2.3.3), with respect to antibodies directed to such Collaboration Target for so long as Takeda is funding XOMA's activities under the applicable R&D Plan with respect to such Collaboration Target under the Collaboration and for a period of [*] thereafter; [*]

For the sake of clarity, "funding XOMA's activities under the applicable R&D Plan with respect to such Collaboration Target under the Collaboration" does not include (i) Manufacturing related activities (or required or requested regulatory or similar follow-up due to XOMA having conducted prior activities pursuant to this Agreement) beyond those activities enumerated in Schedule 1.80 or (ii) payment of the Annual Maintenance Fee required by Section 7.2.

After the expiration of such [*] period, either Party may work on such Collaboration Target on its own or with a Third Party*provided* that such work does not use any Confidential Information, Program Materials or Program Technology of the other Party except as otherwise expressly permitted herein, and *provided, further,* that any such work by XOMA with respect to a particular Collaboration Target shall not involve the use of Program Materials or Program Technology of any Party that is specific to a particular Collaboration Target. The foregoing provisions of this Section 2.1.3.1 shall not apply [*]

2.1.3.2 Takeda agrees that, during the Chiron Exclusivity Period, it will not conduct any research or development in the field of Cancer with respect to any Antibodies provided by XOMA or Antibody Products provided by XOMA hereunder, including Program Antibodies; *provided*, *however*, that during the Chiron Exclusivity Period, Takeda may submit, in accordance with the procedure under Section 2.2 hereof, one or more Proposed Targets for development in the field of Cancer (which development shall not include work to be performed by XOMA for more than (a) [*] from acceptance of such Proposed Target for inclusion under this Agreement by the Parties or (b) [*] from the Effective Date, whichever is earlier (other than required or requested regulatory or similar follow-up due to XOMA having conducted prior activities during the applicable period set forth in (a) or (b) above)), until [*] such Proposed Targets for development in the field of Cancer have become Collaboration Targets, and in such case, the restriction set forth in this Section 2.1.3.2 shall not apply to Program Antibodies that selectively bind to and act through such Collaboration Target(s). Upon the expiration or termination of the Chiron Exclusivity Period, XOMA will take such actions (including, but not limited to, entering into such agreements) as Takeda shall reasonably deem necessary in order to minimize or, where permissible, eliminate the effects of the [*] term limitation on XOMA's work on the Collaboration Targets mentioned above. XOMA agrees that following the Effective Date, the provisions of any new antibody research and development collaboration agreement between XOMA and a Third Party, or any modification to any existing such agreement, that provides for exclusivity as between the parties thereto with respect to matters other than the specific Target(s) covered thereby (e.g., with respect to the field(s) of use covered thereby) will not limit, or will expressly exclude, XOMA's ability to accept Proposed Targets as Collaboration Targets in accordance with the explicit terms of this Agreement.

2.1.3.3 In case XOMA does not complete the activities assigned to it pursuant to the applicable R&D Plan within the [*] term limitation on XOMA's work on the Collaboration Target(s) mentioned in Section 2.1.3.2, upon the written request of Takeda, XOMA shall deliver to Takeda any results obtained by it during the course of the related R&D Program as soon as reasonably practicable following such request. In case (a) the activities assigned to XOMA in the R&D Plan for the relevant R&D Program are consistent in scope with those specified in Schedule 1.80, (b) the Parties reasonably expect that XOMA's activities pursuant to such R&D Plan will be completed within [*] after initiation of such R&D Program, unless the Parties otherwise agree, and (c) notwithstanding such expectation, XOMA does not complete the activities assigned to it pursuant to the applicable R&D Plan within the [*] term limitation, then (i) upon the written request of Takeda, XOMA shall grant (subject to any Pre-existing Obligations) any rights Controlled by XOMA necessary to permit Takeda to continue such R&D Program by itself or with any Affiliates and/or Third Party after the [*] term limitation, and (ii) in such event, Takeda will be obligated to pay the fees, milestones and/or royalty under this Agreement with respect to any Antibody Product resulting from such R&D Program, reduced by an amount to be negotiated in good faith by the Parties to reflect the amount of work originally assigned in the original R&D Plan to, but not completed by, XOMA as a percentage of the total amount of work assigned to XOMA in the applicable R&D Plan, [provided that, without prejudice to the Parties' ability to agree on a higher percentage, in the event XOMA completes the following activities, XOMA shall be deemed, for purposes of determining the foregoing reduction, to have completed not less than the corresponding percentage of the total amount of work assigned to it: (A) identification/discovery of a Program Antibody that Takeda selects for affinity maturation: [*]%; (B) delivery of a Program Antibody that meets the success criteria established at the initiation of the related R&D Plan with or without affinity maturation: [*]%; (C) successful establishment of a Master Cell Bank: [*]%; and (D) completion of the R&D Program including Manufacturing activities provided in the relevant Plan, whether performed hereunder or under a similar arrangement for Manufacturing: [*]%. In the event XOMA does not provide Takeda with any Program Antibody that Takeda elects to continue to develop with respect to a Collaboration Target, Takeda will not be obligated to pay the fees, milestones and/or royalty under this Agreement with respect thereto and Takeda shall not be granted any rights pursuant to (i) above with respect to such Collaboration Target. In such case, Takeda will not owe any obligations hereunder as to such Collaboration Target and conduct its research activities on such Collaboration Target freely from any restrictions hereunder. The Parties agree that the continued applicability of the [*] term limitation, if any, will not be a factor determining acceptance or rejection of a Proposed Target, regardless of when during the time period set forth in 2.2.2 such Proposed Target is submitted].

2.2 Selection of Collaboration Targets.

2.2.1 Initial Collaboration Target. Takeda has designated [*], the definition of which is provided in the initial R&D Plan, as the initial Collaboration Target, and XOMA has accepted such Target into the Collaboration, thereby making it a Collaboration Target and the subject of the first R&D Program. The initial R&D Plan for [*] is attached hereto as Schedule 2.2.1. The parties agree that the initial R&D Plan for [*] may be adjusted upon mutual agreement between XOMA and Takeda based on the results of tests on [*] described in the initial R&D Plan for [*] which Takeda intends to perform, such tests being scheduled to be completed within [*] of the Effective Date.

In the event Takeda concludes that it does not wish [*] to be the initial Collaboration Target based on the scheduled tests and so notifies XOMA within [*] of the Effective Date, Takeda may replace [*] with the Target coded by Takeda as [*] as the initial Collaboration Target without any additional payments or obligations to XOMA under Section 7.1.

If Takeda replaces [*] with [*] as the initial Collaboration Target, any data and information, including any discoveries and inventions, if any, relating to [*], that are disclosed to XOMA by Takeda or obtained by XOMA based on the data and information disclosed by Takeda shall be returned to Takeda, and thereafter, XOMA shall not be deemed to have received or been granted any rights or interests belonging to Takeda in [*] by virtue of this Agreement. For the avoidance of doubt, not only the test results but also the fact that Takeda withdrew [*] shall be Confidential Information and subject to the confidentiality obligations placed upon XOMA hereunder.

If Takeda decides to continue the Collaboration on [*], upon the request of Takeda, any information or data regarding [*] disclosed by Takeda to XOMA shall be returned to Takeda and XOMA shall not be deemed to have obtained or been granted any rights belonging to Takeda in [*] by virtue of this Agreement. In addition, the fact that Takeda named [*] as an alternate Collaboration Target shall be Confidential Information and subject to the confidentiality obligations placed upon XOMA hereunder.

2.2.2 Proposal of Additional Targets. As used herein, "Proposed Targets" means Targets identified and validated by Takeda as having potential application in the Field and which are to be considered as candidates for Collaboration Targets. During the period [*], Takeda may request XOMA's consent (which consent shall not be unreasonably withheld or delayed) to submit additional Proposed Targets to the Escrow Agent, for consideration as proposed Collaboration Targets by sending the form attached hereto as Schedule 2.2.2. Takeda shall have no obligation to submit any particular Target for consideration as a Proposed Target.

2.2.3 Exclusion of Targets from Consideration. Upon receipt of XOMA's written consent as provided in Section 2.2.2, Takeda shall submit the identity of each Proposed Target, by sending the form attached hereto as Schedule 2.2.3, to the Escrow Agent in confidence for comparison against XOMA's list of Excluded Targets, which XOMA may update from time to time. In the event such Proposed Target matches any Excluded Target on such list, the Escrow Agent shall promptly so notify each Party in writing. In the event the Proposed Target does not match any Excluded Target, the Escrow Agent shall promptly so notify each Party in writing and Takeda shall disclose the identity of the Proposed Target to XOMA. For the avoidance of doubt, under no circumstances shall the Escrow Agent disclose the identity of the Proposed Target to XOMA. All reasonable fees and expenses of the Escrow Agent incurred in the performance of services under this Section 2.2.3 shall be borne by Takeda.

2.2.4 Disclosure of Additional Information. In the event the Escrow Agent notifies the Parties that a Proposed Target does not match any Excluded Target, Takeda shall promptly disclose to XOMA, [*].

All data, information and conclusions reduced to writing and delivered by Takeda to XOMA pursuant to this Section 2.2.4 shall be deemed Confidential Information of Takeda, subject to the exceptions in Section 1.24.

2.2.5 Designation of Collaboration Targets.

2.2.5.1 Within [*] following the submission by Takeda to XOMA of the information required pursuant to Section 2.2.4, XOMA shall give Takeda written notice of its rejection of or its intention, subject to mutual agreement between the Parties on an initial R&D Plan as provided below, to accept such Proposed Target as a Collaboration Target. If XOMA indicates that it intends to accept the Proposed Target as a Collaboration Target, then within [*] after such indication of intent to accept, the Parties shall prepare and agree (or conclude that they cannot agree) on an initial R&D Plan for such Collaboration Target. During the course of such preparation, counsel for each of the Parties will discuss any intellectual property rights owned or controlled by any Third Party known to such Party that relate to such Collaboration Target and are relevant to therapeutic Antibodies. If such initial R&D Plan is mutually agreed within such period, then such Proposed Target shall become a Collaboration Target. XOMA may elect to reject such Proposed Target in the event that [*]. In the event XOMA rejects such Proposed Target as provided herein, XOMA shall provide Takeda with a reasonably detailed explanation of the reason(s) for such rejection to facilitate Takeda's understanding thereof.

2.2.5.2 In the event XOMA rejects such Proposed Target or the Parties cannot agree on an initial R&D Plan, then such Proposed Target shall not become a Collaboration Target. XOMA will neither conduct work on its own, nor work with any Third Party, with respect to antibodies directed to such rejected Proposed Target for a period of [*]. After the expiration of such [*] period, XOMA may work on such rejected Proposed Target on its own or with a Third Party, *provided* that such work does not use any Confidential Information of Takeda, Program Materials of Takeda, or Program Technology of Takeda except as expressly provided herein, and *provided, further,* that any such work by XOMA with respect to a particular rejected Proposed Target shall not involve the use of any Program Materials or Program Technology of either Party specific to such rejected Proposed Target. The foregoing provisions of this Section 2.2.5.2 shall not apply to (i) the conduct by XOMA of activities related to the Human Engineering™ Technology on behalf of (including the provision of materials derived therefrom to) Third Parties, (ii) the provision by XOMA of contract manufacturing services (including technical development related activities) to Third Parties using its available capacity, or (iii) the licensing by XOMA of its bacterial cell expression technology to Third Parties; *provided*, *however*, that these exceptions do not, impliedly or explicitly, grant XOMA any rights to use Takeda Background Technology, Program Patent Rights or Program Technology owned by Takeda, or assigned or exclusively licensed to Takeda by XOMA pursuant to this Agreement. In the event XOMA comes to believe, within [*] following such rejection or non-agreement, that the circumstances referred to in clauses (b)(i) or (b)(ii) of Section 2.2.5.1, as applicable, no longer exist, XOMA will notify Takeda thereof. If Takeda does not have a research and/or development program, either alone or with a Third Party, that is ongoing at Takeda when XOMA so notifies Takeda, then the Parties will discuss adding the Proposed Target to the Collaboration. If after such discussions, Takeda refuses to add the Proposed Target, then the restriction precluding XOMA from working on the Proposed Target set forth in this Section 2.2.5.2 shall expire. If Takeda does have a research and/or development program, either alone or with a Third Party that is ongoing at Takeda when XOMA so notifies Takeda, then Takeda's refusal to add the Proposed Target shall not relieve XOMA of the restriction precluding XOMA from working on the Proposed Target set forth in this Section 2.2.5.2. Any information disclosed by Takeda

under this Section 2.2.5 regarding the Proposed Target shall be Takeda's Confidential Information and shall be subject to the restrictions in Article 10.

2.2.5.3 In the event XOMA accepts such Proposed Target as a Collaboration Target, then the Parties shall proceed with the Research and Development of Antibody Products directed to such Collaboration Target in accordance with the applicable Plans.

2.2.5.4 In relation to all Proposed Targets that do not become Collaboration Targets, any data and information including any discoveries and inventions, if any, relating to such Proposed Targets, that are disclosed to XOMA by Takeda or obtained by XOMA based on the data and information disclosed by Takeda in connection with this Agreement shall be returned or transferred to Takeda, and thereafter, XOMA shall not be deemed to have obtained or been granted any rights or interests in such Proposed Targets belonging to Takeda except XOMA's rights under Section 9.1.3. In addition to such data and information, the fact that Takeda identified such Proposed Targets shall be Confidential Information and subject to the confidential obligations placed upon XOMA hereunder, regardless of the reason(s) why such Proposed Targets were not accepted as Collaboration Targets.

2.2.6 In the event that the terms of this Agreement and the terms of any Plan conflict, the terms of this Agreement shall govern.

2.3 Conduct of Collaboration.

2.3.1 Efforts. Each Party shall use Commercially Reasonable and Diligent Efforts to conduct the activities of the Collaboration that are assigned to it in the then-applicable Plan(s), and each shall devote sufficient resources to carry out such respective activities.

2.3.2 Resources. Over the course of the Collaboration, tasks will be allocated between the Parties in the best interest of the Collaboration. The Parties agree to commit to the Collaboration the personnel necessary to meet their respective responsibilities set forth in each Plan.

2.3.3 Subcontractors. As necessary and in furtherance of the Collaboration, either Party may enter into Research and Development-related agreements or subcontracts in accordance with this Section 2.3.3; [*].

2.3.4 Reports. During the Program Term but prior to filing of an IND for a Collaboration Product, each Party shall submit written quarterly reports to the Joint Steering Committee for each Collaboration Target, as may be required by the then-current Plan(s), detailing its activities under the Collaboration. During the Program Term and after the filing of an IND for a Collaboration Product, Takeda shall provide to XOMA at least once per calendar year, or more frequently as reasonably necessary for XOMA or Takeda to comply with their respective obligations to Third Parties, a summary of Takeda's activities relating to Program Antibodies and Collaboration Products.

2.3.5 Visiting. During the Program Term, Takeda may request that XOMA permit Takeda's representative to visit XOMA's research facility in order to review the progress of an R&D Program. XOMA's consent to such request shall not be unreasonably withheld or delayed. Takeda shall pay all the reasonable costs for such visit incurred by XOMA. The representative

visiting XOMA's facility shall comply with all of XOMA's applicable policies, procedures and legal and contractual requirements that are disclosed and explained to such representatives beforehand by XOMA in the course of such visit, and Takeda shall be liable for any breach thereof by its representative.

2.4 Collaboration Records. In order to protect the Parties' Patent Rights and Know-How under U.S. law in respect of any inventions conceived or reduced to practice during or as a result of the Collaboration, each Party agrees to maintain a policy that requires its employees to record and maintain all data and information developed during the Collaboration in such a manner as to enable the Parties to use such records to establish the earliest date of invention and/or diligence to reduction to practice. At a minimum, the policy shall require such individuals to record all inventions generated by them in standard laboratory notebooks or other suitable means that are dated and corroborated by non-inventors on a regular, contemporaneous basis.

2.5 Disclosure of Collaboration Results. Subject to restrictions imposed by a Party's confidentiality obligations to any Third Party with respect to Takeda Background Technology or XOMA Background Technology, each Party will disclose to the JRDC and to the Joint Patent Committee all Program Technology and Program Materials that are discovered, invented or made by such Party in the course of the Collaboration and that are useful in or relate to the Collaboration, including without limitation information regarding Collaboration Targets, Program Antibodies and Collaboration Products and uses thereof and the results of all Research and Development studies. Such Program Technology and Program Materials will be promptly disclosed to the JRDC and to the Joint Patent Committee, with meaningful discoveries or advances being communicated as promptly as practicable after such information is obtained or its significance is appreciated. [*]. Any information disclosed pursuant to this Section 2.5 may be used by the other Party solely for the purposes of the Collaboration or as otherwise expressly permitted in this Agreement.

2.6 Material Transfer. Any Program Materials useful or necessary for the R&D Program that are first derived or obtained in the course of the Collaboration and that are specific, as opposed to being of general applicability, to a Collaboration Target or a Program Antibody shall be delivered and assigned from XOMA to Takeda in accordance with the Research Plan or otherwise upon Takeda's request. Such Program Materials shall become Takeda's sole property but, if applicable, subject to the Pre-existing Obligations. For the avoidance of doubt, notwithstanding anything herein to the contrary, such Program Materials shall include any and all Program Antibodies themselves (including any rights and interests in a Master Cell Bank established therefor), which shall consequently be delivered and assigned from XOMA to Takeda as described above. Any and all Program Materials useful or necessary for the R&D Program that are first derived or obtained in the course of the Collaboration and that are of general applicability, as opposed to being specific, to a Collaboration Target or a Program Antibody shall also be delivered (but shall not be assigned) from XOMA to Takeda for its use permitted under this Agreement, regardless of the ownership thereof (which shall be as determined under Section 9.1.2 hereof), *provided,* that XOMA may retain such quantities of such Program Materials as are reasonably necessary for use by XOMA in accordance with Section 9.1.3.1. The Parties will use Commercially Reasonable and Diligent Efforts to specify in the applicable R&D Plan the quantities of such Program Materials to be so retained by XOMA, recognizing that the Parties' primary objective with respect to such Program Materials in the context of such R&D Plan shall be to meet Takeda's requirements with respect thereto.

Furthermore, in order to facilitate the Collaboration, either Party may provide to the other Party certain Program Materials not derived or obtained during the course of Collaboration for use by the other Party in furtherance of the Collaboration. The Parties hereto shall cooperate with each other for proper

identification and maintenance of the Program Materials provided hereunder by providing the receiving Party with certificate(s) of analysis, where applicable, and keeping records of exchange and, where feasible, using the same identification code(s). All such Program Materials shall be considered the Confidential Information of both Parties and shall be subject to the restrictions in Article 10. Except as otherwise provided under this Agreement or in accordance with the applicable Plan(s), all such Program Materials delivered to the other Party voluntarily shall remain the sole property of the supplying Party, shall be used only in furtherance of the Collaboration and solely under the control of the other Party and its Affiliates, shall not be used or delivered to or for the benefit of any Third Party without the prior written consent of the supplying Party and shall not be used in research or testing involving human subjects, in each case except as may be provided in the applicable R&D Plan. The Program Materials supplied under this Section 2.6 must be used with prudence and appropriate caution in any experimental work, since not all of their characteristics may be known. THE PROGRAM MATERIALS ARE PROVIDED "AS IS" AND WITHOUT ANY REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTY OF MERCHANTABILITY OR OF FITNESS FOR ANY PARTICULAR PURPOSE OR ANY WARRANTY THAT THE USE OF THE MATERIALS WILL NOT INFRINGE OR VIOLATE ANY PATENT OR OTHER PROPRIETARY RIGHTS OF ANY THIRD PARTY. The Party providing the Program Materials shall disclose to the other Party such information as is in the Providing Party's possession and can reasonably be disclosed regarding such Program Materials including, where feasible, its identity, scientific nature, safety, safe handling, related patents or any other proprietary rights of a Third Party that are known to the providing Party.

2.7 [*]

ARTICLE 3

COLLABORATION MANAGEMENT

3.1 Collaboration Committees.

3.1.1 Joint Steering Committee. As soon as practicable after the Effective Date, XOMA and Takeda shall establish a Joint Steering Committee (the "Joint Steering Committee") comprised of three (3) representatives designated by each of XOMA and Takeda, each of whom shall have experience and seniority sufficient to enable him or her to make decisions on behalf of the Party he or she represents within the scope of the responsibilities of the Joint Steering Committee as provided herein.

3.1.2 Joint Research and Development Committee. As soon as practicable after the Effective Date, XOMA and Takeda shall establish a Joint Research and Development Committee (the "JRDC") comprised of three (3) representatives designated by each of XOMA and Takeda, each of whom shall have experience and seniority sufficient to enable him or her to make decisions on behalf of the Party he or she represents within the scope of the responsibilities of the JRDC as provided herein. From time to time during the Program Term, the JRDC may establish one or more Joint Project Teams (each, a "Joint Project Team") to implement various aspects of any R&D Plan. Such teams shall be governed in the same manner and subject to the relevant requirements as set forth herein for the JRDC.

3.1.3 Joint Patent Committee. As soon as practicable after the Effective Date, XOMA and Takeda shall establish a Joint Patent Committee (the "Joint Patent Committee")

comprised of an equal number of representatives designated by each of XOMA and Takeda, each of whom shall have experience and seniority sufficient to enable him or her to make decisions on behalf of the Party he or she represents within the scope of the responsibilities of the Joint Patent Committee as provided herein.

3.2 Program Directors. Each Party shall appoint one of its designees on the Joint Steering Committee and/or the JRDC to serve as a program director (each, a "Program Director") with responsibility for overseeing the day-to-day activities of the Parties with respect to the Collaboration and for being the primary point of contact between the Parties with respect to the Collaboration.

3.3 Replacement of Collaboration Committee Representatives and Program Directors. Each Party shall be free to replace its representative members of any Collaboration Committee and its Program Director with new appointees who have authority to act on behalf of such Party, on notice to the other Party.

3.4 Responsibilities of Joint Steering Committee. The Joint Steering Committee shall be responsible for overseeing and directing the Parties' interaction and performance of their respective obligations under this Agreement regarding Collaboration Products until, with respect to a particular Collaboration Product, the filing of an IND for such Collaboration Product. Without limiting the generality of the foregoing, its duties shall include:

(a) preparing such procedures as may be necessary for the operation of the Joint Steering Committee, JRDC and Joint Patent Committee, and other committees the Joint Steering Committee decides to establish to assure the efficient operation of the Collaboration;

(b) approving strategy for the overall Research and Development and Manufacturing, and for all other activities conducted by the Parties hereunder, for each Collaboration Product prior to the filing of an IND for such Collaboration Product, in the Field in the Territory;

(c) reviewing and approving the annual R&D Plans proposed by the JRDC for each Collaboration Product prior to the filing of an IND for such Collaboration Product and approving the budget therefor and any modifications thereto as recommended by the JRDC;

(d) reviewing and approving the Manufacturing Plans proposed by the applicable Party and approving the budget therefor and any modifications thereto as recommended by such Party;

(e) overseeing the implementation of the Plans and allocation of resources and other activities in support of the Collaboration;

(f) establishing criteria for selection of Collaboration Products;

(g) selecting Collaboration Products, including a lead Program Antibody and one or more backup Program Antibodies for each Collaboration Target;

(h) facilitating the transfer of technology between the Parties through the JRDC;

(i) upon the recommendation of the JRDC, making decisions with respect to (i) the preclinical Development of Collaboration Products, and (ii) the in-licensing of applicable technology;

(j) evaluating the performance of the JRDC and Joint Patent Committee, and on a quarterly basis at a minimum, evaluating the progress of the R&D Program(s) against the applicable R&D Plan(s), including their respective timelines;

(k) resolving matters within the responsibilities of the JRDC and Joint Patent Committee as to which the members of such Collaboration Committee are unable to reach a consensus, and dissolving each such Collaboration Committee when its duties under the Collaboration are complete; and

(l) addressing issues and resolving differences that may arise between the Parties.

3.5 Responsibilities of JRDC. The JRDC shall be responsible for preparing for approval by the Joint Steering Committee and implementing the applicable annual R&D Plan, allocation of resources and other activities in support of the Collaboration, with the objective of expeditiously identifying Program Antibodies meeting the criteria for designation as Collaboration Products. Without limiting the generality of the foregoing, its duties shall include:

(a) establishing criteria for the selection of Program Antibodies;

(b) selecting Program Antibodies for characterization and optimization in the conduct of the Collaboration;

(c) monitoring, reviewing and reporting on the progress of the Collaboration;

(d) considering modifications to the applicable R&D Plan budget(s) as may be necessary or appropriate and, to the extent agreed upon by the JRDC, recommending that the Joint Steering Committee approve such modifications;

(e) proposing and overseeing the Research and Development strategy for each Collaboration Product prior to the filing of an IND for such Collaboration Product;

(f) establishing advisory committees comprised of scientific, medical and/or other appropriate experts not affiliated with either Party to advise the JRDC on matters related to the Research and Development of Collaboration Products;

(g) with advice from the Joint Patent Committee, evaluating the need for licenses from Third Parties, and determining their utility in the Collaboration (if any), and making the appropriate recommendation(s) to the Joint Steering Committee;

(h) providing all appropriate information regarding the progress of the applicable R&D Plan(s) to the Joint Steering Committee in advance of each quarterly Joint Steering Committee meeting; and

(i) performing such other activities as are contemplated by the terms of this Agreement.

The JRDC shall report its activities and make proposals to the Joint Steering Committee at least once each Contract Quarter, but more frequently as appropriate.

3.6 Responsibilities of Joint Patent Committee. The Joint Patent Committee shall be responsible for forming and implementing the intellectual property strategy of the Collaboration, with the objective of maximizing the patent and other protections for Program Antibodies and Collaboration Products afforded by applicable intellectual property Laws. In addition, through their representatives on the Joint Patent Committee or through counsel, the Parties shall keep each other informed of circumstances or developments relating to intellectual property rights owned or controlled by any Third Party that become known to such Party and that relate to any Collaboration Target, Plan, Program Materials, Program Technology or Collaboration Product. The Joint Patent Committee shall report its activities and make proposals to the Joint Steering Committee at least twice each Contract Year, but more frequently as appropriate.

3.7 Meetings of Collaboration Committees. As applicable, the Joint Steering Committee shall meet at least once every two Contract Quarters and the JRDC shall meet at least once every Contract Quarter, and more frequently as the Parties deem appropriate, on such dates and at such times as the Parties shall agree, on[*] written notice to the other Party unless such notice is waived by the Parties. The other Collaboration Committees shall meet at a frequency to be mutually agreed by the Parties when such committees are created. The first meeting of the Joint Steering Committee shall take place as soon as [*], but no later than [*], after the Effective Date. Each Collaboration Committee may convene or be polled or consulted from time to time by means of telecommunications, videoconferences or correspondence, as deemed necessary or appropriate by the Parties. To the extent that meetings are held in person, they shall alternate between the offices of the Parties unless the Parties otherwise agree. Representative(s) of either Party's Affiliates who agree in writing to be bound by the restrictions of Article 10 may attend meetings of the Joint Steering Committee, the JRDC and/or the Joint Patent Committee but will not have any independent voting rights under Section 3.8.1.

3.8 Decisions.

3.8.1 Quorum; Voting. A quorum for a meeting of a Collaboration Committee shall require the presence of at least one Takeda member (or designee) and at least one XOMA member (or designee) in person or by telephone. All decisions made or actions taken by a Collaboration Committee shall be made unanimously by its members, with the Takeda members cumulatively having one vote and the XOMA members cumulatively having one vote; *provided*, *however*, that notwithstanding anything herein to the contrary, [*].

3.8.2 Dispute Resolution.

3.8.2.1 In the event that unanimity cannot be reached by either the JRDC or the Joint Patent Committee with respect to a matter that is a subject of their respective decision-making authority, then the matter shall be referred for further review and resolution to the Joint Steering Committee.

3.8.2.2 In the event that unanimity cannot be reached by the Joint Steering Committee with respect to a matter that is a subject of its decision-making authority, [*] the matter shall be referred for further review and resolution to the Chief Executive Officer of XOMA, or such other similar position designated by XOMA from time to time, and the General Manager of Pharmaceutical Research Division of Takeda, or such other similar position designated by Takeda from time to time (the "Representatives"). The Representatives shall use reasonable efforts to resolve the matter within [*] after the matter is referred to them. In the event that the Representatives cannot resolve the matter

within such [*] period, then [*] shall have the deciding vote with respect to such matter, except as otherwise provided in this Section 3.8.2.

3.8.2.3 [*].

3.8.2.4 Notwithstanding anything herein to the contrary, any dispute over the interpretation of the meaning of any term or condition of this Agreement may be referred by either Party to a Third Party arbitrator or arbitrators, in accordance with the following procedures, whose decision shall be non-binding. The Parties shall attempt to mutually agree upon a single independent Third Party arbitrator (who shall be a professional with appropriate experience in the subject matter at issue in such dispute) within [*] of providing written notice of an election to pursue arbitration hereunder. If the Parties are unable to mutually agree upon one such person, then each Party shall appoint one independent Third Party professional with appropriate experience in the subject matter at issue in such disagreement within [*] after the date of the arbitration notice and such person(s) shall select a single independent Third Party arbitrator, who shall be a professional with appropriate experience in the subject matter at issue in such disagreement. Each Party shall present all relevant information supporting its position on the matter in dispute and all other information as such Party reasonably desires regarding such disagreement. Within [*] after the date of the arbitration notice, the arbitrator shall provide written notice to the Parties regarding his or her determination regarding such disagreement. If the Parties cannot resolve any such matter within [*] following the arbitrator's provision of written notice to the Parties regarding his or her determination regarding such disagreement, the Parties shall be free to pursue all available recourse both at law and in equity with respect to the applicable matter(s).

3.9 Minutes. As soon as reasonably practicable after each Collaboration Committee meeting, a member of such Collaboration Committee designated by the Party hosting such meeting, or another attendee at such meeting agreed to by the Parties, shall prepare and distribute draft minutes of the meeting (which shall provide a summary of the discussions at the meeting and a list of any actions, decisions or determinations approved by such Collaboration Committee) and shall revise such draft to reflect any comments thereon received from other members of such Collaboration Committee. Minutes in final form shall be circulated to all members of such Collaboration Committee sufficiently in advance of the next meeting to allow review and approval prior to the next meeting of such Collaboration Committee. Final minutes (including the actions, decisions or determinations included therein) shall be approved no later than the date of the next such meeting.

ARTICLE 4

RESEARCH AND DEVELOPMENT PROGRAMS

4.1 General. The Research and Development of Antibodies for the Collaboration Target(s), Program Antibodies (including their identification, characterization, selection and optimization) and Collaboration Products will be pursued jointly by the Parties under the direction of the JRDC in accordance with annual R&D Plans. Each Party shall use Commercially Reasonable and Diligent Efforts to conduct those Collaboration activities for which it has responsibility. It is anticipated that key activities to be conducted by XOMA may include, but shall not be limited to, the following:

[*]

4.2 R&D Plans.

4.2.1 The JRDC shall be responsible for preparation of, and the Joint Steering Committee shall be responsible for approval of, the R&D Plan for each Collaboration Target for every Contract Year (other than the First Contract Year) during the applicable Program Term at least [*] prior to the commencement of such Contract Year. The R&D Plan relating to the first Collaboration Target for the First Contract Year has been prepared by the Parties and attached hereto as Schedule 2.2.1. The initial R&D Plan relating to any other Collaboration Target shall be prepared and agreed to in accordance with Section 2.2.5. Prior to the approval of any R&D Plan (or as soon as reasonably practicable following any change or proposed change to an approved R&D Plan that would affect XOMA's proposal regarding discovery and/or optimization technologies), XOMA shall identify to Takeda in writing the discovery and/or optimization technology or technologies that XOMA proposes to use to discover and/or optimize Antibodies in accordance with such R&D Plan (or change or proposed change thereto). [*]. In the first Contract Year in which the Parties designate a Collaboration Product, the JRDC shall revise the initial R&D Plan for such Collaboration Product to include the preclinical Research and Development activities for such Collaboration Product [*]. The responsibility of the JRDC for preparing an annual R&D Plan for each Collaboration Product shall terminate with respect to any particular Collaboration Product upon the filing of an IND for such Collaboration Product.

4.2.2 Each annual R&D Plan shall be in writing and shall set forth with reasonable specificity the Research and Development objectives, priorities, activities, milestones, budgets, personnel requirements, other resources and allocations of responsibilities between the Parties for the period covered by such annual R&D Plan in a manner consistent with the terms of this Agreement. The R&D Plans shall cover all aspects of Research and Development (including without limitation the discovery of Antibodies to the applicable Collaboration Targets and the identification, characterization, selection and optimization of Program Antibodies prior to their designation as Collaboration Products) and shall include, with reasonable specificity, the Research and Development activities to be performed by each Party and the Research and Development activities, if any, to be performed by subcontractors. The JRDC may agree on modifications, and recommend that the Joint Steering Committee approve such modifications, to the provisions of any R&D Plan at any time.

4.3 Regulatory Matters.

4.3.1 Regulatory Responsibility. The filing, prosecution and maintenance of INDs and other regulatory documents required to be filed with any Regulatory Authority with regard to each Collaboration Product will be in the name of and the responsibility of Takeda. With respect to each Collaboration Product, Takeda shall oversee, monitor and coordinate all regulatory actions, communications and filings with and submissions to Regulatory Authorities, including filings and submissions of supplements and amendments thereto at its own costs and responsibility. Ownership and control of all establishment licenses and other Regulatory Approvals shall be held by Takeda.

4.3.2 Regulatory Meetings and Correspondence. Takeda shall be responsible for interfacing, corresponding and meeting with Regulatory Authorities with respect to such Collaboration Product.

4.3.3 Reporting Adverse Drug Reactions. Takeda will be responsible for reporting all Adverse Drug Reactions to the appropriate Regulatory Authorities in the applicable country(ies) or region(s) in accordance with applicable Laws.

4.3.4 DMF Reference Right. XOMA hereby grants Takeda a right of reference to any Drug Master File or similar filing that XOMA may make relating to a [*] for any Collaboration Product and upon request shall provide a letter of access to such filing allowing regulatory review of such filing by the FDA in conjunction with Takeda's submissions to the FDA with respect to such Collaboration Product.

ARTICLE 5

MANUFACTURING AND SUPPLY

5.1 Designation of XOMA as Manufacturing Party.

5.1.1 Generally. XOMA shall be responsible for Manufacturing and supply (itself or, if useful and appropriate and upon Takeda's prior written consent (which consent shall not be unreasonably withheld or delayed), through one or more Third Parties) of all quantities of each Collaboration Product necessary for Research and Development and all Phase 1 Trials of such Collaboration Product. In regard to such manufacturing obligations, XOMA shall be responsible for implementing all aspects of Manufacturing under the direction and oversight of the Joint Steering Committee, as set forth in Section 3.4, and in accordance with a manufacturing plan as approved by the Joint Steering Committee. XOMA shall prepare any initial draft of such manufacturing plan. Such manufacturing plan shall describe the specific Manufacturing activities to be undertaken by XOMA, shall include a general description of the personnel and other resources of XOMA to be used in the implementation thereof and shall set forth a unanimously agreed budget for such activities (each, as may be modified or amended and approved from time to time in accordance with this Agreement, a "Manufacturing Plan"). [*]

5.1.2 [*]

5.2 Supply.

5.2.1 Phase 1 Trial Supply. XOMA shall be responsible for supply (subject to Section 5.1) of all requirements of Collaboration Product necessary to support a Phase 1 Trial for such Collaboration Product and shall use Commercially Reasonable and Diligent Efforts to supply such Collaboration Product consistent with the applicable Plan(s) agreed between the Parties hereto.

5.2.2 Certain Covenants. XOMA covenants that, during the term of this Agreement, it will (a) use Commercially Reasonable and Diligent Efforts to avoid shortfalls of supply based on the forecasts established in the Manufacturing Plan(s), shall promptly notify Takeda as soon as practicable after it becomes aware of any probable shortfall and shall use Commercially Reasonable and Diligent Efforts to remedy any shortfall of supply that does occur; (b) be responsible for manufacturing, filling, packaging and warehousing of the Collaboration Product in conformity with applicable cGMP Guidelines and the Specifications, and in accordance, in all material respects, with all other applicable Laws; (c) maintain or cause to be maintained all records necessary and appropriate to demonstrate compliance with applicable cGMP Guidelines; and (d) grant

Takeda the right, on reasonable advance notice and during normal business hours during the term of this Agreement, to have its personnel or representatives with quality control or quality assurance responsibilities inspect and audit the facilities and operations of XOMA directly related to the manufacture and supply of the Collaboration Product in order to confirm compliance with the covenants contained in this Section 5.2.2; *provided* that in the absence of a shortfall occurring, the foregoing inspection and audit right of Takeda shall be limited to [*] such visit per calendar year and [*] such personnel or representatives per visit; *provided*, *further*, that XOMA shall be given advance notice of such personnel or representatives and the proposed date of their visit. XOMA may raise good faith objections to the personnel or representatives proposed by Takeda as well as the timing of the visit by such personnel or representatives, the merits of which Takeda shall consider in good faith.

5.2.3 Post Phase 1 Trial Supply and Commercial Supply by Takeda. Notwithstanding anything herein to the contrary, Takeda reserves the exclusive right to conduct formulation studies on Collaboration Products by themselves or with the aid of one or more Third Parties and to manufacture Collaboration Products by themselves or with the aid of one or more Third Parties for post Phase 1 Trial development and for commercial supply in the Territory and Field. In the event Takeda elects to conduct formulation studies on a Collaboration Product, whether by itself or one or more Third Parties, XOMA shall provide reasonable assistance to Takeda or designated Third Parties, at Takeda's expense.

5.3 Manufacturing Technology Transfer. In the event Takeda determines, following XOMA's provision to Takeda of the last clinical lot of a Collaboration Product to support a Phase 1 Trial for such Collaboration Product, to have such Collaboration Product manufactured or supplied by a party other than XOMA, XOMA shall, at Takeda's expense, make a manufacturing technology transfer to Takeda, its Affiliate or a Third Party designee, of such Program Materials, Program Technology and any other manufacturing technology, information and materials Controlled by XOMA, as are reasonably necessary for Takeda, its Affiliate or Third Party designee, as the case may be, to manufacture such Collaboration Product on its own using the developed process. XOMA may raise good faith objections to any Third Party designee that Takeda identifies to receive such manufacturing technology transfer, the merits of which Takeda shall consider in good faith; *provided*, that, in the event such manufacturing technology transfer includes any rights to XOMA's bacterial cell expression technology, Takeda shall not designate [*] as a recipient of such transfer. XOMA shall provide reasonable assistance to Takeda, at Takeda's expense, to enable Takeda, its Affiliate or Third Party designee, as the case may be, to begin manufacturing the Collaboration Product as soon as practicable after the manufacturing technology transfer has been completed.

5.4 Event of Default Regarding Manufacturing. The Parties agree that time is of the essence with regard to XOMA's Manufacturing and supply of Collaboration Product under Section 5.2. In the event that XOMA should fail in any material respect to meet the requirements of supply for Collaboration Product consistent with the Plan(s) then in place to support a Phase 1 Trial for a Collaboration Product, regardless of whether or not XOMA has used Commercially Reasonable and Diligence Efforts as required under Section 5.2.1, where such failure is not due to any action or inaction by Takeda, and XOMA does not cure such failure in full within [*] after written notice thereof by Takeda, then Takeda shall have the right to Manufacture and supply quantities of Collaboration Product independent of XOMA, whether by itself or with the aid of a Third Party. Such right shall be, in addition to other remedies that Takeda may have under this Agreement, including Section 13.4. Furthermore, following such failure to meet all requirements of supply, Takeda shall have the option to deny XOMA any further right to Manufacture and supply Collaboration Product under Article 5.

ARTICLE 6

ASSIGNMENT/GRANTS OF RIGHTS; COVENANTS

6.1 Assignment and Grants of Licenses.

6.1.1 Assignment by XOMA. XOMA and/or an Affiliate of XOMA, as appropriate, hereby assigns and agrees to execute such documents as are reasonably necessary to effect such assignment to Takeda, all of XOMA's interests and all of XOMA's Affiliates' interests in (a) Program Technology relating to the composition or use of any Program Antibody (including, but not limited to, any Collaboration Product), and (b) Program Patents containing a Valid Claim to the composition of any Program Antibody (including, but not limited to, any Collaboration Product) including any uses thereof (each such claim, an "Antibody Related Claim").

6.1.2 Grant of Rights by XOMA. Subject to the terms of this Agreement and any applicable Pre-existing Obligations, during the term of this Agreement, XOMA hereby grants to Takeda, in the Field and within the Territory:

(a) a non-exclusive right and license, with the right to sublicense, under the XOMA Background Technology to make, have made, use, sell and import Program Antibodies;

(b) a non-exclusive right and license, with the right to sublicense, under any Patent Rights and Know-How Controlled by XOMA Covering any control antibodies provided by XOMA for the sole purpose of using such control antibodies to evaluate the Program Antibodies; and

(c) an exclusive right and license, with the right to sublicense, under any Program Patent Rights or other Patent Rights and Know-How Controlled by XOMA Covering each antibody-producing cell line created by XOMA that expresses a Program Antibody provided by XOMA, for the sole purpose of using such cell line to produce the applicable Program Antibody.

For the avoidance of doubt, the above license grants are intended to include any licenses obtained from Third Parties, including those obtained under Sections 2.7 and 5.1.2, to which XOMA has the right to grant a sublicense which is necessary to research, make, have made, use or sell, any Collaboration Product. Also for the avoidance of doubt, the above license grants do not include the Human Engineering™ Technology, although to the extent XOMA uses the Human Engineering™ Technology in the Collaboration, composition of matter claims arising out of XOMA's activities in connection with the Collaboration directed to Human Engineered™ Program Antibodies are included in the assignment set forth in Section 6.1.1 above.

6.1.3 Grant of Rights by Takeda. Subject to the terms of this Agreement and any applicable Pre-existing Obligations, during the Program Term, Takeda hereby grants to XOMA, in the Field and within the Territory, a non-exclusive right and license, without any right to sublicense (except as set forth below), under the Takeda Background Technology, to conduct activities in connection with the Collaboration. Such right and license shall include the right to grant sublicenses to Affiliates of XOMA and to Third Parties hired by XOMA to conduct work on the Collaboration and that are approved by the Joint Steering Committee. Any such sublicense shall be

set forth in a written agreement containing confidentiality, non-use and ownership of intellectual property provisions consistent with and no less restrictive than those contained herein and shall be subject and subordinate to the terms and conditions of this Agreement.

6.2 No Grant of Other Technology or Patent Rights. Except as otherwise expressly provided in this Agreement, under no circumstances shall a Party hereto, as a result of this Agreement, obtain any ownership interest in or other right to any technology, know-how, patents, patent applications, gene or genomic sequence data or information, products, or biological materials of the other Party, including items owned, controlled or developed by, or licensed to, the other Party, or transferred by the other Party to said Party, at any time pursuant to this Agreement.

6.3 [*]

ARTICLE 7

FINANCIAL TERMS

7.1 Upfront Fee. Takeda shall pay XOMA a non-refundable fee for the first Proposed Target and the option provided hereunder for additional Proposed Targets total in cash of [*] ("First Upfront Fee") and for each additional Proposed Target becoming Collaboration Target hereunder in cash of [*] (each, an "Additional Upfront Fee") within [*] of acceptance by XOMA of such Collaboration Target for Research and Development in accordance with Section 2.2.5 hereof. The Parties acknowledge that, because the first Collaboration Target has been accepted into the Collaboration, the First Upfront Fee is due within [*] of execution of this Agreement by the Parties.

7.2 Annual Maintenance Fee. For each R&D Program then in effect, Takeda shall pay XOMA a non-refundable fee in cash of [*] (each, an "Annual Maintenance Fee") on the first anniversary of the Effective Date and on each anniversary of the Effective Date thereafter [*].

7.3 Milestones.

7.3.1 On an R&D Program-by-R&D Program basis and/or a Program Antibody-by-Program Antibody basis, as applicable (as more fully described below), Takeda shall pay XOMA the following milestone payments upon the occurrence of the following events **[DRAFT NOTE: In order to be able to redact the individual milestone payment amounts, we will need to disclose in Form 10-K itself the total amount of the milestones payable under this section.]**:

	Event	Payment Amount
1.	Delivery to Takeda of at least one (1) Program Antibody that meets the success criteria established at the initiation of the related R&D Program	[*]
2.	Successful establishment of Master Cell Bank (i.e., successfully passes FDA Points to Consider and ICH guidelines for cell bank testing)	[*]

	Event	Payment Amount
3.	First patient dosed	[*]
4.	First patient dosed in a Phase 2 Trial	[*]
5.	First patient dosed in a Phase 3 Trial	[*]
6.	First submission of BLA or equivalent in	
	a. the United States	[*]
	b. the European Union	[*]
	c. Japan	[*]
7.	First Regulatory Approval in	
	a. the United States	[*]
	b. the European Union	[*]
	c. Japan	[*]

7.3.2 [*].

7.3.3 [*]

7.3.4 [*]

7.3.5 [*]

7.3.6 [*]

7.4 Royalty.

7.4.1 Royalty Rate and Term. For each Collaboration Product, Takeda shall pay XOMA a royalty of [*] of Net Sales of such Collaboration Product on a country-by-country basis until [*]. After expiration of royalty obligations hereunder, the licenses granted hereunder shall be fully paid-up.

7.4.2 [*]

7.5 Reporting and Payment.

7.5.1 Milestones. During the term of this Agreement, Takeda shall within [*] after the achievement of any milestone event referred to in Section 7.3, furnish to XOMA a written notice indicating the milestone achieved and, if applicable, the relevant indication, label expansion

and/or Regulatory Authority. Milestone payments for each milestone event shall be due simultaneously with Takeda's report under Section 7.5.1 for such milestone event.

7.5.2 Royalties. All amounts payable to XOMA under Section 7.4 shall be paid on [*] basis, subject to [*], in accordance with this Section 7.5.2. [*].

Takeda shall provide XOMA with a monthly flash statement of the amount of gross sales of each Collaboration Product in the Territory during the applicable month. Each final report delivered by Takeda to XOMA once every half of a calendar year mentioned above shall include a monthly statement of the amount of gross sales of each Collaboration Product in the Territory during the applicable half of the calendar year, an amount of Net Sales in the Territory during such half of the calendar year, with quarterly breakdown, and a calculation of the amount of royalty payment due on such sales for such half of the calendar year, with quarterly breakdown. Takeda shall require its sublicensees to account for their Net Sales and to provide such reports with respect thereto so that Takeda can fulfill the above-mentioned obligations in this Section 7.5.2.

Royalties payable on sales in countries other than the United States shall be calculated in accordance with the standard exchange rate conversion practices used by Takeda for financial accounting purposes. If no royalty or payment is due for any royalty period hereunder, Takeda shall so report. Takeda shall keep, and shall require its sublicensees to keep (all in accordance with GAAP) for at least [*] after prepared, complete and accurate records in sufficient detail to properly reflect all gross sales and Net Sales and to enable the royalties payable hereunder to be determined. Takeda shall include in each agreement with each applicable sublicensee a provision requiring such sublicensee to make reports to Takeda, to keep and maintain records of sales made pursuant to such agreement and to grant access to such records by XOMA's independent certified public accountant to the same extent required of Takeda under this Agreement.

7.6 Costs and Expenses.

7.6.1 FTEs. Takeda shall be responsible for all of its own costs and shall pay XOMA [*] of XOMA's R&D Costs and [*] of XOMA's Manufacturing Costs (excluding in each case the costs of Third Party goods and services, which are addressed in Section 7.6.2 below, and Batch production costs, which are addressed in Section 7.7 below), calculated on a functional area-by-functional area basis based on FTE Rates.

7.6.2 Third Party Costs. Charges for Third Party goods and services and other financial obligations to Third Parties incurred or undertaken consistent with and directly related to any Plan shall be the responsibility of Takeda. XOMA will separately charge Takeda for XOMA's [*] costs, which may include, but are not limited to, extraordinary raw materials (e.g., purification resins), project required capital purchases (e.g., dedicated purification columns), outside testing, and reasonable Collaboration-specific travel expenses.

7.6.3 Third Party Licenses. [*].

7.6.4 Committee Expenses. Takeda shall be responsible for all travel and related costs for its representatives, and, to the extent not paid pursuant to Section 7.6.1, shall reimburse XOMA for all reasonable travel and related costs for XOMA's representatives whose FTE costs are not otherwise reimbursed by Takeda, to attend meetings of, and otherwise participate on, any

Collaboration Committee. XOMA shall use Commercially Reasonable Efforts to minimize these costs.

7.6.5 [*].

7.7 Batch Prices. For each Batch Manufactured by XOMA in accordance with a Manufacturing Plan, Takeda shall pay XOMA the Batch Price. XOMA will separately charge Takeda, in accordance with each Manufacturing Plan, for [*] costs, which may include, but are not limited to, extraordinary raw materials (e.g., purification resins), project required capital purchases (e.g., dedicated purification columns), outside testing, and reasonable Collaboration-specific travel expenses.

7.8 Records. The Parties shall each keep accurate books and accounts of record in connection with the R&D Programs and the Manufacture of Collaboration Products in a manner consistent with GAAP and in sufficient detail to permit accurate determination of all figures necessary for verification of R&D Costs, Manufacturing Costs and Net Sales hereunder.

7.9 Audits. Upon the written request of a Party, the other Party shall permit an independent certified public accountant selected by the requesting Party and acceptable to the other Party, which acceptance shall not be unreasonably withheld or delayed, to have access, at reasonable times and during normal business hours, to such records of such other Party as may be reasonably necessary to verify the accuracy of an Takeda payment report or XOMA charges and invoices submitted to Takeda hereunder, *provided* that such records shall be limited to the immediately preceding [*]. Each Party shall use commercially reasonable efforts to schedule all such verifications within [*] after the requesting Party makes its written request. All such verifications shall be conducted not more than [*] in, or with respect to, each Contract Year. The report of the requesting Party's independent certified public accountant shall be made available to both Parties. Subject to the other Party's rights under Section 14.8, in the event the requesting Party's independent certified public accountant concludes that additional amounts were owed to the requesting Party for such period, the additional amounts shall be paid by the other Party within [*] of the date the requesting Party delivers to the other Party such written report so concluding, unless such report contains manifest error. In the event the requesting Party's independent certified public accountant concludes that there was an overpayment to such Party during such period, the overpayment shall be repaid by the requesting Party within [*] of the date the requesting Party received such written report so concluding, unless such report contains manifest error. The fees charged by such independent certified public accountant shall be paid by the requesting Party unless such audit discloses a payment discrepancy of more than [*] of the amount due under this Agreement for the period in question, in which case the Party responsible for a payment discrepancy that is detrimental to the other Party will bear the full cost of such audit. Each Party agrees that all information subject to review under this Section 7.9, or under any agreement with a sublicensee of Takeda, is confidential and that the Party receiving such information shall cause its independent certified public accountant to retain all such information in confidence. The requesting Party's independent certified public accountant shall only report to the requesting Party as to the computation of royalties or charges and invoices payable under this Agreement, as applicable, and shall not disclose to the requesting Party any other information of the other Party or any sublicensee of Takeda.

7.10 Withholding Taxes. In the event that any royalties or other payments due to a Party are subject to withholding tax required by Law to be paid to the taxing authority of any foreign country, the amount of such tax may be withheld from the applicable royalties or other payment due such Party. The Party owing such payment shall promptly pay such tax on behalf of the Party to which such payment is owed and shall furnish the Party to which such payment is owed with a certificate of withholding tax so

deducted for such Party's avoidance of duplicate taxation in United States. Except as permitted in accordance with Section 1.62, the Party owing such payment may not deduct any other withholding or any other governmental charges from the payments agreed upon under this Agreement, except to the extent same are paid on behalf of, or for the benefit of, the Party to which such payment is owed. The Party owing such payment shall maintain official receipts of payment of any such withholding taxes and shall forward such receipts to the Party to which such payment is owed.

7.11 Blocked Currency. If by Law conversion into United States dollars or transfer of funds of a convertible currency to the United States is restricted or forbidden, the Party owing such payment shall give the Party to which such payment is owed prompt written notice and shall make such payment due under this Article 7 through such means or methods as are lawful in such country as the Party to which such payment is owed may reasonably designate. Failing the designation by the Party to which such payment is owed of such lawful means or methods within [*] after such written notice is given to such Party, the Party owing such payment shall deposit such royalty payment in local currency to the credit of the Party to which such payment is owed in a recognized banking institution designated by such Party, or if none is designated by such Party within the [*] period described above, in a recognized banking institution selected by the Party owing such payment and identified in a written notice to other Party, and such deposit shall fulfill all obligations of the Party owing such payment to the other Party with respect to such payment.

7.12 Interest on Late Payments. Any failure by a Party to make a payment when due shall obligate such Party to pay interest to the receiving Party at a rate equal to [*] (the "Applicable Interest Rate"). The Applicable Interest Rate shall be calculated from the date payment was due until actually received by the receiving Party based on actual number of days lapsed and a 360-day year.

7.13 Manner of Payment. Except as provided in Section 7.11, payments to be made by one Party to the other under this Agreement shall be payable in United States dollars and shall be paid by wire transfer in immediately available funds to such bank account as is designated in writing at latest [*] before the change by such Party from time to time. Attached hereto as Schedule 7.13 is such bank account information for payments to be made to XOMA hereunder, until such time as XOMA designates a different bank account as provided herein.

ARTICLE 8

PRODUCT DEVELOPMENT DILIGENCE

8.1 Takeda Obligations. Subject to Takeda's termination right under Section 13.2, Takeda shall use Commercially Reasonable and Diligent Efforts to actively Develop and obtain Regulatory Approval for at least one Collaboration Product selectively binding to and acting through each applicable Collaboration Target and, following such Regulatory Approval, to maximize Net Sales of such Collaboration Product.

8.2 XOMA Obligations. With respect to each Collaboration Target for which XOMA completes Research and Development activities set forth in any R&D Plans, XOMA shall deliver to Takeda copies of all such data, information, registrations and applications therefor, or, where appropriate, otherwise provide Takeda with reasonable access, directly or indirectly, to such data, information, registrations or applications (e.g., by way of a letter of access to a Drug Master File or similar filing), in each case as are existing and reasonably necessary to enable Takeda to pursue the development and commercialization of such Collaboration Product(s).

8.3 Termination of Collaboration Product. [*].

8.4 Preconditions for Termination of a Collaboration Product under Section 8.3 [*].

ARTICLE 9

INTELLECTUAL PROPERTY

9.1 Ownership of Intellectual Property.

9.1.1 Ownership of Background Technologies. Subject to the rights and licenses granted under this Agreement, XOMA (and its licensors, as applicable) shall own and retain all rights to the XOMA Background Technology and Takeda (and its licensors, as applicable) shall own and retain all rights to the Takeda Background Technology.

9.1.2 Ownership of Program Technology.

9.1.2.1 Inventorship. Inventorship for patentable inventions and discoveries conceived or reduced to practice in the course of the performance of activities pursuant to this Agreement shall be determined in accordance with U.S. patent laws. In the event of a dispute regarding inventorship, the matter shall be referred to the Joint Patent Committee, and if the Joint Patent Committee is unable to resolve such inventorship dispute, the matter shall be referred to the Joint Steering Committee. After each such Committee shall have used good faith efforts to resolve the dispute for at least one (1) week, then either Party may present the matter to a court of competent jurisdiction for resolution as provided in Section 9.6.

9.1.2.2 Ownership of Program Materials and Technology. Subject to the rights and licenses granted under this Agreement such as those under Sections 6.1.1 and 6.1.2, title to all Program Materials and Program Technology, including, without limitation, all Program Patent Rights therein, other than the Program Materials and Program Technology assigned to Takeda pursuant to Sections 2.6 and 6.1.1, shall be based upon the inventorship for such Program Materials and Program Technology, and title to the Program Materials and Program Technology assigned to Takeda pursuant to Sections 2.6 and 6.1.1, including, without limitation, all Program Patent Rights therein, is hereby deemed assigned to Takeda in accordance with Section 2.6 and/or Section 6.1, as applicable. Subject to the rights and licenses granted under this Agreement, including but not limited to Sections 6.1.1 and 6.1.2, (a) Takeda shall own Program Materials and Program Technology invented solely by employees, agents, consultants or contractors of Takeda or a Takeda Affiliate; (b) subject to and in accordance with Sections 2.6 and 6.1, XOMA shall own Program Materials and Program Technology invented solely by employees, agents, consultants or contractors of XOMA or a XOMA Affiliate; and (c) subject to and in accordance with Sections 2.6 and 6.1, Takeda and XOMA shall jointly own Program Materials and Program Technology invented jointly by employees, agents, consultants or contractors of both Takeda and XOMA or Affiliates of Takeda and XOMA.

9.1.3 Certain Rights With Respect to Program Materials and Technology.

9.1.3.1 Without affecting the Parties' respective rights and obligations under Section 2.1.3 and subject to any applicable Pre-existing Obligations, Takeda hereby grants to XOMA, within the Territory, a non-exclusive, [*] right and license, with the right to sublicense, under those aspects of Takeda's interest in the Program Materials and the Program Technology that are of general applicability (i.e., not specific to a particular Collaboration Target, Program Antibody or Collaboration Product), for purposes of discovering, creating, researching, developing, manufacturing and commercializing antibodies and antibody products (excluding Program Antibodies and Collaboration Products) and related activities with respect thereto, including without limitation any product (other than a Program Antibody or Collaboration Product) or use that, but for the license grant in this Section 9.1.3.1, would infringe any Program Patent Rights Controlled by Takeda, *provided,* that this Section 9.1.3.1 shall not permit XOMA to use such Program Materials or Program Technology for such purposes with respect to any antibody or antibody product that selectively binds to and acts through a Collaboration Target for a period of five (5) years following the Effective Date. For the avoidance of doubt, the license granted in this Section 9.1.3.1 does not include any rights to the Takeda Background Technology or any other intellectual property rights of Takeda that are first invented, identified, discovered, made, conceived, reduced to practice or otherwise licensed or acquired outside of the Collaboration.

9.1.3.2 Without affecting the Parties' respective rights and obligations under Section 2.1.3 and subject to any applicable Pre-existing Obligations, XOMA hereby grants to Takeda, within the Territory, a non-exclusive, [*] right and license, with the right to sublicense, under those aspects of XOMA's interest in the Program Materials and the Program Technology that are of general applicability (i.e., not specific to a particular Collaboration Target, Program Antibody or Collaboration Product), for purposes of researching, developing, using, manufacturing and commercializing Program Antibodies and Collaboration Products and related activities with respect thereto, including without limitation any Program Antibody, Collaboration Product or use of a Program Antibody or Collaboration Product that, but for the license grant in this Section 9.1.3.2, would infringe any Program Patent Rights Controlled by XOMA. For the avoidance of doubt, unless otherwise expressly provided hereunder, the license granted in this Section 9.1.3.2 does not include any rights to the XOMA Background Technology or any other intellectual property rights of XOMA that are first invented, identified, discovered, made, conceived, reduced to practice or otherwise licensed or acquired outside of the Collaboration.

9.1.3.3 The rights of the Parties outside the Collaboration provided for elsewhere herein with respect to jointly owned Program Technology and Program Patent Rights may be exploited by either Party without the prior approval of any Collaboration Committee or the approval of, or accounting or other financial obligations to, the other Party. To the extent any Laws governing any portion of the Program Technology require the consent of the other joint owner(s) of such portion of the Program Technology in order for a Party to exploit or grant licenses to such portion of the Program Technology, each Party hereby grants such consent to the other Party.

9.2 Prosecution and Maintenance of Program Patent Rights.

9.2.1 Primary Prosecution Rights. [*].

9.2.2 Secondary Prosecution Rights. [*].

9.3 Enforcement of the Program Patent Rights.

9.3.1 Notifications. Each Party shall provide to the other Party copies of (a) any written notices it receives from any Third Party regarding any patent nullity action, declaratory judgment action, alleged invalidity, unenforceability, infringement or non-infringement with respect to Program Patent Rights or alleged misappropriation of intellectual property with respect to Program Technology, Program Materials or Collaboration Products, and (b) any written allegations it receives from a Third Party that the manufacture, use, sale, offer for sale or import of Program Technology, Program Materials or any Collaboration Product infringes the intellectual property rights of such Third Party, in each case promptly following receipt thereof.

9.3.2 Infringement Proceedings Against Third Parties.

9.3.2.1 [*].

9.3.2.2 [*].

9.3.2.3 [*].

9.4 Infringement Proceedings by Third Parties. In the event that a Party receives written notice that it or any of its Affiliates have been individually named as a defendant in a legal proceeding by a Third Party alleging infringement or misappropriation of a Third Party patent or other intellectual property right as a result of the manufacture, use, sale, offer for sale or import of the Program Technology, the Program Materials or a Collaboration Product, such Party shall promptly notify the other Party in writing. Such written notice shall include a copy of any summons or complaint (or the equivalent thereof) received regarding the foregoing. In addition to its obligations under Section 12.1, Takeda agrees to defend, indemnify and hold XOMA, its Affiliates and their respective employees and agents harmless from all claims, losses, damages or expenses (including reasonable attorneys' fees and costs of litigation) based on, arising out of or in connection with (a) Takeda's activities, decisions or determinations (or failures to act, decide or determine) in the course of the Collaboration under this Agreement and/or (b) XOMA's activities in the course of the Collaboration under this Agreement with respect to Collaboration Targets or Antibodies to Collaboration Targets (including assays and reagents related thereto) or as otherwise consistent with any approved R&D Plan or any approved modification thereof, unless such infringement was caused by (i) a reckless or intentional act by XOMA, its directors, officers, employees or authorized agents, or (ii) a negligent act or omission by XOMA, its directors, officers, employees or authorized agents relating to an infringement of the intellectual property of a Third Party which is not specific (or not alleged to be specific) to the Collaboration Target. Any claim for indemnification under this Section 9.4 shall be subject to the procedural requirements of Section 12.4.

9.5 Cooperation. Each Party hereby agrees:

(a) to cooperate in the Patent Prosecution of any inventions within the Program Materials or Program Technology that in accordance herewith are jointly owned by the Parties in order to segregate the claims so as to implement the terms of Section 9.2;

(b) to take all reasonable additional actions and execute such agreements, instruments and documents as may be reasonably required to perfect the other Party's ownership interest

of the Program Materials and the Program Technology in accordance with the intent of this Agreement;

(c) to provide the other Party with copies of drafts of all material filings with or other submissions to the U.S. Patent and Trademark Office or its foreign counterparts relating to Patent Prosecution, or the court or other tribunal relating to any infringement claims against Third Parties under the Program Patent Rights or the defense of infringement or misappropriation claims by Third Parties relating to the Program Technology, the Program Materials or a Collaboration Product, in each case reasonably prior to the filing or submission thereof, and to give due consideration to the comments and suggestions of the other Party in relation thereto;

(d) to provide the other Party with copies of all material filings with or other submissions to the U.S. Patent and Trademark Office or its foreign counterparts relating to Patent Prosecution or the court or other tribunal relating to any infringement claims against Third Parties under the Program Patent Rights or the defense of infringement or misappropriation claims by Third Parties relating to the Program Technology, the Program Materials or a Collaboration Product;

(e) to keep the other Party apprised of material developments in any discussions or negotiations with Third Parties concerning the licensing of any intellectual property in connection with the Collaboration or the settlement of any dispute relating thereto, and as reasonably requested by the other Party to provide (for review and comment) copies of drafts of any license, settlement or other agreement relating thereto, as well as copies of the final versions of any such agreements;

(f) to cooperate, as reasonably necessary, with the other Party in gaining patent term extensions, supplemental protection certificates or their equivalents wherever applicable to any Program Patent Rights;

(g) to endeavor in good faith to coordinate its efforts with the other Party to minimize or avoid interference with the Patent Prosecution of the other Party's patent applications related to inventions within the Program Materials and Program Technology; and

(h) to make its employees, Affiliates, agents, independent contractors and consultants reasonably available to the other Party (or to the other Party's authorized attorneys, agents or representatives and, in any case, at the directing or acting Party's expense as provided in this Article 9) to the extent reasonably necessary by the other Party in connection with Patent Prosecution, the pursuit of infringement claims against Third Parties relating to the Program Patent Rights or the defense of infringement or misappropriation claims by Third Parties relating to the Program Technology, the Program Materials or a Collaboration Product.

9.6 Disputes Regarding Intellectual Property. Without limiting or otherwise restricting the Parties' respective rights and obligations expressly set forth in the other provisions of this Article 9, the Parties agree that any dispute between them over the inventorship, ownership, validity, enforceability or infringement of any Patent Rights related to the Collaboration and Controlled by either Party that cannot be resolved between them after following the procedures of Section 14.8 shall be presented only to a court of competent jurisdiction for resolution pursuant to Section 14.7 hereof.

ARTICLE 10

CONFIDENTIALITY

10.1 Nondisclosure Obligations.

10.1.1 General. Except as otherwise provided in this Article 10, during the term of this Agreement and for a period of [*] thereafter, or longer if required by any agreement with a Third Party relating to such Confidential Information, each Receiving Party shall maintain the Confidential Information of each Disclosing Party in confidence and use it only for purposes specifically authorized under this Agreement. Upon the expiration or termination of this Agreement, each Party shall promptly inform the other Party in writing if any Confidential Information the other Party received from such Party hereunder is covered by such a Third Party agreement with such Party and if the term of confidentiality for such Confidential Information will extend beyond such [*] period.

10.1.2 Limitations. To the extent it is reasonably necessary or appropriate to fulfill its obligations or exercise its rights under this Agreement and subject to advance written notification to the Disclosing Party: (a) a Party may disclose Confidential Information it is otherwise obligated not to disclose under this Section 10.1, to its Affiliates, sublicensees, consultants, outside contractors and clinical investigators, on a strict need-to-know basis for the purposes contemplated by this Agreement and on condition that such entities or persons agree to keep the Confidential Information confidential for the same time periods and to the same extent as such Party is required to keep the Confidential Information confidential hereunder; and (b) a Party or its sublicensees may disclose, using appropriate measures to preserve confidentiality, such Confidential Information to government or other regulatory authorities to the extent that such disclosure is reasonably necessary to obtain authorizations to conduct clinical trials of, and to commercially market, Collaboration Products pursuant to this Agreement. Furthermore, a Receiving Party may request permission from the Disclosing Party to disclose such Confidential Information to the extent that such disclosure is reasonably necessary to obtain patents which such Receiving Party is permitted to obtain hereunder, which permission shall not be unreasonably withheld or delayed.

10.1.3 Required Disclosure. A Receiving Party may disclose Confidential Information pursuant to interrogatories, requests for information or documents, subpoena, civil investigative demand issued by a court or governmental agency or as otherwise required by Law; *provided*, *however*, that the Receiving Party shall notify the Disclosing Party promptly upon receipt thereof, giving (where practicable) the Disclosing Party sufficient advance notice to permit it to oppose, limit or seek confidential treatment for such disclosure; and *provided*, *further*, that the Receiving Party shall furnish only that portion of the Confidential Information which it is advised by counsel is legally required whether or not a protective order or other similar order is obtained by the Disclosing Party.

10.2 Injunctive Relief. The Parties hereto understand and agree that remedies at law may be inadequate to protect against any breach of any of the provisions of this Article 10 by either Party or their employees, agents, officers or directors or any other person acting in concert with it or on its behalf. Accordingly, each Party shall be entitled to the granting of injunctive relief by a court of competent jurisdiction against any action that constitutes any such breach of this Article 10.

10.3 Publication.

10.3.1 Takeda may publish or present data and/or results relating to a Collaboration Product arising in the course of R&D Program, subject to the prior review of the proposed disclosure by XOMA, solely to determine (a) whether the proposed disclosure contains the Confidential Information of XOMA or (b) whether the information contained in the proposed disclosure should be the subject of a patent application for Program Technology to be filed by XOMA prior to such disclosure. Takeda shall provide XOMA with the opportunity to review any proposed abstract, manuscript or presentation by delivering a copy thereof to XOMA no less than [*] before its intended submission for publication or presentation. XOMA shall have [*] from its receipt of any such abstract, manuscript or presentation in which to notify Takeda in writing of any specific objections to the disclosure, based on either the need to seek patent protection or concern regarding the specific disclosure of the Confidential Information of XOMA. In the event XOMA objects to the disclosure, Takeda agrees not to submit the publication or abstract or make the presentation containing the objected-to information until XOMA is given a reasonable additional period of time (not to exceed an additional [*]) to seek patent protection for any material in the disclosure which XOMA believes is patentable (subject, in all events, to Section 10.2) or, in the case of Confidential Information, to allow Takeda to delete any Confidential Information of XOMA from the proposed disclosure. Takeda agrees to delete from the proposed disclosure any Confidential Information of XOMA upon request.

10.3.2 Notwithstanding anything herein to the contrary, the Parties agree that XOMA may use "blinded" data (so long as such use does not jeopardize the patentability of any invention claimed by a patent or patent application filed by Takeda) for purposes of demonstrating, presenting or otherwise promoting its technologies, expertise, capabilities and/or applications of any thereof. With respect to the immediately preceding sentence, XOMA shall submit such blinded data to Takeda for approval at least [*] prior to disclosure, such approval not to be unreasonably withheld or delayed.

10.3.3 In any manuscript, publication or presentation relating to the Collaboration, the submitting or presenting Party will acknowledge the contributions of the other Party (including, where appropriate, co-authorship), giving equal prominence in such manuscript, publication or presentation to the name of the other Party.

10.4 Publicity. Except as expressly set forth herein, Takeda and XOMA each agree not to disclose any terms or conditions of this Agreement to any Third Party without first consulting with the other Party prior to such disclosure. The Parties hereby agree to the release of a press release in the form attached hereto as Schedule 10.4 upon full execution of this Agreement and that the fact of the consummation of this Agreement, as well as the terms that are expressly described in such press release, shall be deemed to be in the public domain. The Parties may thereafter from time to time (a) mutually agree on revisions to material to be used as a routine reference, which revisions shall be submitted by one Party for the review and approval of the other Party at least [*] prior to the anticipated use or disclosure of the revised material, such approval not to be unreasonably withheld or delayed, and (b) disclose any such agreed revised information without consulting the other Party. The terms of this Agreement shall be treated as the Confidential Information of Takeda and XOMA, and, except to the extent required by applicable law, shall not be disclosed except as otherwise provided herein without the written permission of XOMA or Takeda. If either Party desires to release a separate announcement relating to this Agreement, it shall first allow the other Party [*] to approve in writing such proposed announcement; *provided* that such approval shall not be unreasonably withheld or delayed. Nothing herein shall be deemed to prohibit, restrict or limit any disclosure that is consistent in all material respects with prior disclosures.

ARTICLE 11

REPRESENTATIONS AND WARRANTIES

11.1 Representations, Warranties and Covenants of Takeda. Takeda represents and warrants to and covenants with XOMA that:

11.1.1 Takeda is a corporation duly organized, validly existing and in corporate good standing under the laws of Japan;

11.1.2 Takeda has the corporate and legal right, authority and power to enter into this Agreement, and to extend the rights and licenses granted to XOMA in this Agreement;

11.1.3 Takeda has taken all necessary action to authorize the execution, delivery and performance of this Agreement;

11.1.4 upon the execution and delivery of this Agreement, this Agreement shall constitute a valid and binding obligation of Takeda, enforceable in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' and contracting Parties' rights generally and except as enforceability may be subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law);

11.1.5 the performance of Takeda's obligations under this Agreement will not conflict with its charter documents or result in a breach of any agreements, contracts or other arrangements to which it is a Party or violate any court or administrative order by which it is bound;

11.1.6 neither it nor any of its employees or consultants working on the Collaboration have been debarred pursuant to the FDC Act or are currently excluded, debarred, suspended or otherwise ineligible to participate in Federal health care program and Takeda shall promptly notify XOMA of any change in this warranty and representation;

11.1.7 [*]; and

11.1.8 as of the Effective Date and continuing thereafter, Takeda is and shall remain in compliance in all material respects with any and all applicable laws and regulations relating to this Agreement and its ability to perform its obligations hereunder.

11.2 Representations, Warranties and Covenants of XOMA. XOMA represents and warrants to and covenants with Takeda that:

11.2.1 XOMA is a limited liability company duly organized, validly existing and in good standing under the laws of Delaware;

11.2.2 XOMA has the corporate and full legal right, authority and power to enter into this Agreement, and to extend the rights and licenses granted to Takeda in this Agreement;

11.2.3 XOMA has taken all necessary corporate action to authorize the execution, delivery and performance of this Agreement;

11.2.4 upon the execution and delivery of this Agreement, this Agreement shall constitute a valid and binding obligation of XOMA enforceable in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' and contracting Parties' rights generally and except as enforceability may be subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law);

11.2.5 the performance of its obligations under this Agreement will not conflict with XOMA's charter documents or result in a breach of any agreements, contracts or other arrangements to which it is a Party or violate any court or administrative order by which it is bound;

11.2.6 neither it nor any of its employees or consultants working on the Collaboration have been debarred pursuant to the FDC Act or are currently excluded, debarred, suspended or otherwise ineligible to participate in Federal health care program and XOMA shall promptly notify Takeda of any change in this warranty and representation;

11.2.7 all license agreements that XOMA has with Third Parties relating to intellectual property that XOMA will utilize or reasonably anticipates utilizing to perform its obligations hereunder with respect to R&D Program(s) and the Collaboration more generally are provided in Schedule 1.57;

11.2.8 [*];

11.2.9 [*];

11.2.10 [*];

11.2.11 to XOMA's reasonable knowledge, during the course of Takeda's due diligence investigation in connection with entering into this Agreement conducted prior to the Effective Date, XOMA neither (a) disclosed to Takeda any written material that contained a material misstatement regarding (i) any agreement between XOMA and a Third Party relating to Relevant Third Party IP, or (ii) XOMA's ability to conduct the R&D Program(s) or the Collaboration more generally; nor (b) failed to disclose to Takeda any written material in XOMA's possession that would reasonably be expected to be material to (i) any agreement between XOMA and a Third Party relating to Relevant Third Party IP, or (ii) any Relevant Third Party IP and the Collaboration more generally; and

11.2.12 as of the Effective Date and continuing thereafter, XOMA is and shall remain in compliance in all material respects with any and all applicable laws and regulations relating to this Agreement and its ability to perform its obligations hereunder.

11.3 Warranty Disclaimer. EXCEPT AS OTHERWISE EXPRESSLY PROVIDED IN THIS AGREEMENT, NEITHER PARTY MAKES ANY WARRANTY WITH RESPECT TO ANY PRODUCT, PATENT RIGHTS, GOODS, SERVICES, MATERIALS OR ANY OTHER SUBJECT MATTER OF THIS AGREEMENT, AND EACH PARTY HEREBY DISCLAIMS WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE AND NON-INFRINGEMENT WITH RESPECT TO ANY AND ALL OF THE FOREGOING.

11.4 Limited Liability. EXCEPT AS SPECIFICALLY SET FORTH IN THIS AGREEMENT, NEITHER TAKEDA NOR XOMA WILL BE LIABLE WITH RESPECT TO ANY MATTER ARISING UNDER THIS AGREEMENT UNDER ANY CONTRACT, NEGLIGENCE, STRICT LIABILITY OR OTHER LEGAL OR EQUITABLE THEORY FOR ANY PUNITIVE, EXEMPLARY, INCIDENTAL OR CONSEQUENTIAL DAMAGES OR LOST PROFITS.

ARTICLE 12

INDEMNITY

12.1 Takeda Indemnity Obligations. Subject to Section 12.3 hereof, Takeda agrees to defend, indemnify and hold XOMA, its Affiliates and their respective employees, directors, officers and agents harmless from all claims, losses, damages or expenses (including reasonable attorneys' fees and costs of litigation) arising as a result of: (a) actual or asserted violations of any applicable law or regulation by Takeda, its sublicensees and their respective Affiliates by virtue of which any Collaboration Products manufactured, distributed or sold by Takeda, its sublicensees or their respective Affiliates pursuant to this Agreement shall be alleged or determined to be adulterated, misbranded, mislabeled or otherwise not in compliance with any applicable law or regulation; (b) claims for bodily injury, death or property damage attributable to the manufacture, distribution, sale or use of any Collaboration Products by Takeda, its sublicensees or their respective Affiliates; (c) a recall of a Collaboration Product manufactured, distributed or sold by Takeda, its sublicensees or their respective Affiliates ordered by a governmental agency or required by a confirmed Collaboration Product failure as reasonably determined by the Parties hereto; or (d) Takeda's breach of any of its representations, warranties or covenants hereunder.

12.2 XOMA Indemnity Obligations. Subject to Section 12.3 hereof, XOMA agrees to defend, indemnify and hold Takeda, its Affiliates and their respective employees, directors, officers and agents harmless from all claims, losses, damages or expenses (including reasonable attorneys' fees and costs of litigation) arising as a result of: (a) actual or asserted violations of any applicable law or regulation by XOMA, its sublicensees and their respective Affiliates by virtue of which any Collaboration Products manufactured, distributed or sold by XOMA, its sublicensees or their respective Affiliates pursuant to this Agreement shall be alleged or determined to be adulterated, misbranded, mislabeled or otherwise not in compliance with any applicable law or regulation; (b) claims for bodily injury, death or property damage attributable to the manufacture, distribution, sale or use of any Collaboration Products by XOMA, its sublicensees or their respective Affiliates; (c) a recall of a Collaboration Product manufactured, distributed or sold by XOMA, its sublicensees or their respective Affiliates ordered by a governmental agency or required by a confirmed Collaboration Product failure as reasonably determined by the Parties hereto; or (d) XOMA's breach of any of its representations, warranties or covenants hereunder.

12.3 Limitation on Indemnity Obligations. Neither Party, its Affiliates or their respective employees and agents shall be entitled to the indemnities set forth in Sections 12.1 or 12.2 respectively, to the comparative extent the claim, loss, damage or expense for which indemnification is sought was caused by a grossly negligent, reckless or intentional act or omission by such Party, its directors, officers, employees or authorized agents.

12.4 Procedure. If a Party or any of its Affiliates or their respective employees or agents (collectively, the "Indemnitee") intends to claim indemnification under this Article 12, the Indemnitee shall promptly notify the other Party (the "Indemnitor") of any loss, claim, damage, liability or action in respect of which the Indemnitee intends to claim such indemnification, and the Indemnitor shall assume the defense thereof with counsel selected by the Indemnitor and reasonably acceptable to the Indemnitee;

provided, *however*, that an Indemnitee shall have the right to retain its own counsel, with the fees and expenses to be paid by the Indemnitee, if representation of such Indemnitee by the counsel retained by the Indemnitor would be inappropriate due to actual or potential differing interests between such Indemnitee and any other Party represented by such counsel in such proceedings. The Indemnitor shall have the right to settle or compromise any claims for which it is providing indemnification under this Article 12, *provided* that the consent of the Indemnitee (which shall not be unreasonably withheld or delayed) shall be required in the event any such settlement or compromise would adversely affect the interests of the Indemnitee. The indemnity agreement in this Article 12 shall not apply to amounts paid in settlement of any loss, claim, damage, liability or action if such settlement is effected without the consent of the Indemnitor. The failure to deliver notice to the Indemnitor within a reasonable time after the commencement of any such action, if prejudicial to the Indemnitor's ability to defend such action, shall relieve such Indemnitor of any liability to the Indemnitee under this Article 12 resulting from such failure, but the omission so to deliver notice to the Indemnitor will not relieve it of any liability that it may have to any Indemnitee otherwise than under this Article 12. The Indemnitee under this Article 12, its employees and agents, shall cooperate fully with the Indemnitor and its legal representatives in the investigation of any action, claim or liability covered by this indemnification.

12.5 Insurance. Each Party shall maintain appropriate product liability insurance (and/or self-insurance) with respect to Research and Development and Manufacture of Collaboration Products by such Party in such amount as such Party customarily maintains with respect to sales of its other products. Each Party shall maintain such insurance for so long as it continues to manufacture or sell Collaboration Products, and thereafter for so long as such Party customarily maintains insurance with respect to sales of its other products.

ARTICLE 13

EXPIRATION AND TERMINATION

13.1 Term of Agreement. The term of this Agreement shall commence on the Effective Date and shall continue until the later of (a) the payment by Takeda and receipt by XOMA of the last amount to be paid by Takeda to XOMA pursuant to the terms hereof or (b) the cessation of all Research and Development activities with respect to all Program Antibodies, Collaboration Targets and/or Collaboration Products, as applicable, pursuant to the terms hereof.

13.2 Takeda Option to Terminate R&D. After the expiration of (a) initially scheduled period provided in the first R&D Plan to identify candidates of Collaboration Product or (b) [*] following commencement of the R&D Program, whichever is later, Takeda may terminate this Agreement as to such R&D Program at its sole discretion effective upon [*] prior written notice to XOMA.

13.3 Change of Control. In the event of a Change of Control of XOMA, XOMA shall, to the extent it is legally permitted to do so, notify Takeda of such Change of Control, specifying the effective date of such Change of Control and the name(s) of the controlling party or parties, within [*] following the date when such change comes to the knowledge of XOMA. Takeda shall have the right, but not the obligation, to terminate any further obligations to perform or fund any further work under any and all R&D Programs at any time within [*] following such Change of Control or the receipt of the notice made under this Section 13.3, whichever is later, effective upon [*] written notice. In the event of a Change of Control of XOMA, Takeda shall be entitled to continue to pursue the research and development of any Program Antibody so long as it continues to comply with the financial obligations of Takeda pursuant to

Article 7 with respect to any products arising out of such research and development, which shall survive any termination by Takeda pursuant to this Section 13.3.

13.4 Events of Default. An "Event of Default" by either Party shall have occurred upon (a) the occurrence of a material breach of this Agreement if such Party fails to remedy such breach within [*] after written notice thereof by the non-breaching Party [*] in the event of a Party's failure to make a payment required hereunder) or, if remediation of such breach (other than a payment breach) [*] is not practicable, if such Party fails to commence and diligently pursue such remediation during such [*]period, or (b) the commencement of any proceeding in or for bankruptcy, insolvency, dissolution or winding up by or against such Party that is not dismissed or otherwise disposed of within [*] thereafter.

13.5 Effect of an Event of Default. In the event of an Event of Default, the non-defaulting Party shall have the right, at its option exercisable in its sole discretion, in addition to any other rights or remedies available to it at law or in equity and subject to the limitations set forth in Sections 3.8, 11.4 and 14.8 hereof, to (a) if the Event of Default directly relates to less than all Collaboration Targets, Program Antibodies and Collaboration Products, by written notice to the other Party, deem that such Party has abandoned work on the Collaboration Target(s), Program Antibodies and/or Collaboration Product(s) to which such Event of Default directly relates, or (b) if the Event of Default directly relates to all Collaboration Targets, Program Antibodies and Collaboration Products, by written notice to the other Party, deem that such Party has terminated this Agreement in its entirety.

13.6 XOMA's Continued Research Rights After Termination of R&D Programs under Section 2.1.2, Section 13.2 or Section 13.5 In the event particular R&D Program is terminated pursuant to Section 2.1.2, Section 13.2 or Section 13.5 for an Event of Default by Takeda XOMA shall be free to continue any R&D Program to which such termination relates or development or commercialization of any Collaboration Product(s) as to which such termination relates on its own, in which event, notwithstanding anything herein to the contrary:

[*]

XOMA's option in the preceding sentence of this Section 13.6 shall be subject to XOMA paying to Takeda, with respect to any such R&D Program or Collaboration Product as to which such option is exercised, a royalty on Net Sales of any products so licensed in an amount equal to (i) [*] of the royalty in case of termination after [*] for such Collaboration Product under Section 2.1.2 or Section 13.2, or (ii) [*] of the royalty in case of (1) termination under Section 13.5 or (2) termination before [*] for such Collaboration Product under Section 2.1.2 or Section 13.2, in each case that Takeda would have been required to pay XOMA hereunder had such product been a Collaboration Product.

13.7 Takeda's Rights After Termination for an Event of Default by XOMA. In the event this Agreement is terminated pursuant to Section 13.5 for an Event of Default by XOMA, all R&D Programs to which such termination relates shall terminate and the licenses granted under Section 6.1.3 by Takeda to XOMA with respect to all Collaboration Products as to which such termination relates shall terminate. At the option of Takeda, Takeda shall be free to continue any R&D Program to which such termination relates or development or commercialization of any Collaboration Product(s) as to which such termination relates on its own, in which event, notwithstanding anything herein to the contrary:

[*]

Takeda's option in the preceding sentence of this Section 13.7 shall be subject to Takeda paying to XOMA, with respect to any such R&D Program or Collaboration Product as to which such option is exercised, a royalty on Net Sales of any products so licensed in an amount equal to [*] of the royalty that Takeda would have been required to pay XOMA hereunder had such product been a Collaboration Product that Takeda would have been required to pay XOMA hereunder had such product been a Collaboration Product.

13.8 Effect of Expiration or Termination of Agreement. The expiration or termination of a given R&D Program or this Agreement shall not relieve the Parties of any obligation accruing prior to such expiration or termination. In no way limiting the generality of the foregoing, (a) the provisions of Articles 1, 9, 10-12 and 14 and Sections 2.1.3.1, 2.4, 2.6, 4.3, 5.1.2, 6.1.1, 7.8-7.13, 13.3 and 13.6-13.8 shall survive the expiration or termination of this Agreement, and (b) in the event of any termination of this Agreement to which either Section 13.6 or Section 13.7 applies, the provisions of Sections 7.4 and 7.5.2 shall survive such termination.

ARTICLE 14

MISCELLANEOUS

14.1 Force Majeure. Neither Party shall be held liable or responsible to the other Party nor be deemed to have defaulted under or breached this Agreement for failure or delay in fulfilling or performing any obligation under this Agreement when such failure or delay is caused by or results from causes beyond the reasonable control of the affected Party, including but not limited to fire, floods, embargoes, war, acts of war (whether war is declared or not), insurrections, riots, civil commotions, strikes, lockouts or other labor disturbances, acts of God or acts, omissions or delays in acting by any governmental authority; *provided*, *however*, that the Party so affected shall use reasonable commercial efforts to avoid or remove such causes of nonperformance, and shall continue performance hereunder with reasonable dispatch whenever such causes are removed. Either Party shall provide the other Party with prompt written notice of any delay or failure to perform that occurs by reason of force majeure. The Parties shall mutually seek a resolution of the delay or the failure to perform as noted above.

14.2 Assignment. This Agreement may not be assigned or otherwise transferred, in whole or in part, by either Party without the consent of the other Party; *provided*, *however*, that either Takeda or XOMA may, without such consent, assign its rights and obligations under this Agreement (i) to any Affiliate, or (ii) in connection with a merger, consolidation or sale of such portion of a Party's assets that includes rights under this Agreement to an unrelated Third Party; *provided*, *further*, that such Party's rights and obligations under this Agreement shall be assumed by its successor in interest in any such transaction and shall not be transferred separate from all or substantially all of its other business assets, including those business assets that are the subject of this Agreement. Any purported assignment in violation of the preceding sentence shall be void. Any permitted assignee shall assume all obligations of its assignor under this Agreement, unless the Parties otherwise agree; *provided*, *however*, that this section will not relieve the assignor from any of its obligations as a surety even after the assignment.

14.3 Bankruptcy. All rights and licenses granted under this Agreement by one Party to the other Party are, and shall otherwise be deemed to be, for purposes of Section 365(n) of Title XI of the United States Code (the "Bankruptcy Code"), licenses of rights to "intellectual property" as defined under Section 101(56) of the Bankruptcy Code. The Parties agree that the licensing Party under this Agreement shall retain and may fully exercise all of its rights and elections under the Bankruptcy Code in the event of a bankruptcy by the other Party. The Parties further agree that in the event of the commencement of a

bankruptcy proceeding by or against one Party under the Bankruptcy Code, the other Party, to the extent permitted under applicable Laws, shall be entitled to complete access to any such intellectual property pertaining to the rights granted in the licenses hereunder of the Party by or against whom a bankruptcy proceeding has been commenced and all embodiments of such intellectual property.

14.4 Severability. Each Party hereby agrees that it does not intend to violate any public policy, Law, treaty or decision of any government agency or executive body thereof of any country or community or association of countries. Should one or more provisions of this Agreement be or become invalid, the Parties hereto shall substitute, by mutual consent, valid provisions for such invalid provisions which valid provisions in their economic effect are sufficiently similar to the invalid provisions that it can be reasonably assumed that the Parties would have entered into this Agreement with such valid provisions in lieu of such invalid provisions. In case such valid provisions cannot be agreed upon, the invalidity of one or several provisions of this Agreement shall not affect the validity of this Agreement as a whole, unless the invalid provisions are of such essential importance to this Agreement that it is to be reasonably assumed that the Parties would not have entered into this Agreement without the invalid provisions.

14.5 Notices. Any consent, notice or report required or permitted to be given or made under this Agreement by one of the Parties hereto to the other shall be in writing, delivered personally or by facsimile (and promptly confirmed by telephone, personal delivery or courier) or courier, postage prepaid (where applicable), addressed to such other Party at its address indicated below, or to such other address as the addressee shall have last furnished in writing to the addressor and shall be effective upon receipt by the addressee.

If to Takeda:	Takeda Pharmaceutical Company Limited 1-1, Doshomachi 4-chome Chuo-ku, Osaka 540-8645 Japan Attention: Global Licensing & Business Development Department Telephone: [*] Facsimile: [*]
If to XOMA:	XOMA (US) LLC 2910 Seventh Street Berkeley, California 94710 USA Attention: Legal Department Telephone: (510) 204-7200 Facsimile: (510) 649-7571
with a copy to:	XOMA (US) LLC 2910 Seventh Street Berkeley, California 94710 USA Attention: Vice President, Business Development Telephone: (510) 204-7200 Facsimile: (510) 649-7571

14.6 Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California, without reference to the conflicts of law principles thereof.

14.7 Forum Selection; Consent to Jurisdiction. Subject to Section 14.8, any litigation based hereon, or arising out of, under, or in connection with this Agreement, shall be brought and maintained exclusively in the state or federal courts located within San Francisco, the State of California if initiated by Takeda and the district court within Osaka, Japan if initiated by XOMA. The Parties hereby expressly and irrevocably submit to the jurisdiction of the courts located within San Francisco, the State of California or Osaka, Japan for the limited purpose of any such litigation as set forth above. The Parties further irrevocably consent to the service of process by registered mail, postage prepaid, or by personal service. The Parties hereby expressly and irrevocably waive, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of venue of any such litigation brought in any such court referred to above and any claim that any such litigation has been brought in an inconvenient forum.

14.8 Dispute Resolution. The Parties hereby agree that they will first attempt in good faith to resolve any controversy or claim arising out of or relating to this Agreement promptly by negotiations. If a controversy or claim should arise hereunder the manner of resolution of which is not addressed in Section 3.8, the matter shall be referred to the Representatives. If the matter has not been resolved within [*] of the first meeting of the Representatives (which period may be extended by mutual agreement) concerning such matter, either Party may initiate arbitration by giving notice to that effect to the other Party simultaneously with filing a notice with the International Chamber of Commerce or its successor organization ("ICC") in accordance with its International Arbitration Rules. Such dispute shall then be settled by arbitration in San Francisco, California if initiated by Takeda, and in Osaka, Japan if initiated by XOMA, in each case to be conducted in the English language and in accordance with the International Arbitration Rules of the ICC or other rules agreed to by the Parties, by a panel of three neutral arbitrators who shall be selected by the Parties using the procedures for arbitrator selection of the ICC.

14.8.1 The panel shall render its decision and award, including a statement of reasons upon which such award is based, within [*] after the arbitration hearing. The decision of the panel shall be determined by majority vote among the arbitrators, shall be in writing and shall be binding upon the Parties, final and non-appealable. Judgment upon the award rendered by the panel may be entered in any court having jurisdiction thereof in accordance with Section 14.7.

14.8.2 Except as provided in Section 3.8 or in Section 9.6, the procedures specified in this Section 14.8 shall be the sole and exclusive procedures for the resolution of disputes between the Parties arising out of or relating to this Agreement; *provided* that a Party, without prejudice to the above procedures, may seek injunctive relief or other provisional judicial relief if in its sole judgment such action is necessary to avoid irreparable damage. Despite such actions seeking injunctive or other provisional judicial relief, the Parties will continue to participate in good faith in the procedures specified in this Section 14.8.

14.8.3 The arbitrators shall issue with the rulings a written determination as to how the fees and expenses of the arbitration, along with the reasonable legal fees and expenses of each Party (including all attorneys' fees, witness fees and expenses), shall be allocated between the Parties. The arbitrators shall allocate such fees and expenses in a way that bears a reasonable relationship to the outcome of the arbitral proceeding, with the Party prevailing on more issues, or issues of greater value or gravity, recovering a relatively larger share of its legal fees and expenses.

14.9 Entire Agreement. This Agreement, together with the exhibits and appendices hereto and any confidentiality agreement(s) executed in contemplation of this Agreement, contains the entire understanding of the Parties with respect to the subject matter hereof. All express or implied agreements and understandings, either oral or written, heretofore made are expressly merged in and made a part of this Agreement. This Agreement may be amended, or any term hereof modified, only by a written instrument duly executed by both Parties hereto.

14.10 Headings. The captions to the several Articles and Sections hereof are not a part of this Agreement, but are merely guides or labels to assist in locating and reading the several Articles and Sections hereof.

14.11 No Partnership. It is expressly agreed that the relationship between Takeda and XOMA shall not constitute a partnership, joint venture or agency. Neither Takeda nor XOMA shall have the authority to make any statements, representations or commitments of any kind, or to take any action, which shall be binding on the other, without the prior consent of the other Party to do so.

14.12 Exports. The Parties acknowledge that the export of technical data, materials or products is subject to the exporting Party receiving any necessary export licenses and that the Parties cannot be responsible for any delays attributable to export controls which are beyond the reasonable control of either Party. Takeda and XOMA agree not to export or re-export, directly or indirectly, any information, technical data, the direct product of such data, samples or equipment received or generated under this Agreement in violation of any applicable export control laws or governmental regulations. Takeda and XOMA agree to obtain similar covenants from their licensees, sublicensees, or corporate partners, as the case may be, and contractors with respect to the subject matter of this Section 14.12.

14.13 Waiver. The waiver by either Party hereto of any right hereunder or the failure to perform or of a breach by the other Party shall not be deemed a waiver of any other right hereunder or of any other breach or failure by said other Party whether of a similar nature or otherwise.

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

IN WITNESS WHEREOF, the Parties have caused their duly authorized officers to execute and deliver this Agreement as of the Effective Date.

TAKEDA PHARMACEUTICAL COMPANY LIMITED

By: /s/ YASUCHIKA HASEGAWA
Name: Yasuchika Hasegawa
Title: President

XOMA (US) LLC

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

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Press Release

XOMA and Takeda Establish Collaboration for Therapeutic Antibody Discovery and Development

Berkeley, CA – November 2 (PST), and Osaka, JAPAN – November 2 (JST), 2006 – XOMA Ltd. (Nasdaq: XOMA) and Takeda Pharmaceutical Company Limited (TSE4502:Takeda) today announced that they have entered into an agreement for therapeutic monoclonal antibody discovery and development. The collaboration is intended to capitalize on XOMA's comprehensive antibody discovery, development and production technologies and expertise.

The agreement calls for Takeda to make up-front and milestone payments to XOMA, fund XOMA's R&D activities including manufacturing of the antibodies for preclinical and early clinical supplies, and pay royalties to XOMA on sales of products resulting from the collaboration. Payments to XOMA could exceed $100 million before royalties over the life of the collaboration.

Using its extensive collection of phage display libraries and antibody optimization technologies, XOMA will discover therapeutic antibodies against multiple targets selected by Takeda. Other XOMA activities will include preclinical studies to support regulatory filings, cell line and process development, and production of antibodies for initial clinical trials. Takeda will be responsible for clinical trials and commercialization of drugs after IND submission, and is granted the right to manufacture once the product enters into phase 2 clinical trials.

"XOMA's extensive antibody discovery and development expertise and technologies fit well with Takeda's objective of building a strategic presence and pipeline in therapeutic antibodies. We look forward to working with our new partner," said John L. Castello, chairman of the board, president, and chief executive officer of XOMA.

"We are pleased with the conclusion of the agreement with XOMA, which has state-of–the-art technology in the antibody field", said Shigenori Ohkawa, PhD, General Manager of Pharmaceutical Research Division of Takeda. "We believe that the collaboration with XOMA will accelerate our drug discovery and development activities in therapeutic antibodies, a field that continues to grow as an important source of new medicines."

About XOMA

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

The company has built a premier antibody discovery and development platform that includes access to seven of the leading commercially available antibody phage display libraries and XOMA's proprietary Human Engineering™ and bacterial cell expression (BCE) technologies. More than 45 companies have signed BCE licenses. XOMA's development collaborators include Lexicon Genetics, Inc., Novartis, and

Schering-Plough Corporation. With a fully integrated product development infrastructure, XOMA's product development capabilities extend from preclinical sciences to product launch. For more information, please visit the company's website at www.xoma.com.

About Takeda

Located in Osaka, Japan, Takeda is a research-based global company with its main focus on pharmaceuticals. As the largest pharmaceutical company in Japan and one of the global leaders of the industry, Takeda is committed to striving toward better health for individuals and progress in medicine by developing superior pharmaceutical products. Aiming to become an "R&D-driven world-class pharmaceutical company", Takeda is enhancing its R&D pipeline by concentrating its management resources for that purpose in the following selected core therapeutic areas:

- lifestyle-related diseases,
- oncology and urological diseases
- central nervous system disorders, bone/joint diseases
- gastroenterological diseases

Additional information about Takeda is available through its corporate website, www.takeda.com.

XOMA Contact:
Paul Goodson
Sr. Director, Investor Relations
Tel: (510) 204-7270
goodson@xoma.com

Takeda Pharmaceutical Company Limited Contact:
Corporate Communications Department
Head Office: +81-6-6204-2060
Tokyo Head Office: +81-3-3278-2039

# # #

Certain statements contained herein concerning product development or that otherwise relate to future periods are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such statements include, but are not limited to, payments to XOMA potentially exceeding $100 million. Such statements are based on assumptions that may not prove accurate. Actual results could differ materially from those anticipated due to certain risks inherent in the biotechnology industry and for companies engaged in the development of new products in a regulated market. In particular, XOMA will not receive the estimated total amounts of funds if it cannot successfully discover and develop antibodies in this collaboration. These and other risks, including those related to the results of discovery research and preclinical testing; the timing or results of pending and future clinical trials (including the design and progress of clinical trials; safety and efficacy of the products being tested; action, inaction or delay by the FDA, European or other regulators or their advisory bodies; and analysis or interpretation by, or submission to, these entities or others of scientific data); uncertainties regarding the status of biotechnology patents; uncertainties as to the cost of protecting intellectual property; changes in the status of the existing collaborative and licensing relationships; the ability of collaborators, licensees and other third parties to meet their obligations; market demand for products; scale up and marketing capabilities; competition; international operations; share price volatility; XOMA's financing needs and opportunities and risks associated with XOMA's status as a Bermuda company, are described in more detail in XOMA's most recent annual report on Form 10-K and in other SEC filings. Consider such risks carefully in considering XOMA's prospects.

EXHIBIT 10.47

U.S. $35,000,000

LOAN AGREEMENT

Dated as of November 9, 2006

between

GOLDMAN SACHS SPECIALTY LENDING HOLDINGS, INC.

as Lender,

XOMA LTD.

as Guarantor,

and

XOMA (US) LLC

as Borrower

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Exhibit I.	**Acquisition Agreement**
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This LOAN AGREEMENT is dated as of November 9, 2006, by and between Goldman Sachs Specialty Lending Holdings, Inc., a Delaware corporation (the "Lender"), as Lender, XOMA (US) LLC, a Delaware limited liability company (the "Borrower"), as Borrower, and XOMA Ltd., a Bermuda company ("XOMA"), as guarantor. The Lender, the Borrower and XOMA are hereinafter referred to collectively as the "Parties" or individually as a "Party".

W I T N E S S E T H

WHEREAS, the Borrower is a Delaware limited liability company that was formed on May 31, 1999 and having its principal place of business at 2910 Seventh Street, Berkeley, California 94710;

WHEREAS, the Payment Rights (as defined below) were assigned to the Borrower by XOMA (Bermuda) Ltd. ("XOMA Bermuda") pursuant to the Acquisition Agreement, dated November 9, 2006 (the "Acquisition Agreement");

WHEREAS, the Borrower entered into the Second Amended and Restated Collaboration Agreement (the "Collaboration Agreement"), effective as of January 1, 2005, with Genentech, Inc., a Delaware corporation, with respect to certain payment rights in relation to RAPTIVA® (the "Raptiva Rights");

WHEREAS, the Borrower proposes to borrow from the Lender, and the Lender proposes to lend to the Borrower, an aggregate principal amount of $35,000,000;

WHEREAS, in order to induce the Lender to enter into this Agreement and to extend credit hereunder, the Borrower has agreed to grant Lender a security interest in the Payment Rights and all of the Borrower's rights under the Acquisition Agreement and the Raptiva Rights as collateral for the Borrower's obligations hereunder; and

WHEREAS, XOMA has agreed to guarantee the Borrower's obligations hereunder;

NOW, THEREFORE, in consideration of the mutual promises of the Parties, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, it is mutually agreed by the Parties as follows:

ARTICLE I
CERTAIN DEFINITIONS

SECTION 1.01. Definitions. As used herein:

"Account Bank" means The Northern Trust Company.

"Acquisition Agreement" has the meaning specified in the second recital hereof.

"Act of Insolvency" shall mean, with respect to any Person, such Person shall generally not pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors (or the

equivalent); or any proceeding shall be instituted by or against such Person seeking to adjudicate it a bankrupt or insolvent (or the equivalent), or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, moratorium or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors or the like, or seeking the entry of an order for relief or the appointment of a receiver, trustee, or other similar official for it or for any substantial part of its property, or such Person shall take any corporate action to authorize any of the actions set forth above in this definition.

"Affiliate" with respect to any Person means any Person directly or indirectly controlling, controlled by or under common control with, such Person. For the purposes of this Agreement, "control" (including, with correlative meaning, the terms "controlling" and "controlled") shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

"Agreement" shall mean this Loan Agreement.

"Assignee" has the meaning specified in Section 14.01(b).

"Assignment and Acceptance" has the meaning specified in Section 14.01(c).

"Banking Day" means any day, except a Saturday, Sunday or other day on which commercial banks in New York are required or authorized by law to close, which is also a day on which commercial banks are open for international business (including dealing in Dollar deposits) in London.

"BCE Program" has the meaning specified in Section 8.01(gg).

"Borrower" has the meaning specified in the first paragraph hereof.

"Borrower Change of Control" means any change of control of the Borrower that results in the Borrower not being directly controlled by XOMA.

"Borrower Documents" means the Borrower's Limited Liability Company Agreement, dated May 31, 1999, and the certificate of formation of the Borrower.

"Capital Stock" of any Person means any and all shares, interests, ownership interest units, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, including any preferred stock, but excluding any debt securities convertible into such equity.

"CIMZIA License Agreement" has the meaning specified in the definition of "License Agreements".

"Closing Date" means the date upon which the conditions precedent under Article VII have been satisfied to the satisfaction of the Lender.

"Code" means the Internal Revenue Code of 1986 and applicable U.S. Department of Treasury regulations issued pursuant thereto in temporary or final form.

"Collaboration Agreement" has the meaning specified in the third recital hereof.

"Collaboration Intellectual Property" means any intellectual property jointly made or jointly owned by a XOMA Party and a third-party collaboration partner in the course of conducting research and development activities pursuant to a collaboration agreement.

"Commitment" means $35,000,000.

"Contract" has the meaning specified in Section 8.01(e).

[*]

"Default" means any condition or event which constitutes an Event of Default or which, with the giving of notice or the lapse of time or both would, unless cured or waived, become an Event of Default.

"Default Rate" means, for any period for which an amount is overdue, a rate per annum equal for each day in such period to the sum of (i) the applicable Margin, (ii) 3.00% and (iii) LIBOR determined by the Lender for such period as the Lender determines to be reasonable in the circumstances.

"Designated Excess" has the meaning specified in Section 3.01(a).

"Dispute" means any dispute, deduction, claim, offset, defense or counterclaim of any kind between XOMA Bermuda or the Borrower on the one hand and any Obligor (or any of its Affiliates) on the other hand relating to any Payment Right, Raptiva Right or any License Agreement, as applicable; provided, however, that "Dispute" shall not mean (a) any such dispute, deduction, claim, offset, defense or counterclaim [*], (ii) that is not reasonably expected to have an adverse effect on either the Raptiva Rights or the Payments Rights or (iii) where the amount in dispute does not exceed $100,000; or (b) an Act of Insolvency on the part of any Obligor or any Affiliate of any Obligor.

"Dollars" or "$" means lawful money of the United States of America.

"ERISA" means the Employee Retirement Income Security Act of 1974 and the regulations promulgated thereunder.

"ERISA Affiliate" at any time means each trade or business (whether or not incorporated) that would, at any time, be treated, together with XOMA, the Borrower or any of their respective Subsidiaries, as a single employer under Title IV or Section 302 of ERISA or Section 412 of the Code or any similar provision under non-U.S. law.

"Event of Default" has the meaning specified in Section 11.01.

"Exchange Act" means the Securities Exchange Act of 1934 and the regulations promulgated thereunder.

"Excluded Taxes" means (i) any Taxes imposed on (or measured by) net income (including branch profits Taxes) of the Lender, or any franchise or similar Taxes imposed in lieu thereof, by any Governmental Authority or taxing authority by the jurisdiction under the laws of which the Lender is organized or any jurisdiction in which the Lender is a resident, has an office, conducts business or has another connection (other than a business or connection resulting from the Lender being a party to, performing its obligations or receiving payments under, or enforcing, this Agreement, or otherwise arising out of the transactions contemplated by this Agreement) and (ii) in the case of a Foreign Lender, any withholding tax that is imposed on amounts payable to such Foreign Lender (a) under law in effect at the time such Foreign Lender becomes a party to this Agreement (or designates a new Lending Office), except to the extent that such Foreign Lender (or its assignor, if any) was entitled, at the time of designation of a new Lending Office (or assignment), to receive additional amounts from the Borrower with respect to such withholding tax pursuant to Section 5.01(a) or (b) that is attributable to such Foreign Lender's failure to comply with Section 5.01(b).

"Existing Disputes" has the meaning specified in the definition of "Dispute".

"Foreign Lender" has the meaning specified in Section 5.01(b).

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

"Genentech" means Genentech, Inc., a Delaware corporation.

[*].

"Governmental Authority" means any nation or government, any state or other political subdivision thereof, and any entity exercising executive, legislative, judicial, regulatory or administrative functions of, or pertaining to, government.

"Guaranteed Obligations" has the meaning specified in Section 12.01.

"Indebtedness" with respect to any Person means any amount (absolute or contingent) payable by such Person as debtor, borrower, issuer, guarantor or otherwise (i) pursuant to an agreement or instrument involving or evidencing money borrowed, the advance of credit, a conditional sale or a transfer with recourse or with an obligation to repurchase, (ii) pursuant to a lease with substantially the same economic effect as any such agreement or instrument, (iii) pursuant to any equity interest with a mandatory obligation to repurchase, (iv) pursuant to indebtedness of a third party secured by (or for which the holder of such indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on assets owned or acquired by such Person, whether or not the indebtedness secured thereby has been assumed, (v) pursuant to an interest rate protection agreement, foreign currency exchange agreement or other hedging arrangement or (vi) pursuant to a letter of credit issued for the account of such Person. For the avoidance of doubt, the Indebtedness of any Person shall include the Indebtedness of any other entity to the extent such Person is directly liable therefor as

a result of such Person's ownership interest in or other relationship with such entity, except to the extent the terms of such Indebtedness provide that such Person is not liable therefor.

"Indemnified Liabilities" means, collectively, any and all liabilities, obligations, losses, damages, penalties, claims, costs, expenses and disbursements of any kind or nature whatsoever (including the reasonable fees and disbursements of counsel for Indemnitees in connection with any investigative, administrative or judicial proceeding commenced or threatened by any Person, whether or not any such Indemnitee shall be designated as a party or a potential party thereto, and any fees or expenses incurred by Indemnitees in enforcing the indemnity provided herein), whether direct, indirect or consequential and whether based on any federal, state or foreign laws, statutes, rules or regulations (including securities and commercial laws, statutes, rules or regulations), on common law or equitable cause or on contract or otherwise, that may be imposed on, incurred by, or asserted against any such Indemnitee, in any manner relating to or arising out of this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby (including any enforcement of any of the Loan Documents (including any sale of, collection from, or other realization upon any of the Collateral (as defined in the Security Agreement)).

"Indemnified Taxes" has the meaning specified in Section 5.01.

"Indemnitee" has the meaning specified in Section 13.03.

"Interest Coverage Ratio" means, with respect to any Interest Payment Date, the ratio of (i) all payments received (net of any withholding taxes) with respect to the Payment Rights and the Raptiva Rights during the preceding two quarters to (ii) the amount of interest due and payable on the Loan on such Interest Payment Date.

"Interest Payment Date" means the last day of each Interest Period.

"Interest Period" means the period beginning on the Closing Date (in the case of the initial Interest Period) or on the last day of the next preceding Interest Period (in the case of any subsequent Interest Period) and ending on the day numerically corresponding to the first day of that Interest Period in the sixth month thereafter; provided, that the initial Interest Period shall end on March 31, 2007 and any Interest Period which would otherwise end after the Maturity Date shall end on the Maturity Date.

"Interest Rate" means with respect to any day during any Interest Period the sum of the Margin and LIBOR for such day.

"Interest Reserve Account" means the interest reserve account, which may be a sub-account of the Payment Account, established in the name of the Lender and for the benefit, and under the control, of the Lender with account no. 1885042193 maintained with the Account Bank.

"Law" means any federal, state, local or foreign law, including common law, and any regulation, rule, requirement, policy, judgment, order, writ, decree, ruling, award, approval, authorization, consent, license, waiver, variance, guideline or permit of, or any agreement with, any Governmental Authority.

"Lender" means the Lender (as defined in the first paragraph hereof) and any assignee under Section 14.01(b).

"Lending Office" means, with respect to the Lender, its New York office, and with respect to any other Lender, the office of such Lender designated as its "Lending Office" in an Assignment and Acceptance, or such other office as may be otherwise designated in writing from time to time by such Lender to the Borrower.

"LIBOR" with respect to any Interest Period (or other period determined by the Lender with respect to any overdue amount) means the per annum rate for deposits in Dollars for a term coextensive with such Interest Period (or other period) which appears on Telerate Page 3750 as of 11:00 a.m., London time, on the day that is two Banking Days preceding the first day of such Interest Period (or other period). (For purposes of the preceding sentence, LIBOR for any Interest Period (or other period) of a length for which rates do not appear on Telerate Page 3750 shall be determined through the use of straight line interpolation by reference to two LIBOR rates appearing on Telerate Page 3750, one of which shall be the rate for the period of time next shorter than the length of the Interest Period (or other period) and the other of which shall be the rate for the period of time next longer than the length of the Interest Period (or other period).) If no such rate appears on Telerate Page 3750, LIBOR shall mean the per annum rate, determined on the basis of the rates at which deposits in Dollars for a term coextensive with such Interest Period (or other period) and in an amount approximately equal to the principal amount of the Loan or overdue amount are offered by four major banks in the London interbank market, selected by the Lender, at approximately 11:00 a.m., London time, on the day that is two Banking Days preceding the first day of such Interest Period (or other period). If at least two such quotations are provided, LIBOR for such Interest Period (or other period) shall be the arithmetic mean of the quotations. If fewer than two quotations are provided as requested, LIBOR for such Interest Period (or other period) shall be the arithmetic mean of the per annum rates quoted by major banks in New York City, selected by the Lender, at approximately 11:00 a.m., New York City time, on such day for loans in Dollars to leading European banks for a term coextensive with such Interest Period (or other period) and in an amount approximately equal to the principal amount of the Loan or overdue amount.

"License Agreements" means:

(i) the Collaboration Agreement;

(ii) the Non-Exclusive Genentech License Agreement, effective as of December 30, 1998, between XOMA Bermuda (as successor in interest to XOMA Corporation) and Genentech, Inc. (the "LUCENTIS License Agreement); and

(iii) the Non-Exclusive License Agreement, effective as of December 23, 1998, between XOMA Bermuda (as successor in interest to XOMA Corporation) and UCB (as successor in interest to Celltech Therapeutics Ltd.) (the "CIMZIA License Agreement").

"Lien" means any mortgage or deed of trust, pledge, hypothecation, lien, charge, attachment, set-off, encumbrance or other security interest in the nature thereof (including any

conditional sale agreement, equipment trust agreement or other title retention agreement, a lease with substantially the same economic effect as any such agreement or a transfer or other restriction) or other encumbrance of any nature whatsoever.

"Loan" at any time means the aggregate principal amount advanced to the Borrower hereunder then outstanding.

"Loan Documents" means this Agreement, the Note and the Security Agreement.

"LUCENTIS License Agreement" has the meaning specified in the definition of "License Agreements".

"Margin" means, with respect to any day during an Interest Period, 5.25%.

"Material Adverse Effect" means (i) a material adverse effect on the business, results of operations, assets or financial condition of the Borrower, (ii) a reduction or other impairment of the value of the Payment Rights, the Raptiva Rights, the Payment Rights-Related Intellectual Property, the Raptiva Rights-Related Intellectual Property or the XOMA US Intellectual Property or (iii) an impairment of the ability of the Borrower to perform its obligations under, or affect the validity or enforceability of, any Transaction Document to which it is party.

"Maturity Date" means the earlier of (i) the fifth anniversary of the Closing Date and (ii) the date of any prepayment in full of the Loan.

"Note" means a promissory note, substantially in the form set forth inExhibit A, in the amount of the Loan, evidencing such Loan.

"Notice of Borrowing" has the meaning specified in Section 2.02.

"Notices" has the meaning specified in Section 14.04.

"Obligations" means, without duplication, the Loan and all present and future Indebtedness, taxes, liabilities, obligations, covenants, duties, and debts, owing by the Borrower to the Lender, arising under or pursuant to the Loan Documents, including all principal, interest, charges, expenses, fees and any other sums chargeable to the Borrower hereunder and under the other Loan Documents (and including any interest, fees and other charges that would accrue but for the filing of a bankruptcy action with respect to the Borrower, whether or not such claim is allowed in such bankruptcy action).

"Obligors" means, together, Genentech and UCB.

"Participant" has the meaning specified in Section 14.02.

"Party" and "Parties" have the meanings specified in the first paragraph hereof.

"Payment Account" means the lock-box account established in the name of the Lender and for the benefit, and under the control, of the Lender with account no. 1885042193 maintained with the Account Bank.

"Payment Rights" has the meaning specified in the Acquisition Agreement as in effect on the Closing Date.

"Payment Rights-Related Intellectual Property" means all intangible legal rights owned or controlled by XOMA Bermuda in relation to the Payment Rights pursuant to the License Agreements, whether or not filed, perfected, registered or recorded and whether now or hereafter existing, filed, issued or acquired and any rights in or to any applications for any of the foregoing.

"Permitted Liens" has the meaning specified in Section 10.03.

"Person" means an individual, corporation, association, limited liability company, limited liability partnership, partnership, estate, trust, unincorporated organization or a government or any agency or political subdivision thereof.

"Plan" has the meaning specified in Section 10.09(a).

"Plan Assets" means assets of any (i) employee benefit plan (as defined in Section 3(3) of ERISA) subject to Title I of ERISA, (ii) plan (as defined in Section 4975(e)(1) of the Code) subject to Section 4975 of the Code or (iii) entity whose underlying assets include assets of any such employee benefit plan or plan by reason of the investment by an employee benefit plan or other plan in such entity.

"Prepayment Premium" with respect to any prepayment of principal of the Loan made on any day means an amount equal to (i) 3.00% of the amount of the Loan to be prepaid, if such prepayment occurs prior to the first anniversary of the Closing Date, (ii) [*]% of the amount of the Loan to be prepaid, if such prepayment occurs on or after the first anniversary of the Closing Date but prior to the second anniversary of the Closing Date and (iii) zero, if such prepayment occurs on or after the second anniversary of the Closing Date.

"Proceeding" has the meaning specified in Section 14.12.

"Raptiva Rights" has the meaning specified in the third recital hereof.

"Raptiva Rights-Related Intellectual Property" means all intangible legal rights owned or controlled by the Borrower in relation to the Raptiva Rights and the Collaboration Agreement, whether or not filed, perfected, registered or recorded and whether now or hereafter existing, filed, issued or acquired and any rights in or to any applications for any of the foregoing.

"Required Consents" means, [*].

"Security Agreement" means the Security Agreement, dated the Closing Date, substantially in the form of Exhibit C hereto, between the Lender and the Borrower securing the Obligations of the Borrower hereunder.

"Subsidiary" means, with respect to any Person, at any time, any entity of which more than fifty percent (50%) of the outstanding voting stock or other equity interest entitled ordinarily to vote in the election of the directors or other governing body (however designated) is at the time beneficially owned or controlled directly or indirectly by such Person, by one or more such entities or by such Person and one or more such entities.

"Taxes" has the meaning specified in Section 5.01.

"Telerate Page 3750" means the display page so designated on Bridge's Telerate Service (or such other page as may replace that page on that service, or such other service as may be designated by the Lender as the information vendor for the purpose of displaying rates comparable to LIBOR).

"Third Party Intellectual Property Rights" shall mean any intellectual property owned by a third party.

"Transaction Documents" means the Loan Documents, the Acquisition Agreement, the License Agreements and the Borrower Documents.

[*].

"UCB" means UCB Celltech, a branch of UCB S.A., a Belgian company, registered in the United Kingdom.

"U.S." means the United States of America.

"Voting Stock" means Capital Stock issued by a company, or equivalent interests in any other Person, the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of directors (or persons performing similar functions) of such Person, even if the right so to vote has been suspended by the happening of such contingency.

"XOMA" means has the meaning set forth in the first paragraph hereof.

"XOMA BCE/HE Intellectual Property" means the patents and patent applications listed in Exhibit J.

"XOMA Bermuda" has the meaning set forth in the second recital hereof.

"XOMA Bermuda Change of Control" means any change of control of XOMA Bermuda that results in XOMA Bermuda not being directly controlled by XOMA.

"XOMA Change of Control" means that (i) any Person or two or more Persons acting in concert shall have acquired beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Exchange Act), directly or indirectly, of

Voting Stock of XOMA (or other securities convertible into such Voting Stock) representing 30% or more of the combined voting power of all Voting Stock of XOMA; or (ii) during any period of up to 24 consecutive months, commencing after the Closing Date, individuals who at the beginning of such period were directors of XOMA shall cease for any reason to constitute a majority of the board of directors of XOMA unless the election or nomination for election by XOMA's shareholders of each new director was approved by the vote of at least two-thirds of the directors then still in office who were directors at the beginning of such period.

"XOMA Ireland" has the meaning specified in Section 8.01(gg).

"XOMA Party" means each of XOMA, XOMA Bermuda and the Borrower.

"XOMA US Intellectual Property" means all of the following worldwide intangible legal rights owned or controlled by the Borrower (other than with respect to Raptiva® brand anti-CD11a), whether or not filed, perfected, registered or recorded and whether now or hereafter existing, filed, issued or acquired: (i) patents, patent disclosures, patent rights, including any and all continuations, continuations-in-part, divisionals, reissues, reexaminations, utility, model and design patents or any extensions of these items; (ii) trademarks, service marks, trade names and copyrights; (iii) trade secrets and rights in know-how; and (iv) any rights in or to any applications for any of the foregoing.

SECTION 1.02. Interpretation; Headings. Each term used in any Exhibit to this Agreement and defined in this Agreement but not defined therein shall have the meaning set forth in this Agreement. Unless the context otherwise requires, (a) "including" means "including, without limitation" and (b) words in the singular include the plural and words in the plural include the singular. A reference to any party to this Agreement, any other Transaction Document or any other agreement or document shall include such party's successors and permitted assigns. A reference to any agreement or order shall include any amendment of such agreement or order from time to time in accordance with the terms herewith and therewith. A reference to any legislation, to any provision of any legislation or to any regulation issued thereunder shall include any amendment thereto, any modification or re-enactment thereof, any legislative provision or regulation substituted therefore and all regulations and statutory instruments issued thereunder or pursuant thereto. The headings contained in this Agreement are for convenience and reference only and do not form a part of this Agreement. Section, Article and Exhibit references in this Agreement refer to sections or articles of, or exhibits to, this Agreement unless otherwise specified.

ARTICLE II
COMMITMENT; DISBURSEMENT; FEES

SECTION 2.01. Commitment to Lend. On the terms and subject to the conditions set forth herein, the Lender shall, on the Closing Date, make a loan hereunder to the Borrower in a principal amount equal to the Commitment.

SECTION 2.02. Notice of Borrowing. Subject to Section 2.01, the Borrower shall, on or before the Banking Day prior to the Closing Date, give the Lender notice, substantially in the form set forth in Exhibit B (the "Notice of Borrowing") of the date the

Borrower wishes to borrow hereunder and the amount of the Commitment the Borrower wishes to borrow on such Closing Date.

SECTION 2.03. Disbursement. Subject to the conditions set forth herein, the Lender shall, on the Closing Date, credit, in same day funds, an amount equal to (i) the amount specified in the Notice of Borrowing to the account of the Borrower which the Borrower shall have designated for such purpose in the Notice of Borrowing less (ii) the sum of the upfront structuring fee referred to in Section 2.05 and the initial expenses referred to in Section 4.05 for which invoices have been received by the Borrower less (iii) the initial deposit in to the Interest Reserve Account pursuant to Section 4.03(a).

SECTION 2.04. Commitment Not Revolving. The Lender's commitment to lend hereunder is not revolving in nature, and any amount of the Loan repaid or prepaid may not be reborrowed.

SECTION 2.05. Upfront Structuring Fee. The Borrower shall pay the Lender an upfront structuring fee equal to 2.00% of the Commitment. This fee shall be payable on the Closing Date as provided in Section 2.03.

ARTICLE III
REPAYMENT

SECTION 3.01. Amortization. (a) On each Interest Payment Date, any cash received or held in the Payment Account in excess of (i) the interest payable on such Interest Payment Date pursuant to Section 4.01 and (ii) the amount to be transferred into the Interest Reserve Account on such Interest Payment Date pursuant to Section 4.03 shall be applied by the Lender to pay down the outstanding principal amount of the Loan at par unless the Lender notifies the Borrower otherwise in writing. The Lender shall have the right to specify in such notice that all or a portion of such excess amount held in the Payment Account need not be used for the repayment of principal (the "Designated Excess"). Upon notice by the Borrower, the Designated Excess shall be transferred on the related Interest Payment Date to an account of the Borrower specified in such notice.

(b) Except as otherwise expressly provided herein, the Borrower shall repay the outstanding principal amount of the Loan, together with any accrued and unpaid interest thereon, on the Maturity Date. Any amounts on deposit in the Payment Account on the Maturity Date after full repayment of the outstanding principal amount of, and the accrued unpaid interest on, the Loan together with all other amounts then payable hereunder shall be transferred to an account of the Borrower.

(c) Notwithstanding anything to the contrary herein, if amounts on deposit in the Payment Account and the Interest Reserve Account are insufficient to pay any amounts due under the Loan Documents to the Lender, the Borrower shall remain fully liable for any deficiency.

SECTION 3.02. Optional Prepayment; Prepayment Premium. (a) The Borrower may, subject to Section 13.01 hereof, prepay the Loan in whole or in part, together with accrued and unpaid interest on the amount prepaid plus, if applicable, the Prepayment

Premium plus, if the prepayment date is on any day other than the last day of an Interest Period, any amounts payable under Section 13.01, at any time; provided, that any prepayment in part be made in a minimum amount of $1,000,000. If the Borrower wishes to make such a prepayment, it shall give the Lender Notice to that effect not later than the 30th day before the date of the prepayment, specifying the date on which the prepayment is to be made and the amount to be prepaid. Such Notice shall constitute the Borrower's irrevocable commitment to prepay that amount on that date, together with interest accrued on the amount prepaid to but excluding the prepayment date plus, if applicable, the Prepayment Premium, plus, if the prepayment date is on any day other than the last day of an Interest Period, any amounts payable under Section 13.01.

(b) If an Event of Default occurs (i) prior to the first anniversary of the Closing Date or (ii) on or after the first anniversary of the Closing Date but prior to the second anniversary of the Closing Date, then the applicable Prepayment Premium for each such period specified for optional redemptions by the Borrower pursuant to Section 3.02(a) shall be due and payable hereunder, to the extent permitted by law, and shall be deemed part of the amounts due and payable hereunder subject to acceleration (either declared or immediate as provided in Section 11.02).

SECTION 3.03. Illegality. If the Lender determines at any time that any Law or treaty or any change therein or in the interpretation or application thereof makes or will make it unlawful for the Lender to fulfill its commitment in accordance with Section 2.01, to maintain the Loan or to claim or receive any amount payable to it hereunder, the Lender shall give Notice of that determination to the Borrower, whereupon the obligations of the Lender hereunder shall terminate. If any such Notice is given after the disbursement of the Loan, the Borrower shall prepay the Loan in full on the Interest Payment Date following the date the Notice is given; provided, however, that, if the Lender certifies to the Borrower that earlier prepayment is necessary in order to enable the Lender to comply with the relevant Law, treaty or change and specifies an earlier date for the prepayment, the Borrower shall make the prepayment on the date so specified. Prepayment pursuant to this Section 3.03 shall be made together with interest accrued and unpaid on the Loan to the date of prepayment and all other amounts then payable to the Lender hereunder. Each Notice delivered pursuant to this Section 3.03 shall be effective when sent.

ARTICLE IV
INTEREST; EXPENSES

SECTION 4.01. Interest Rate. (a) Except as otherwise expressly provided in Section 4.04, interest shall accrue on the unpaid principal amount of the Loan for each day during each Interest Period, from and including the first day of that Interest Period to but excluding the last day thereof, at a rate per annum equal to the Interest Rate for each such day.

(b) The Lender shall give Notice to the Borrower of LIBOR for each Interest Period after each determination thereof.

(c) Except as otherwise expressly provided herein, accrued interest on the Loan shall be payable on each Interest Payment Date.

SECTION 4.02. Payment Account. Amounts deposited in the Payment Account shall be available solely for (i) payment of any interest on and the amortization of the Loan pursuant to Sections 3.01, 4.01 and 4.03, (ii) withdrawal and deposit into the Interest Reserve Account and (iii) reimbursement to the Lender of all other costs and expenses hereunder, including reimbursements pursuant to Sections 4.05 and 4.06.

SECTION 4.03. Interest Reserve Account. (a) On the Closing Date, the Lender shall transfer pursuant to Section 2.03(iii) into the Interest Reserve Account an amount out of the Loan proceeds equal to the amount of interest due and payable on the Loan on the first Interest Payment Date.

(b) Thereafter, on each Interest Payment Date, amounts on deposit in the Payment Account shall first be transferred into the Interest Reserve Account such that the amount on deposit therein shall equal the amount of interest payable on the Loan on the immediately following Interest Payment Date (calculated on the assumption that there shall not be any intervening prepayments and after giving effect to any amortization payment being made in accordance with Section 3.01 on the Interest Payment Date on which such transfer occurs).

(c) Amounts on deposit in the Interest Reserve Account shall be withdrawn solely for the payment of interest on the Loan on any Interest Payment Date to the extent that amounts on deposit in the Payment Account are insufficient therefor.

SECTION 4.04. Interest on Late Payments. If any amount payable by the Borrower to the Lender hereunder is not paid when due (whether at stated maturity, by acceleration or otherwise), interest shall accrue on any such unpaid amounts, both before and after judgment, to the fullest extent permitted by applicable Law, during the period from and including the applicable due date, to but excluding the day the overdue amount is paid in full, at a rate per annum equal to the Default Rate. Interest accruing under this Section 4.04 shall be payable from time to time on demand of the Lender.

SECTION 4.05. Initial Expenses. The Borrower shall reimburse the Lender, on the Closing Date as provided in Section 2.03, for all (a) reasonable costs and expenses incurred by the Lender (including all reasonable fees and expenses of outside counsel to the Lender), supported by reasonable documentation, in connection with the negotiation, preparation, execution and delivery of this Agreement and the other Transaction Documents including any amendment or waiver with respect thereto and (b) reasonable costs and expenses, supported by reasonable documentation, of due diligence conducted by the Lender or other parties (including outside counsel to the Lender) at the request of the Lender.

SECTION 4.06. Administration and Enforcement Expenses. The Borrower shall promptly reimburse the Lender on demand for all reasonable costs and expenses incurred by the Lender (including the reasonable fees and expenses of outside counsel to the Lender) as a consequence of or in connection with (i) the negotiation, preparation or execution of any amendment to this Agreement and/or the other Transaction Documents, (ii) the administration of the Loan, (iii) any Default or Event of Default or (iv) the preservation or enforcement of any right or remedy of the Lender under the Transaction Documents.

ARTICLE V
TAXES

SECTION 5.01. Taxes. (a) Except as otherwise required by law, any and all payments by the Borrower under this Agreement or the Note (including payments with respect to the Loan) shall be made free and clear of and without deduction for any and all present and future taxes, levies, duties, imposts, deductions, charges, fees or withholdings, and all interest, penalties and other liabilities with respect thereto (collectively, "Taxes") imposed by any Governmental Authority or taxing authority in any jurisdiction. If any Taxes other than Excluded Taxes ("Indemnified Taxes") shall be required by Law to be deducted from or in respect of any sum payable under this Agreement or the Note to a Lender, (i) the sum payable by the Borrower shall be increased as may be necessary so that after making all required deductions of Indemnified Taxes the Lender shall receive an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant Governmental Authority or taxing authority in accordance with applicable Law.

(b) If a Lender is not a "United States person" within the meaning of Section 7701(a)(30) of the Code (a "Foreign Lender"), then such Foreign Lender shall provide to the Borrower (i) in the case of a Foreign Lender claiming exemption from U.S. federal withholding tax under Section 871(h) or 881(c) of the Code with respect to payments of "portfolio interest," (x) two accurate and complete original signed copies of IRS Form W-8BEN (or successor form) properly completed and duly executed by such Foreign Lender and (y) a certificate to the effect that such Foreign Lender is not (A) a "bank" within the meaning of Section 881(c)(3)(A) of the Code, (B) a "10 percent shareholder" of the Borrower within the meaning of Section 881(c)(3)(B) of the Code or (C) a "controlled foreign corporation" described in Section 881(c)(3)(C) of the Code, (ii) if the payments receivable by the Foreign Lender are effectively connected with the conduct of a trade or business in the United States, two accurate and complete original signed copies of IRS Form W-8ECI (or successor form), (iii) in the case of a Foreign Lender that is entitled to benefits under an income tax treaty to which the United States is a party that reduces the rate of withholding tax on payments of interest, two accurate and complete original signed copies of IRS Form W-8BEN (or successor form) indicating that such Foreign Lender is entitled to receive payments under this Agreement and the Note with reduced or no deduction of any United States federal income withholding tax or (iv) in the case of a Foreign Lender acting as an intermediary, two accurate and complete original signed copies of IRS Form W-8IMY (or successor form). Such forms shall be delivered by such Foreign Lender on or prior to the date that it becomes a Lender under this Agreement, at any time thereafter when a change in the Foreign Lender's circumstances renders an existing form obsolete or invalid or requires a new form to be provided, and within fifteen Banking Days after a reasonable written request of the Borrower from time to time thereafter. Notwithstanding any other provision of this Section 5.01(b), no Foreign Lender shall be required to deliver any form pursuant to this Section 5.01(b) that such Foreign Lender is not legally able to deliver.

(c) Each Lender that is not a Foreign Lender shall provide two properly completed and duly executed copies of Form W-9 (or successor form) at the times specified for delivery of forms under Section 5.01(b).

SECTION 5.02. Receipt of Payment. Within thirty days after the date of any payment of Taxes withheld by the Borrower in respect of any payment to the Lender, the Borrower shall furnish to the Lender the original or a certified copy of a receipt evidencing payment thereof or other evidence reasonably satisfactory to the Lender.

SECTION 5.03. Other Taxes. The Borrower shall promptly pay any registration or transfer taxes, stamp duties or similar levies, and any penalties or interest that may be due with respect thereto, that may be imposed in connection with the execution, delivery, registration or enforcement of this Agreement, the Note issued hereunder or any other Transaction Document or the filing, registration, recording or perfecting of any security interest contemplated by this Agreement.

SECTION 5.04. Indemnification. If the Lender pays any Taxes that the Borrower is required to pay pursuant to this Article V, the Borrower shall indemnify it on demand in full in the currency in which such Taxes are paid, whether or not such Taxes were correctly or legally asserted, together with interest thereon from and including the date of payment to, but excluding, the date of reimbursement at the Default Rate; provided that if the Borrower believes that any Taxes for which the Borrower has indemnified the Lender were not correctly or legally asserted, the Lender will cooperate with the Borrower (at the Borrower's cost and expense) in pursuing a refund of such Taxes. The Lender shall promptly notify the Borrower if any claim is made against the Lender for any Taxes for which the Borrower would be responsible to indemnify the Lender pursuant to this Section 5.04.

ARTICLE VI
PAYMENTS; COMPUTATIONS

SECTION 6.01. Making of Payments. (a) Each payment required to be made by the Borrower under this Agreement or under the Note shall be made in Dollars, by deposit in same day funds by 3:00 p.m. New York time on the date the payment is due, to the Payment Account, for the account of the Lending Office, or to any other account designated by the Lender by Notice to the Borrower.

(b) Notwithstanding anything to the contrary contained herein, any payment stated to be due hereunder or under the Note on a given day in a specified month and any Interest Period stated to end on a day numerically corresponding to a given day in a specified month thereafter shall be made or shall end (as the case may be), (i) if there is no such given day or corresponding day, on the last Banking Day of such month or (ii) if such given day or corresponding day is not a Banking Day, on the next succeeding Banking Day, unless such next succeeding Banking Day falls in a different calendar month, in which case such payment shall be made or such Interest Period shall end (as the case may be) on the next preceding Banking Day.

SECTION 6.02. Computations. Interest shall be computed on the basis of a 360-day year and actual days elapsed.

SECTION 6.03. Setoff or Counterclaim. Each payment by the Borrower under this Agreement or under the Note shall be made without setoff or counterclaim. Lender shall have the right to charge to the Payment Account and setoff any and all amounts owed by the Borrower under this Agreement.

ARTICLE VII
CONDITIONS PRECEDENT

SECTION 7.01. Conditions Precedent to the Loan. The obligation of the Lender to make the Loan on the Closing Date is subject to the fulfillment, to the satisfaction of the Lender, of all of the following conditions precedent in addition to the conditions specified in Article II:

(a) The Borrower shall have executed and delivered to the Lender the Note, dated the Closing Date.

(b) The Lender shall have received on or before the Closing Date an executed copy of:

(i) a certificate of the Borrower, dated the Closing Date, substantially in the form set forth in Exhibit D-1 hereto together with the attachments specified therein;

(ii) a certificate of XOMA, dated the Closing Date, substantially in the form set forth in Exhibit D-2 hereto together with the attachments specified therein;

(iii) a certificate of XOMA Bermuda, dated the Closing Date, substantially in the form set forth in Exhibit D-3 hereto together with the attachments specified therein;

(iv) an opinion of Conyers Dill & Pearman, special Bermuda counsel to XOMA and XOMA Bermuda, dated the Closing Date, in form and substance satisfactory to the Lender;

(v) an opinion of Cahill Gordon & Reindel LLP, U.S. counsel to the XOMA Parties, dated the Closing Date, in form and substance satisfactory to the Lender;

(vi) an opinion of Christopher J. Margolin, Vice President, General Counsel and Secretary of XOMA, dated the Closing Date, in form and substance satisfactory to the Lender; and

(vii) an opinion of Anne Dollard, Senior Director of Intellectual Property of XOMA, dated the Closing Date, in form and substance satisfactory to the Lender.

(c) The Borrower shall have delivered to the Lender certified true copies of the Borrower Documents.

(d) The Borrower shall have executed and delivered to the Lender the Loan Documents and such other documents as the Lender may reasonably request, in each case, in form and substance satisfactory to the Lender.

(e) The Borrower and XOMA Bermuda shall have executed and delivered to the Lender the Acquisition Agreement in the form set forth in Exhibit I.

(f) The Transaction Documents shall be in full force and effect.

(g) The Lender shall have received the upfront structuring fee set forth in Section 2.05 and all other fees and expenses due and payable to the Lender on the Closing Date under this Agreement and the other Transaction Documents.

(h) The organizational structure and capital structure of the Borrower shall be to the satisfaction of the Lender.

(i) No event shall have occurred and be continuing that constitutes a Default or an Event of Default under this Agreement or a similar event under the other Transaction Documents and no such event will occur or will have occurred by reason of the Loan.

(j) The representations and warranties made by the Borrower in Article VIII hereof and in the other Transaction Documents shall be true and correct as of the Closing Date, before and after giving effect to the Loan.

(k) The Borrower shall have delivered to the Lender certified true copies of the License Agreements, including all amendments, supplements or other modifications thereto, and each License Agreement and amendment, supplement or other modification thereto shall be in full force and effect.

(l) All filings, recordings and other actions that are necessary or reasonably requested by the Lender in order to establish, protect, preserve and perfect the security interest in the assets of the Borrower as provided in the Security Agreement as a valid and perfected first priority security interest with respect to such assets shall have been duly effected.

(m) All necessary governmental and third-party approvals, consents and filings, including in connection with the Loan and the acquisition of the Payment Rights by the Borrower pursuant to the Acquisition Agreement shall have been obtained or made and be in full force and effect.

(n) The acquisition by the Borrower and the assignment by XOMA Bermuda of the Payment Rights shall have been consummated pursuant to the Acquisition Agreement, and no provision thereof shall have been waived, amended, supplemented or otherwise modified in connection with such acquisition without the written consent of the Lender.

(o) The Lender shall have conducted a background check of the officers of the XOMA Parties and the results shall be to the satisfaction of the Lender.

(p) The Borrower and the Obligors shall have executed and the Borrower shall have delivered the Required Consents.

(q) The Lender shall have received from the Borrower (i) an executed copy of the Release of Security Agreement in Patents between XOMA and Genentech, (ii) evidence to the satisfaction of the Lender that such release was filed with the U.S. Patent and Trademark Office and (iii) evidence to the satisfaction of the Lender that a UCC-3 termination statement was filed with the office of the Secretary of State of the State of Delaware.

ARTICLE VIII
REPRESENTATIONS AND WARRANTIES

SECTION 8.01. Representations and Warranties of the Borrower. The Borrower makes the representations and warranties set forth below to the Lender. Except as otherwise noted, the Borrower makes the representations and warranties set forth below as of the Closing Date:

(a) The Borrower is a limited liability company duly organized, validly existing and in good standing under the laws of Delaware and has the power and authority (including any required license, permit or other approval from any Governmental Authority) to own its assets, to carry on its business as currently conducted and to consummate the transactions contemplated in, and to perform its obligations under, this Agreement and the other Transaction Documents to which it is party or by which it is bound.

(b) The Borrower has taken all necessary action to authorize its execution and delivery of this Agreement and the other Transaction Documents to which it is party, the performance of its obligations under this Agreement and the other Transaction Documents to which it is party or by which it is bound and the consummation of the transactions contemplated hereby and thereby.

(c) This Agreement and each other Transaction Document to which the Borrower is party has been duly executed and delivered by the Borrower, and each constitutes a valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally, and subject to general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law).

(d) No authorization or action of any kind by any Governmental Authority is necessary to authorize the transactions contemplated by this Agreement and each other Transaction Document or required for the validity or enforceability against the Borrower of this Agreement and each other Transaction Document, except any filings with a Governmental Authority required to perfect the Lender's security interest under the Security Agreement.

(e) Except for the Required Consents, no consent or approval of, or notice to, any Person is required by the terms of any agreement, contract, lease, commitment, license

and other arrangement (each a "Contract") for the execution or delivery of, or the performance of the obligations of the Borrower under, this Agreement and the other Transaction Documents to which the Borrower is party or the consummation of the transactions contemplated hereby or thereby, and such execution, delivery, performance and consummation will not result in any breach or violation of, or constitute a default under the Borrower Documents or any material Contract, instrument or Law applicable to the Borrower or any of its assets.

(f) There are no actions, proceedings or claims pending or, to the knowledge of the Borrower, threatened the adverse determination of which could reasonably be expected to have a Material Adverse Effect.

(g) Since the acquisition of the Payment Rights and the Raptiva Rights by the Borrower there have been no events that could reasonably be expected to reduce or otherwise impair the value of such rights.

(h) No Default or Event of Default has occurred and is continuing, and no such event will occur upon the making of the Loan.

(i) The Borrower has good title to its assets free and clear of all Liens, other than Liens created hereby and by the Security Agreement and the Permitted Liens.

(j) With respect to each Contract that is material to the business of the Borrower, (i) each such Contract is a valid and binding agreement and each such Contract is in full force and effect, and (ii) the Borrower is in compliance with each such Contract and has no knowledge of any default under any such Contract which default has not been cured or waived.

(k) All written information heretofore, herein or hereafter supplied to the Lender by or on behalf of the Borrower or any other XOMA Party in connection with the Loan and the other transactions contemplated hereby has been, is and will be accurate and complete. All representations and warranties made by the Borrower or any other XOMA Party in any of the other Transaction Documents to which it is party are true and correct.

(l) The consolidated balance sheet of XOMA and its consolidated Subsidiaries as of December 31, 2005 and the related consolidated statement of operations and cash flows for the fiscal year then ended, accompanied by an opinion of Ernst & Young LLP, independent registered public accountants, set forth in XOMA's 2005 Form 10-K, and unaudited consolidated balance sheet of XOMA and its consolidated Subsidiaries as of June 30, 2006 and the related consolidated statement of operations and cash flows for the two fiscal quarters then ended duly certified by the chief financial officer of XOMA, copies of which have been furnished to the Lender, fairly present the consolidated financial condition of XOMA and its consolidated Subsidiaries for the periods ended on such dates, all in accordance with GAAP consistently applied. Since the consolidated balance sheet of XOMA and its consolidated Subsidiaries as at December 31, 2005, there has been no material adverse change in the business, financial position or results of operations of the XOMA and its consolidated Subsidiaries.

(m) The Borrower has no Indebtedness other than the Loan and the loans of up to $50,000,000 pursuant to the secured note agreement, dated May 26, 2005, between the Borrower and Chiron Corporation.

(n) As of the date hereof and after giving effect to the Loan:

(i) The aggregate value of the assets of the Borrower, at fair value and present fair salable value, exceeds (i) its total liabilities and (ii) the amount required to pay such liabilities as they become absolute and matured in the normal course of business;

(ii) The Borrower has the ability to pay its debts and liabilities as they become absolute and matured in the normal course of business; and

(iii) The Borrower does not have an unreasonably small amount of capital with which to conduct its business.

(o) The Borrower has no Subsidiaries.

(p) The Borrower is in compliance with all applicable Laws.

(q) None of the transactions contemplated in this Agreement (including, without limitation, the borrowing hereunder and the use of proceeds thereof) will violate or result in a violation of Section 7 of the Exchange Act, including, without limitation, Regulations T, U and X of the Board of Governors of the Federal Reserve System, 12 C.F.R., Chapter II.

(r) The Borrower is not an investment company subject to regulation under the Investment Company Act of 1940.

(s) The Borrower has timely filed all tax returns required to be filed by it and has paid all taxes due reported on such returns or pursuant to any assessment received by the Borrower, except for failures to file tax returns or pay taxes that, individually, and in the aggregate, are not reasonably expected to result in a Material Adverse Effect. Any charges, accruals or reserves on the books of the Borrower in respect of taxes are adequate except for inadequacies that, individually, and in the aggregate, are not reasonably expected to result in a Material Adverse Effect. The Borrower has had no material liability for any taxes imposed on or with respect to its net income (except for state or local income or franchise taxes). The fact that the income of the Borrower has been subject to taxes in the hands of XOMA is not a breach of this representation provided the Borrower has had, and will have, no liability for those taxes. The Borrower has fulfilled all of its obligations with respect to withholding taxes except for failures that, individually, and in the aggregate, are not reasonably expected to result in a Material Adverse Effect.

(t) XOMA has timely filed all tax returns required to be filed by it and has paid all taxes due reported on such returns or pursuant to any assessment received by XOMA except for failures to file tax returns or pay taxes that, individually, and in the aggregate,

are not reasonably expected to result in a Material Adverse Effect. Any charges, accruals or reserves on the books of XOMA in respect of taxes are adequate except for inadequacies that, individually, and in the aggregate, are not reasonably expected to result in a Material Adverse Effect. XOMA has treated all its U.S. domestic source income attributable to income of the Borrower and XOMA Bermuda, as effectively connected with its conduct of a U.S. trade or business within the meaning of Section 864 of the Code.

(u) The transfer of the Payment Rights from XOMA Bermuda to the Borrower pursuant to the Acquisition Agreement will not result in any tax under Section 884 of the Code.

(v) At the end of its taxable year ending December 31, 2005, XOMA had net operating losses for U.S. federal income tax purposes of at least $80,000,000 of which at least $40,000,000 will not be subject to limitation under Section 382 of the Code and will be available to offset income effectively connected with a trade or business engaged in by XOMA in the United States for taxable years beginning on or after January 1, 2006 and on or prior to the Maturity Date.

(w) The Borrower shall have no liability for net income taxes (except for state or local income or franchise taxes, or foreign income taxes not related to the Payment Rights or Raptiva Rights). Payments with respect to the Payment Rights or Raptiva Rights shall not be subject to any taxes imposed on or with respect to gross or net income (except state or local income or franchise taxes) or withheld or deducted from such payments and the Borrower will have no liability as a withholding agent with respect to such payments, provided that this representation shall not be breached if such taxes (i) are imposed by a Governmental Authority or taxing authority outside of the United States, (ii) result from a change in Law after the date hereof and (iii) do not exceed in the aggregate $75,000 in any calendar year. The foregoing representations (x) shall not be violated solely by the fact that the income of the Borrower is subject to taxes in the hands of XOMA provided the Borrower has no liability for those taxes and (y) shall survive the Closing Date and be made on a continuous basis until the Loan is repaid in full.

(x) The terms (not including economic terms) of the Collaboration Agreement, dated November 1, 2006, between the Borrower and Takeda Pharmaceutical Company Limited, are substantially similar to the terms (not including economic terms) of the Schering Collaboration Agreement, dated May 22, 2006, between the Borrower and Schering Corporation, acting through its Schering-Plough Research Institute division.

(y) Neither XOMA, the Borrower nor any ERISA Affiliate has ever incurred or expects to incur any liability under Title IV or Section 302 of ERISA or Section 412 of the Code or any similar non-U.S. law or maintains or contributes to, or is or has been required to maintain or contribute to, any employee benefit plan (as defined in Section 3(3) of ERISA) subject to Title IV or Section 302 of ERISA or Section 412 of the Code or any non-U.S. law. The consummation of the transactions contemplated by this Agreement will not constitute or result in any non-exempt prohibited transaction under Section 406 of ERISA, Section 4975 of the Code or substantially similar provisions under

any foreign or U.S. federal, state or local laws, rules or regulations. Neither XOMA, the Borrower nor any ERISA Affiliate has incurred any liability with respect to any obligation to provide benefits, including death or medical benefits, with respect to any person beyond their retirement or the termination of service other than coverage mandated by law.

(z) XOMA Technology Ltd. (a) owns and has good and exclusive title to, free and clear of any Lien, and has independently developed or acquired all XOMA BCE/HE Intellectual Property, or (b) has the valid right or license, free and clear of any Lien, to all BCE/HE Intellectual Property.

(aa) Neither the execution and delivery or effectiveness of this Agreement nor the performance of the Borrower's obligations hereunder will cause the forfeiture or termination of, or give rise to a right of forfeiture or termination of, any XOMA US Intellectual Property (other than Collaboration Intellectual Property), or impair the right of the Borrower or any licensee (including any Obligor) to use, possess, sell or license any XOMA US Intellectual Property (other than Collaboration Intellectual Property) or portion thereof, or require payment of any kind to any third party.

(bb) Each item of XOMA BCE/HE Intellectual Property is valid and subsisting (or in the case of applications, applied for), all registration, maintenance and renewal fees currently due in connection with such XOMA BCE/HE Intellectual Property have been paid, and all documents, recordations and certificates in connection with such XOMA BCE/HE Intellectual Property required to be filed have been filed with the relevant patent authorities in the United States or foreign jurisdictions, as the case may be, for the purposes of prosecuting, maintaining and perfecting such XOMA BCE/HE Intellectual Property.

(cc) Other than [*], there are no legal actions, suits or proceedings pending (or, to the knowledge of the Borrower, threatened) against the Borrower, XOMA or any of its Subsidiaries alleging that it or they have infringed or are currently infringing any Third Party Intellectual Property or alleging that the XOMA BCE/HE Intellectual Property is not valid or unenforceable.

(dd) The Borrower has not received any written opinion of counsel that CIMZIA™, RAPTIVA® or LUCENTIS™ infringes or misappropriates any Third Party Intellectual Property Rights.

(ee) To the knowledge of the Borrower, no current or former employee, consultant or independent contractor of the Borrower has any right, license, claim or interest whatsoever in or with respect to any BCE/HE Intellectual Property.

(ff) The Borrower, by ownership, license or covenant not to sue, has the right to use all XOMA US Intellectual Property (other than Collaboration Intellectual Property) which is necessary for use in connection with its business as presently conducted and as proposed to be conducted.

(gg) To the knowledge of Borrower, there is no existing infringement by any third party of any of the XOMA US Intellectual Property (other than Collaboration Intellectual Property) that is necessary for use in connection with the Borrower's business as presently conducted, other than infringement by third parties of the patent rights listed in Exhibit J under the heading "XOMA Patent Rights — Bacterial Expression" of which the Borrower is aware as a result of the efforts of its Affiliate, XOMA Ireland Ltd. ("XOMA Ireland"), in connection with XOMA Ireland's on-going bacterial cell expression technology out-licensing program (the 'BCE Program"), which third parties XOMA Ireland has approached, or intends to approach, as part of the BCE Program to determine whether such third parties will take a license to such patent rights, pay for a release from past infringement thereof and/or reach some other appropriate form of accommodation.

(hh) Other than [*], there are no legal actions, suits or proceedings pending (or, to the knowledge of the Borrower, threatened) against the Borrower, XOMA or any of its Subsidiaries challenging their rights in or to, or the validity or enforceability of, the XOMA US Intellectual Property (other than Collaboration Intellectual Property).

(ii) There are no legal actions, suits or proceedings pending (or, to the knowledge of the Borrower, threatened) against the Borrower, XOMA or any of its Subsidiaries alleging that the business of the Borrower infringes or otherwise violates, or that the commercialization of any of the products under development by the Borrower would infringe or otherwise violate, any patent, trademark, copyright, trade secret or other proprietary rights of others.

(jj) All of the XOMA US Intellectual Property (other than Collaboration Intellectual Property) was filed and is being maintained or prosecuted in accordance with the applicable rules and regulations relating thereto.

SECTION 8.02. Survival of Representations and Warranties. All representations and warranties of the Borrower contained in this Agreement shall survive the execution, delivery and acceptance thereof by the Parties and the closing of the transactions described in this Agreement.

ARTICLE IX
AFFIRMATIVE COVENANTS

SECTION 9.01. Maintenance of Existence. The Borrower shall at all times (a) preserve, renew and maintain in full force and effect its legal existence and good standing as a limited liability company under the Laws of the jurisdiction of its organization; (b) take all reasonable action to maintain all rights, privileges, permits, licenses and franchises necessary or desirable in the normal conduct of its business, except to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect; and (c) preserve or renew all XOMA US Intellectual Property, the non-preservation of which could reasonably be expected to have a Material Adverse Effect.

SECTION 9.02. Maintenance of Single Owner and Status as Disregarded Entity for Tax Purposes The Borrower shall at all times be a "disregarded entity" for U.S. federal income tax purposes owned by XOMA.

SECTION 9.03. Treatment of U.S. Domestic Source Income. XOMA will treat all payments with respect to the Payment Rights and the Raptiva Rights as effectively connected with its conduct of a U.S. trade or business within the meaning of Section 864 of the Code.

SECTION 9.04. Use of Proceeds. The Borrower shall use the net proceeds of the Loan received by it (i) for general corporate purposes, (ii) to fund the acquisition of the Payment Rights pursuant to the Acquisition Agreement and (iii) to pay all fees and expenses payable by the Borrower pursuant to the Transaction Documents.

SECTION 9.05. Financial Statements and Information. (a) In the event that any such information need not to be filed with the Securities and Exchange Commission pursuant to Section 13 or 15(d) of the Exchange Act, the Borrower shall furnish to the Lender, on or before the thirtieth day after the close of each quarter of each fiscal year, the unaudited consolidated balance sheet of XOMA as at the close of such quarter and unaudited consolidated statement of operations and cash flows of XOMA for such quarter, duly certified by the chief financial officer of XOMA as having been prepared in accordance with GAAP. Concurrently with the delivery or filing of the documents described in the preceding sentence, the Borrower shall furnish to the Lender a certificate of the chief financial officer, chief accounting officer or treasurer of XOMA, which certificate shall (A) include a statement that such officer has no knowledge, except as specifically stated, of any condition, event or act which constitutes a Default or Event of Default and (B) set forth in reasonable detail the calculations necessary to demonstrate compliance with Section 10.08 on the date of such balance sheet. In the event that generally accepted accounting principles used in the preparation of such financial statements described in the first sentence above shall differ from GAAP, XOMA shall also provide, if necessary for the determination of compliance with Section 10.08, a statement of reconciliation conforming such financial statements to GAAP.

(b) In the event that any such information need not be filed with the Securities and Exchange Commission pursuant to Section 13 or 15(d) of the Exchange Act, the Borrower shall furnish to the Lender, on or before the forty-fifth day after the close of each fiscal year, XOMA's audited financial statements as at the close of such fiscal year, including the consolidated balance sheet as at the end of such fiscal year and consolidated statement of operations and cash flows of XOMA for such fiscal year, in each case accompanied by the report thereon of independent registered public accountant of nationally recognized standing. Concurrently with the delivery or filing of the documents described in the preceding sentence, the Borrower shall furnish to the Lender a certificate of the chief financial officer, chief accounting officer or treasurer of XOMA, which certificate shall (A) include a statement that such officer has no knowledge, except as specifically stated, of any condition, event or act which constitutes a Default or Event of Default and (B) set forth in reasonable detail the calculations necessary to demonstrate compliance with Section 10.08 on the date of such financial statements. In the event that generally accepted accounting principles used in the preparation of such financial

statements described in the first sentence above shall differ from GAAP, XOMA shall also provide, if necessary for the determination of compliance with Section 10.08, a statement of reconciliation conforming such financial statements to GAAP.

(c) The Borrower shall, promptly upon receipt thereof, forward or cause to be forwarded to the Lender copies of all notices, reports, updates and other information regarding the License Agreements, the Payment Rights and the Raptiva Rights received from the Obligors.

(d) The Borrower shall furnish or cause to be furnished to the Lender from time to time such other information regarding the financial position, assets or business of the Borrower or any other XOMA Party or its compliance with any Transaction Document to which it is a party as the Lender may from time to time reasonably request.

SECTION 9.06. Books and Records. The Borrower shall keep proper books, records and accounts in which entries in conformity with sound business practices and all requirements of Law applicable to it shall be made of all dealings and transactions in relation to its business, assets and activities and as shall permit the preparation of the consolidated financial statements of XOMA in accordance with GAAP.

SECTION 9.07. Inspection Rights; Access. The Borrower shall, one occasion per year, or, if a Default or Event of Default shall have occurred and be continuing, at all times permit representatives of the Lender to examine its assets, books and records upon reasonable Notice during normal business hours. The Borrower shall allow the Lender reasonable access to its managers and/or officers.

SECTION 9.08. Payment Account. Borrower shall use commercially reasonable efforts to ensure that at all times the Obligors shall make all payments with respect to the Payment Rights and the Raptiva Rights directly into the Payment Account. In the event that payments with respect to the Payment Rights or Raptiva Rights are directed to the Borrower, the Borrower shall promptly transfer all such payments to the Payment Account.

SECTION 9.09. Maintenance of Insurance and Properties. The Borrower shall maintain and preserve all of its properties that are used and useful in the conduct of its business in good working order and condition, ordinary wear and tear excepted. The Borrower shall maintain and preserve the value as of the Closing Date, without any reduction or impairment, of the Payment Rights and the Raptiva Rights. The Borrower shall maintain with financially sound and reputable insurance companies, insurance on all of its assets in at least such amounts and against at least such risks as are usually insured against in the same general area by companies engaged in the same or a similar business. The Borrower shall furnish to the Lender from time to time upon written request full information as to the insurance carried.

SECTION 9.10. Governmental Authorizations. The Borrower shall obtain, make and keep in full force and effect all authorizations from and registrations with Governmental Authorities that may be required for the validity or enforceability against the Borrower of this Agreement and the other Transaction Documents to which it is a party.

SECTION 9.11. Compliance with Laws and Contracts. (a) The Borrower shall comply with all applicable Laws and perform its obligations under all Contracts relative to the conduct of its business, including the Transaction Documents to which it is party.

(b) The Borrower shall at all times comply with the margin requirements set forth in Section 7 of the Exchange Act and any regulations issued pursuant thereto, including, without limitation, Regulations T, U and X of the Board of Governors of the Federal Reserve System, 12 C.F.R., Chapter II.

(c) The Borrower shall use commercially reasonable efforts to enforce the obligations of the Obligors in respect of the Payment Rights and the Raptiva Rights and shall, upon receipt of reasonable instruction from the Lender, exercise all rights and remedies available to it against the Obligors in respect of the Payment Rights, the Raptiva Rights and the Collaboration Agreement.

SECTION 9.12. Plan Assets. Neither XOMA, Borrower nor any ERISA Affiliate shall take any action that causes it to be deemed to be or hold Plan Assets at any time.

SECTION 9.13. Notices. (a) The Borrower shall promptly give written Notice to the Lender of each Default or Event of Default and each other event that has or could reasonably be expected to have a Material Adverse Effect or that could reduce or otherwise impair the value of the Payment Rights or the Raptiva Rights.

(b) The Borrower shall promptly give written Notice to the Lender upon receiving notice, or otherwise becoming aware, of any default or event of default under the License Agreements or the Acquisition Agreement.

(c) The Borrower shall, promptly after becoming aware thereof, give written Notice to the Lender of any litigation or proceedings to which the Borrower is a party or which could reasonably be expected to have a Material Adverse Effect or that could reduce or otherwise impair the value of the Payment Rights or the Raptiva Rights.

(d) The Borrower shall, promptly after becoming aware thereof, give written Notice to the Lender of any litigation or proceedings challenging the validity of the Payment Rights, the Raptiva Rights, the License Agreements, the Acquisition Agreement, the Payment Rights-Related Intellectual Property or the Raptiva Rights-Related Intellectual Property or any of the transactions contemplated therein.

SECTION 9.14. Payment of Taxes. The Borrower shall pay all material taxes of any kind imposed on or in respect of its income or assets before any penalty or interest accrues on the amount payable and before any Lien on any of its assets exists as a result of nonpayment.

SECTION 9.15. Waiver of Stay, Extension or Usury Laws. The Borrower will not at any time, to the extent that it may lawfully not do so, insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law or any usury law or other law that would prohibit or forgive the Borrower from paying all or any portion of the principal of or premium, if any, or interest on the Loan as contemplated herein, wherever enacted, now or at any time hereafter in force, or that may affect the covenants or the

performance of this Agreement; and, to the extent that it may lawfully do so, the Borrower hereby expressly waives all benefit or advantage of any such law and expressly agrees that it will not hinder, delay or impede the execution of any power herein granted to the Lender, but will suffer and permit the execution of every such power as though no such law had been enacted.

SECTION 9.16. Further Assurances. The Borrower shall promptly, at its sole cost and expense, execute and deliver to the Lender such further instruments and documents, and take such further action, as the Lender may, at any time and from time to time, reasonably request in order to carry out the intent and purpose of this Agreement and the other Transaction Documents to which it is a party and to establish and protect the rights, interests and remedies created, or intended to be created, in favor of the Lender hereby and thereby. The Borrower shall pay, or reimburse the Lender for, any and all reasonable fees, costs and expenses of whatever kind or nature incurred in connection with the creation, preservation and protection of the Lender's Lien on the assets of the Borrower under the Security Agreement, including reasonable legal and other fees in connection with the recording or filing of instruments and documents in public offices, payment or discharge of any Liens upon or in respect of such assets of the Borrower, other fees, costs and expenses in connection with protecting, maintaining or preserving such assets of the Borrower and the Lender's interest therein, whether through judicial proceedings or otherwise, or in defending or prosecuting any actions, suits or proceedings arising out of or related to such assets of the Borrower; and all such amounts that are paid by the Lender shall, until reimbursed by the Borrower, constitute Obligations secured by such assets of the Borrower.

ARTICLE X
NEGATIVE COVENANTS

SECTION 10.01. Activities of the Borrower. (a) The Borrower shall not enter into any business either directly or through any Subsidiary except for businesses in which the Borrower is engaged on the date of this Agreement.

(b) The Borrower shall not amend, modify or waive or terminate any provision of, or permit or agree to the amendment, modification, waiver or termination of any provision of, any of the Loan Documents, License Agreements or the Acquisition Agreement without the prior written consent of the Lender (it being understood that the Lender shall be entitled to withhold its consent if such amendment, modification or waiver is or would be adverse in any respect to the Lender, as determined by the Lender in its sole discretion).

SECTION 10.02. Merger; Sale of Assets. (a) The Borrower shall not merge or consolidate with or into any other Person.

(b) The Borrower shall not directly or indirectly sell, lease, license, transfer or otherwise dispose of all or any part of its assets, except (i) for the sale of or licensing of rights to one or more of the Borrower's or its Affiliates' existing or future products and related assets to one or more third parties for fair value in an arm's-length transaction in the ordinary course of business; (ii) in connection with additional product development, collaboration or commercialization agreements (other than with respect to the Raptiva

Rights-Related Intellectual Property or the Payment Rights-Related Intellectual Property) for research, development or commercialization activities with one or more third parties for fair value in an arm's-length transaction in the ordinary course of business; (iii) licenses of intellectual property rights of the Borrower in connection with services provided by the Borrower for fair value in an arm's-length transaction in the ordinary course of its business; (iv) sales of equipment not needed for the Borrower's business to one or more third parties for fair value in an arm's-length transaction; (v) sales of equipment to one or more third parties for fair value in an arm's-length transaction, the proceeds of which are used to purchase replacement or other assets useful in the Borrower's business within twelve months of such sale and (vi) other sales, leases, licenses, transfers or other dispositions in an aggregate amount not to exceed $1,000,000 during the term of the agreement.

SECTION 10.03. Liens. The Borrower shall not create or suffer to exist any Lien on or with respect to any of its assets, whether now owned or hereafter acquired, other than the following (collectively, "Permitted Liens"):

(a) Liens created pursuant to this Agreement and the Security Agreement;

(b) Liens existing on the date hereof set forth in Exhibit E to the extent and in the manner such Liens are in effect on the date hereof;

(c) any Lien granted to collaboration or development partners of the Borrower or its Affiliates in connection with funded research, development and commercialization activities (other than on or with respect to the Raptiva Rights, the Payment Rights, the Raptiva Rights-Related Intellectual Property or the Payment Rights-Related Intellectual Property); provided, that any such Lien is limited to the Borrower's interest in products developed in such collaboration;

(d) any Lien on any asset securing Indebtedness incurred or assumed for the purpose of financing all or any part of the cost of acquiring such asset; provided that such Lien attaches to such asset concurrently with or within 90 days after the acquisition thereof;

(e) any Lien existing on any asset prior to the acquisition thereof by the Borrower and not created in contemplation of such acquisition;

(f) any Lien created after the Closing Date in connection with capitalized lease obligations, but only to the extent that such Lien encumbers property financed by such capital lease obligation and the principal component of such capitalized lease obligation is not increased; provided that capital lease obligations secured by Liens pursuant to this clause (f) shall not exceed in the aggregate $2,000,000;

(g) Liens arising in the ordinary course of its business which (i) do not secure Indebtedness and (ii) do not in the aggregate materially impair the operation of the business of the Borrower or impair the value of the Payment Rights and the Raptiva Rights; provided that the assets secured by Liens pursuant to this clause (g) shall not exceed in the aggregate $2,000,000;

(h) easements, rights-of-way, zoning restrictions and other similar charges or encumbrances in respect of real property not interfering with the ordinary conduct of the business of the Borrower;

(i) any Lien arising out of the refinancing, extension, renewal or refunding of any Indebtedness secured by any Lien permitted by any of the foregoing clauses of this Section 10.03; provided that such Indebtedness is not increased and is not secured by any additional assets; and

(j) Liens securing taxes, assessments, fees or other governmental charges or levies, Liens securing the claims of materialmen, mechanics, carriers' landlords, warehousemen and similar Persons, Liens in the ordinary course of business in connection with workmen's compensation, unemployment insurance and other similar Laws, Liens to secure surety, appeal and performance bonds and other similar obligations not incurred in connection with the borrowing of money, and attachment, judgment and other similar Liens arising in connection with court proceedings so long as the enforcement of such Liens is effectively stayed and the claims secured thereby are being contested in good faith by appropriate proceedings.

SECTION 10.04. No Subsidiaries. The Borrower shall not form any Subsidiaries or conduct any business or hold any assets through any Subsidiary.

SECTION 10.05. Investment Company Act. The Borrower shall not be or become an investment company subject to registration under the Investment Company Act of 1940.

SECTION 10.06. Limitation on Additional Indebtedness. The Borrower shall not, directly or indirectly, incur or suffer to exist any Indebtedness; provided that the Borrower may incur:

(a) Indebtedness under this Agreement;

(b) Indebtedness secured by Liens permitted under Section 10.03; or

(c) any other Indebtedness relating to a collaboration or development agreement of the type contemplated in Section 10.03(c), which by its terms (or by the terms of any agreement governing such Indebtedness) is fully subordinated in right of payment.

SECTION 10.07. Limitation on Transactions with Affiliates. The Borrower shall not, directly or indirectly, enter into any transaction or series of related transactions or participate in any arrangement (including any purchase, sale, lease or exchange of assets or the rendering of any service) with, or for the benefit of, any Affiliate other than the Transaction Documents or in the ordinary course of business of the Borrower upon fair and reasonable terms no less favorable to the Borrower than it would obtain in a comparable arm's-length transaction with a non-Affiliate.

SECTION 10.08. Interest Coverage Ratio. As of the second Interest Payment Date following the Closing Date and each subsequent Interest Payment Date, the Borrower shall

not permit, for any period of two consecutive fiscal quarters, the Interest Coverage Ratio to be less than 3.0.

SECTION 10.09. ERISA. (a) Neither XOMA nor the Borrower shall maintain or contribute to, or agree to maintain or contribute to or otherwise incur any liability with respect to, any employee benefit plan (as defined in Section 3(3) of ERISA) subject to Title IV or Section 302 of ERISA or Section 412 of the Code or any similar plan under non-U.S. law (a "Plan"). Neither XOMA nor the Borrower shall incur any liability under Title IV or Section 302 of ERISA or Section 412 of the Code or any similar non-U.S. law in respect of any Plan that is maintained by an ERISA Affiliate.

(b) Neither XOMA, the Borrower nor any ERISA Affiliate shall engage in a non-exempt prohibited transaction under Section 406 of ERISA, Section 4975 of the Code, or substantially similar provisions under foreign or U.S. federal, state or local laws, rules or regulations or in any transaction that would cause any obligation or action taken or to be taken hereunder (or the exercise by the Lender of any of its rights under the Note, this Agreement or the Security Agreement) to be a non-exempt prohibited transaction under such provisions.

(c) Neither XOMA, the Borrower nor any ERISA Affiliate will incur any liability with respect to any obligation to provide benefits, including death or medical benefits, with respect to any person beyond their retirement or other termination of service other than coverage mandated by law.

ARTICLE XI
EVENTS OF DEFAULT

SECTION 11.01. Events of Default. If one or more of the following events of default (each, an "Event of Default") occurs and is continuing, the Lender shall be entitled to the remedies set forth in Section 11.02:

(a) The Borrower fails to pay any principal of the Loan when due, whether at the Maturity Date or otherwise.

(b) The Borrower fails to pay any interest on the Loan or make payment of any other amounts payable under this Agreement within three Banking Days after the same becomes due and payable.

(c) Any representation or warranty of the Borrower in this Agreement or any other Transaction Document to which it is party or in any certificate, financial statement or other document delivered by the Borrower in connection with this Agreement proves to have been incorrect, incomplete or misleading in any material respect at the time it was made or repeated.

(d) The Borrower fails to perform or observe any covenant or agreement contained in Section 9.01, Section 9.04, Section 9.11(b), Section 9.11(c), Section 9.12, Section 9.13 or Article X of this Agreement or Section 4.08 or Section 4.12 of the Security Agreement.

(e) The Borrower fails to perform or observe any other covenant or agreement contained in this Agreement, the Note or the Security Agreement (other than those referred to in the preceding clauses of this Section 11.01) if such failure is not remedied on or before the thirtieth day after Notice thereof from the Lender.

(f) The Borrower (i) fails to pay any of its Indebtedness as and when that Indebtedness becomes payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise) or (ii) fails to perform or observe any covenant or agreement to be performed or observed by it contained in any other agreement or in any instrument evidencing any of its Indebtedness and, as a result of such failure, any other party to that agreement or instrument is entitled to exercise the right to accelerate the maturity of any amount owing thereunder or any such amount is accelerated; provided, however, that a failure to pay Indebtedness shall not constitute an Event of Default under this clause (f) if (x) the overdue amounts in the aggregate do not exceed $3,000,000 (or the equivalent in another currency or currencies), (y) the obligation to pay the overdue amounts has not resulted from acceleration and (z) the failure is remedied on or before the thirtieth day after it occurs.

(g) XOMA Bermuda shall sell, assign, lease, license, transfer or otherwise dispose of the Payment Rights-Related Intellectual Property with respect to the Payment Rights, the LUCENTIS License Agreement and/or the CIMZIA License Agreement or any XOMA Party takes any action which could reasonably be expected to impair the value of or Lender's access to the security provided by the foregoing.

(h) Any judgment, decree or order shall be rendered against the Borrower and either (i) enforcement proceedings shall have been commenced upon such judgment, decree or order or (ii) such judgment, decree or order shall not have been vacated or discharged within thirty days from entry.

(i) Any XOMA Party or any Obligor (i) is dissolved or commences proceedings for dissolution, (ii) fails or is unable to pay its debts generally as they become due, (iii) commences a voluntary case in bankruptcy or any other action or proceeding for any other relief under any law affecting creditors' rights that is similar to a bankruptcy law or (iv) consents by answer or otherwise to the commencement against it of an involuntary case in bankruptcy or any other such action or proceeding; or a court enters an order for relief or a decree in an involuntary case in bankruptcy or any other such action or proceeding in respect of any such Person or any of the assets of any such Person if such order or decree is not dismissed or withdrawn on or before the sixtieth day after the entry thereof or if any such dismissal or withdrawal ceases to remain in effect.

(j) Any of the Transaction Documents shall cease to be in full force and effect or its validity or enforceability is disaffirmed or challenged in writing by any Person other than the Lender or the Security Agreement shall cease to give the Lender the rights purported to be created thereby (including a first priority perfected Lien on the assets of the Borrower).

(k) Any of a Borrower Change of Control, a XOMA Bermuda Change of Control or a XOMA Change of Control occurs.

(l) (i) Any representation or warranty of the Borrower or XOMA Bermuda in the Acquisition Agreement proves to have been incorrect, incomplete or misleading in any respect at the time it was made; (ii) the Borrower or XOMA Bermuda fails to perform or observe any covenant or agreement contained in the Acquisition Agreement, any License Agreement or the Borrower Documents, as applicable, and such failure is not cured or waived within any applicable grace period or (iii) any Obligor fails to perform or observe any covenant or agreement contained in any License Agreement and such failure is not cured or waived within any applicable grace period or asserts a Dispute with respect to the Payment Rights, the Raptiva Rights or the Collaboration Agreement.

(m) In connection with a challenge to the validity of the Payment Rights, the Raptiva Rights or any Payment Rights-Related Intellectual Property or Raptiva Rights-Related Intellectual Property or any transaction contemplated under the License Agreements or the Acquisition Agreement, any judgment, decree or order is issued that (i) halts or suspends the payment by any Obligor or XOMA Bermuda of any amount payable in respect of the Payment Rights or under the Collaboration Agreement, or (ii) otherwise determines that the Payment Rights or the Collaboration Agreement have not been duly authorized or validly issued or that the Payment Rights or the Collaboration Agreement are not enforceable in accordance with the terms of the applicable License Agreement or the Acquisition Agreement, and such judgment, decree or order shall not have been vacated or discharged within 10 days from entry.

(n) Any of the revenue milestones set forth inExhibit F shall not have been achieved by the date indicated.

(o) Any provision of Article XII shall for any reason cease to be valid and binding or enforceable against XOMA or XOMA shall so state in writing.

SECTION 11.02. Default Remedies. If any Event of Default shall occur, the Lender may, by Notice to the Borrower, (a) exercise all rights and remedies available to the Lender hereunder and under the Security Agreement, including enforcement of the security interests created thereby, (b) declare the Loan, all interest thereon and all other amounts payable hereunder and under the Note by the Borrower to be immediately due and payable, whereupon all such amounts shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or further notice of any kind, which are expressly waived by the Borrower and (c) declare the obligations of the Lender hereunder to be terminated, whereupon such obligations shall terminate, provided, however, that if any event of any kind referred to in Section 11.01(i) occurs, the obligations of the Lender hereunder shall immediately terminate, all amounts payable hereunder by the Borrower shall become immediately due and payable and the Lender shall be entitled to exercise rights and remedies under the Security Agreement without diligence, presentment, demand of payment, protest or notice of any kind, all of which are hereby expressly waived by the Borrower. Each Notice delivered pursuant to this Section 11.02 shall be effective when sent.

SECTION 11.03. Right of Set-off. If any amount payable hereunder is not paid as and when due, the Borrower irrevocably authorizes the Lender and each Affiliate of the Lender (i) to proceed, to the fullest extent permitted by applicable Law, without prior notice, by right of set-off, bankers' lien, counterclaim or otherwise, against any assets of the Borrower in any currency that may at any time be in the possession of the Lender or such Affiliate, to the full extent of all amounts payable to the Lender hereunder or (ii) to charge to the Payment Account the full extent of all amounts payable by the Borrower to the Lender hereunder; provided, however, that the Lender shall notify the Borrower of the exercise of such right promptly following such exercise.

SECTION 11.04. Rights Not Exclusive. The rights provided for herein are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by Law.

ARTICLE XII
GUARANTEE

SECTION 12.01. Guarantee. XOMA hereby absolutely, unconditionally and irrevocably guarantees, as a guarantee of payment and not of collection, the punctual payment when due, whether at scheduled maturity or on any date of a required prepayment or by acceleration, demand or otherwise, of all obligations of the Borrower now or hereafter existing under or in respect of this Agreement and the Loan Documents (including any extensions, modifications, substitutions, amendments or renewals of any or all of the foregoing obligations), whether direct or indirect, absolute or contingent, and whether for principal, interest, premiums, fees, indemnities, contract causes of action, costs, expenses or otherwise (such obligations being the "Guaranteed Obligations"), and agrees to pay any and all expenses (including fees and expenses of counsel) incurred by the Lender in enforcing any rights under this Article XII. Without limiting the generality of the foregoing, XOMA's liability shall extend to all amounts that constitute part of the Guaranteed Obligations and would be owed by the Borrower to the Lender under or in respect of this Agreement or any Loan Document but for the fact that they are unenforceable or not allowable due to the existence of a bankruptcy, reorganization or similar proceeding involving the Borrower.

SECTION 12.02. Guarantee Absolute. (a) XOMA guarantees that the Guaranteed Obligations will be paid strictly in accordance with the terms of this Agreement and the Loan Documents regardless of any law, regulation or order now or hereafter in effect in any jurisdiction affecting any of such terms or the rights of the Lender with respect thereto. The obligations of XOMA under or in respect of this Article XII are independent of the Guaranteed Obligations or any other obligations of the Borrower under or in respect of this Agreement and any Loan Documents and a separate action or actions may be brought and prosecuted against XOMA to enforce this Article XII, irrespective of whether any action is brought against the Borrower or whether the Borrower is joined in any such action or actions. The liability of XOMA under this Article XII shall be irrevocable, absolute and unconditional irrespective of, and XOMA hereby irrevocably waives any defenses it may now have or hereafter acquire in any way relating to, any or all of the following:

(i) any lack of validity or enforceability of this Agreement (other than this Article XII), the Note or any agreement or instrument relating thereto;

(ii) any change in the time, manner or place of payment of, or in any other term of, all or any of the Guaranteed Obligations or any other obligations of the Borrower under or in respect of this Agreement or the Loan Documents or any other amendment or waiver of or any consent to departure from this Agreement or the Loan Documents, including any increase in the Guaranteed Obligations resulting from the extension of additional credit to the Borrower or otherwise;

(iii) any taking, exchange, release or non-perfection of any Collateral (as defined under the Security Agreement), or any taking, release or amendment or waiver of, or consent to departure from, any other guaranty, for all or any of the Guaranteed Obligations;

(iv) any manner of application of Collateral, or proceeds thereof, to all or any of the Guaranteed Obligations, or any manner of sale or other disposition of any Collateral for all or any of the Guaranteed Obligations or any other obligations of the Borrower under this Agreement or the Loan Documents or any other assets of the Borrower;

(v) any change, restructuring or termination of the corporate structure or existence of the Borrower or any of its Subsidiaries; or

(vi) any other circumstance (including any statute of limitations) or any existence of or reliance on any representation by the Lender that might otherwise constitute a defense available to, or a discharge of, the Borrower or any other guarantor or surety.

(b) This Article XII shall continue to be effective or be reinstated, as the case may be, if at any time any payment of any of the Guaranteed Obligations is rescinded or must otherwise be returned by the Lender or any other Person upon the insolvency, bankruptcy or reorganization of the Borrower or otherwise, all as though such payment had not been made.

SECTION 12.03. Waivers and Acknowledgments. (a) XOMA unconditionally and irrevocably waives promptness, diligence, notice of acceptance, presentment, demand for performance, notice of nonperformance, default, acceleration, protest or dishonor and any other notice with respect to any of the Guaranteed Obligations and this Article XII and any requirement that the Lender protect, secure, perfect or insure any Lien or any property subject thereto or exhaust any right or take any action against the Borrower or any other Person or any collateral.

(b) XOMA hereby unconditionally and irrevocably waives any right to revoke this Article XII and acknowledges that the guaranty under this Article XII is continuing in nature and applies to all Guaranteed Obligations, whether existing now or in the future.

(c) XOMA hereby unconditionally and irrevocably waives (i) any defense arising by reason of any claim or defense based upon an election of remedies by the Lender that in any manner impairs, reduces, releases or otherwise adversely affects the subrogation, reimbursement, exoneration, contribution or indemnification rights of XOMA or other rights of XOMA to proceed against the Borrower, any other guarantor or any other Person or any Collateral and (ii) any defense based on any right of set-off or counterclaim against or in respect of the obligations of XOMA hereunder.

(d) XOMA hereby unconditionally and irrevocably waives any duty on the part of the Lender to disclose to XOMA any matter, fact or thing relating to the business, financial condition, operations, performance, properties or prospects of the Borrower now or hereafter known by the Lender.

(e) XOMA acknowledges that it will receive substantial direct and indirect benefits from the financing arrangements contemplated by this Agreement and the Loan Documents and that the waivers set forth in Section 12.02 and this Section 12.03 are knowingly made in contemplation of such benefits.

SECTION 12.04. Subrogation. XOMA hereby unconditionally and irrevocably agrees not to exercise any rights that it may now have or hereafter acquire against the Borrower or any other insider guarantor that arise from the existence, payment, performance or enforcement of XOMA's obligations under or in respect of this Article XII, including any right of subrogation, reimbursement, exoneration, contribution or indemnification and any right to participate in any claim or remedy of the Lender against the Borrower or any other insider guarantor or any collateral, whether or not such claim, remedy or right arises in equity or under contract, statute or common law, including the right to take or receive from the Borrower or any other insider guarantor, directly or indirectly, in cash or other property or by set-off or in any other manner, payment or security on account of such claim, remedy or right, unless and until all of the Guaranteed Obligations and all other amounts payable under this Article XII shall have been paid in full in cash. If any amount shall be paid to XOMA in violation of the immediately preceding sentence at any time prior to the payment in full in cash of the Guaranteed Obligations and all other amounts payable under this Article XII, such amount shall be received and held in trust for the benefit of the Lender, shall be segregated from other property and funds of XOMA and shall forthwith be paid or delivered to the Lender in the same form as so received (with any necessary endorsement or assignment) to be credited and applied to the Guaranteed Obligations and all other amounts payable under this Article XII, whether matured or unmatured, in accordance with the terms of this Agreement, or to be held as collateral for any Guaranteed Obligations or other amounts payable under this Article XII thereafter arising.

SECTION 12.05. Continuing Guarantee. The guarantee under this Article XII is a continuing guarantee and shall (a) remain in full force and effect until the payment in full in cash of the Guaranteed Obligations and all other amounts payable under this Article XII, (b) be binding upon XOMA, its successors and assigns and (c) inure to the benefit of and be enforceable by the Lender and its successors, transferees and assigns. XOMA shall not have the right to assign its obligations hereunder without the prior written consent of the Lender and any purported assignment in violation of this Section 12.05 shall be null and void.

ARTICLE XIII
INDEMNIFICATION

SECTION 13.01. Funding Losses. If the Borrower makes any payment of principal with respect to the Loan on any day other than the last day of an Interest Period applicable thereto, or if the Borrower fails to borrow any amount on the Closing Date after Notice of Borrowing has been given to the Lender in accordance with Section 2.02, the Borrower shall reimburse the Lender within three Banking Days after demand for any resulting loss or expense incurred by the Lender including any loss incurred in obtaining, liquidating or redeploying deposits from third parties; provided that the Lender shall have delivered to the Borrower a certificate as to the amount of such loss or expense.

SECTION 13.02. Increased Costs. Except as to Taxes (it being understood that the Borrower's liability for Taxes will be exclusively determined under Article V), the Borrower shall reimburse the Lender on demand for all increases in costs incurred by the Lender and all reductions in amounts received or receivable by the Lender or in the rate of return on the Lender's capital, as reasonably determined by the Lender, that are attributable to the Loan or the performance by the Lender of its obligations under this Agreement and that occur by reason of the promulgation after the date hereof of any Law or treaty or any change after the date hereof in any Law or treaty or in the interpretation thereof or by reason of compliance by the Lender with any direction, requirement or request (whether or not having the force of Law) of any Governmental Authority, including any such cost or reduction resulting from the imposition or amendment of any capital adequacy requirement or any reserve, special deposit or similar requirement against assets of, liabilities of, deposits with or for the account of, or loans by, the Lender; provided that the Lender shall not be entitled to be reimbursed for such increased costs or reductions in amount receivable or the rate of return incurred more than 180 days prior to the date on which it gives notice to the Borrower of such increased costs or reduction in amount receivable or rate of return.

SECTION 13.03. Other Losses. (a) The Borrower agrees to defend (subject to Indemnitees' selection of counsel), indemnify, pay and hold harmless, the Lender and its Affiliates and their respective officers, partners, directors, trustees, employees and agents (each, an "Indemnitee"), from and against any and all Indemnified Liabilities, in all cases, whether or not caused by or arising, in whole or in part, out of the comparative, contributory or sole negligence of such Indemnitee; provided, the Borrower shall not have any obligation to any Indemnitee hereunder with respect to any Indemnified Liabilities to the extent such Indemnified Liabilities arise from the gross negligence or willful misconduct of such Indemnitee. To the extent that the undertakings to defend, indemnify, pay and hold harmless set forth in this Section 13.03 may be unenforceable in whole or in part because they are violative of any law or public policy, the Borrower shall contribute the maximum portion that it is permitted to pay and satisfy under applicable law to the payment and satisfaction of all Indemnified Liabilities incurred by Indemnitees or any of them.

(b) To the extent permitted by applicable law, no Party shall assert, and each Party hereby waives, any claim against each other Party and such Party's Affiliates, directors, employees, attorneys or agents, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) (whether or

not the claim therefor is based on contract, tort or duty imposed by any applicable legal requirement) arising out of, in connection with, as a result of, or in any way related to, this Agreement or any Loan Document or any agreement or instrument contemplated hereby or thereby or referred to herein or therein, the transactions contemplated hereby or thereby, the Loan or the use of the proceeds thereof or any act or omission or event occurring in connection therewith, and each Party hereby waives, releases and agrees not to sue upon any such claim or any such damages, whether or not accrued and whether or not known or suspected to exist in its favor.

SECTION 13.04. Assumption of Defense; Settlements. If the Lender is entitled to indemnification under this Article XIII with respect to any action or proceeding brought by a third party that is also brought against the Borrower, the Borrower shall be entitled to assume the defense of any such action or proceeding with counsel reasonably satisfactory to the Lender. Upon assumption by the Borrower of the defense of any such action or proceeding, the Borrower shall have the right to participate in such action or proceeding and to retain its own counsel but the Borrower shall not be liable for any legal expenses of other counsel subsequently incurred by the Lender in connection with the defense thereof unless (i) the Borrower has otherwise agreed to pay such fees and expenses, (ii) the Borrower shall have failed to employ counsel reasonably satisfactory to the Lender in a timely manner or (iii) the Lender shall have been advised by counsel that there are actual or potential conflicting interests between the Borrower and the Lender, including situations in which there are one or more legal defenses available to the Lender that are different from or additional to those available to the Borrower; provided, however, that the Borrower shall not, in connection with any one such action or proceeding or separate but substantially similar actions or proceedings arising out of the same general allegations, be liable for the fees and expenses of more than one separate firm of attorneys at any time for the Lender, except to the extent that local counsel, in addition to its regular counsel, is required in order to effectively defend against such action or proceeding. The Borrower shall not consent to the terms of any compromise or settlement of any action defended by the Borrower in accordance with the foregoing without the prior written consent of the Lender unless such compromise or settlement (x) includes an unconditional release of the Lender from all liability arising out of such action and (y) does not include a statement as to or an admission of fault, culpability or a failure to act, by or on behalf of the Lender. The Borrower shall not be required to indemnify the Lender for any amount paid or payable by the Lender in the settlement of any action, proceeding or investigation without the written consent of the Borrower, which consent shall not be unreasonably withheld.

ARTICLE XIV
MISCELLANEOUS

SECTION 14.01. Assignments. (a) The Borrower shall not be permitted to assign this Agreement without the prior written consent of the Lender and any purported assignment in violation of this Section 14.01(a) shall be null and void.

(b) The Lender may at any time assign all its rights and obligations hereunder in whole or in part to a financial institution, institutional investor or commercial paper conduit (each an "Assignee"); provided that, at any time, there shall be no more than three Lenders.

(c) The parties to each assignment shall execute and deliver to the Borrower a written instrument of assignment in the form set forth in Exhibit G, containing the agreement of the assignee to be bound by the terms of this Agreement (an "Assignment and Acceptance"). Upon the effectiveness of a permitted assignment hereunder, (i) each reference in this Agreement to "Lender" shall be deemed to be a reference to the assignor and the assignee to the extent of their respective interests, (ii) such assignee shall be a Lender party to this Agreement and shall have all the rights and obligations of a Lender and (iii) the assignor shall be released from its obligations hereunder to a corresponding extent of the assignment, and no further consent or action by any party shall be required.

(d) The Borrower shall, from time to time at the request of the Lender, execute and deliver any documents that are necessary to give full force and effect to an assignment permitted hereunder, including a new Note in exchange for the Note held by the Lender.

SECTION 14.02. Participations. The Lender may at any time grant to one or more financial institutions, institutional investors and/or commercial paper conduits (each a "Participant") participating interests in its Loan. In the event of any such grant by the Lender of a participating interest to a Participant, whether or not upon notice to the Borrower, such Lender shall remain responsible for the performance of its obligations hereunder, and the Borrower shall continue to deal solely and directly with the Lender in connection with the Lender's rights and obligations under this Agreement. Any agreement pursuant to which the Lender may grant such a participating interest shall provide that the Lender shall retain the sole right and responsibility to enforce the obligations of the Borrower hereunder including the right to approve any amendment, modification or waiver of any provision of this Agreement. The Borrower agrees that each Participant shall, to the extent provided in its participation agreement, be entitled to the benefits of Article V and Article XII with respect to its participating interest, as though it were a Lender.

SECTION 14.03. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors and permitted assigns.

SECTION 14.04. Notices. All notices, consents, approvals, reports, designations, requests, waivers, elections and other communications (collectively, "Notices") authorized or required to be given pursuant to this Agreement shall be given in writing and either personally delivered to the Party to whom it is given or delivered by an established delivery service by which receipts are given or mailed by registered or certified mail, postage prepaid, or sent by facsimile or electronic mail with a copy sent on the following Banking Day by one of the other methods of giving notice described herein, addressed to the Party at its address listed below:

(a) If to the Borrower:

XOMA (US) LLC
2910 Seventh Street
Berkeley, California 94710
Attn: Legal Department

with a copy, which shall not constitute notice, to:

XOMA (US) LLC
2910 Seventh Street
Berkeley, California 94710
Attn: Finance Department

and a copy, which shall not constitute notice, to:

Cahill Gordon & Reindel LLP
80 Pine Street
New York, New York 10005
Attn: Geoffrey Liebmann

(b) If to the Lender:

Goldman Sachs Specialty Lending Holdings, Inc.
85 Broad Street
New York, New York 10004
Attention: James David

with a copy to:

Goldman Sachs Specialty Lending Holdings, Inc.
600 E. Las Colinas Boulevard
Suite 400
Irving, Texas 75039
Attention: Kyle Volluz

(c) If to XOMA:

XOMA Ltd.
2910 Seventh Street
Berkeley, California 94710
Attn: Legal Department

with a copy, which shall not constitute notice, to:

XOMA Ltd.
2910 Seventh Street
Berkeley, California 94710
Attn: Finance Department

and a copy, which shall not constitute notice, to:

Cahill Gordon & Reindel LLP

80 Pine Street
New York, New York 10005
Attn: Geoffrey Liebmann

Any Party may change its address for the receipt of Notices at any time by giving Notice thereof to the other Parties. Except as otherwise provided herein, any Notice authorized or required to be given by this Agreement shall be effective when received.

SECTION 14.05. Entire Agreement. This Agreement and the other Transaction Documents contain the entire agreement between the Parties relating to the subject matter hereof and supersede all oral statements and prior writings with respect thereto.

SECTION 14.06. Modification. No change or modification of this Agreement shall be of any force unless such change or modification is in writing and has been signed by the Lender and the Borrower.

SECTION 14.07. No Delay; Waivers; etc. No delay on the part of the Lender 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 Lender shall not be deemed to have waived any rights hereunder unless such waiver shall be in writing and signed by the Lender.

SECTION 14.08. Severability. If any provision of this Agreement shall be held to be invalid, illegal or unenforceable, then, to the fullest extent permitted by law, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

SECTION 14.09. Determinations. Each determination or calculation by the Lender hereunder shall, in the absence of manifest error, be conclusive and binding on the Parties.

SECTION 14.10. Replacement of Note. Upon the loss, theft, destruction, or mutilation of the Note and (a) in the case of loss, theft or destruction, upon receipt by the Borrower of indemnity or security reasonably satisfactory to it (except that if the holder of the Note is the Lender or any other financial institution of recognized responsibility, the holder's own agreement of indemnity shall be deemed to be satisfactory) or (b) in the case of mutilation, upon surrender to the Borrower of the mutilated Note, the Borrower shall execute and deliver in lieu thereof a new Note, dated the Closing Date, in the same principal amount.

SECTION 14.11. Governing Law. THIS AGREEMENT AND THE NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK (WITHOUT GIVING EFFECT TO ANY CONFLICT OF LAWS PRINCIPLES THAT WOULD REQUIRE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION).

SECTION 14.12. Jurisdiction. Each of the Borrower and XOMA irrevocably submits to the jurisdiction of the courts of the State of New York and of the United States sitting in the State of New York, and of the courts of its own corporate domicile with respect to actions

or proceedings brought against it as a defendant, for purposes of all legal proceedings arising out of or relating to this Agreement or the transactions contemplated hereby (a "Proceeding"). Each of the Borrower and XOMA irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of venue of any Proceeding and any claim that any Proceeding has been brought in an inconvenient forum. Any process or summons for purposes of any Proceeding may be served on the Borrower or XOMA by mailing a copy thereof by registered mail, or a form of mail substantially equivalent thereto, addressed to it at its address as provided for Notices hereunder.

SECTION 14.13. Waiver of Jury Trial. EACH OF THE BORROWER AND XOMA HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

SECTION 14.14. Waiver of Immunity. To the extent that the Borrower or XOMA has or hereafter may be entitled to claim or may acquire, for itself or any of its assets, any immunity from suit, jurisdiction of any court or from any legal process (whether through service or notice, attachment prior to judgment, attachment in aid of execution, or otherwise) with respect to itself or any of its property, each of the Borrower and XOMA hereby irrevocably waives such immunity in respect of its obligations hereunder and under the Note to the fullest extent permitted by law.

SECTION 14.15. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

SECTION 14.16. Limitation on Rights of Others. Except for the Indemnitees referred to in Section 13.03, no Person other than a Party shall have any legal or equitable right, remedy or claim under or in respect of this Agreement.

SECTION 14.17. No Partnership. Nothing in this Agreement or any other Transaction Document shall be read to create any agency, partnership or joint venture of the Lender (or any of its Affiliates) and the Borrower (or any of its Affiliates).

SECTION 14.18. Survival. The obligations of the Borrower contained in Sections 4.05, 4.06, Article V and Article XIII and of XOMA contained in Article XII shall survive the repayment of the Loan and the cancellation of the Note and the termination of the other obligations of the Borrower hereunder.

SECTION 14.19. Patriot Act Notification. The Lender hereby notifies the Borrower that, consistent with the USA Patriot Act, Public Law No. 107-56 (the "Patriot Act"), regulations promulgated thereunder and under other applicable Law, the Lender's procedures and customer due diligence standards require it to obtain, verify and record information that identifies the Borrower, including among other things name, address, information regarding persons with authority or control over the Borrower, and other information regarding the Borrower, its operations and transactions with the Lender. The Borrower agrees to provide such information and take such actions as are reasonably requested by the Lender in order to assist the Lender in maintaining compliance with its procedures, the Patriot Act and any other applicable Laws.

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

GOLDMAN SACHS SPECIALTY
LENDING HOLDINGS, INC.,
as Lender

By: /s/ ALAN WAXMAN
Name: Alan S. Waxman
Title: Vice President

XOMA (US) LLC,
as Borrower

By: /s/ CHRISTOPHER J. MARGOLIN
Name: Christopher J. Margolin
Title: Vice President, General Counsel
and Secretary

XOMA LTD.,
as Guarantor

By: /s/ CHRISTOPHER J. MARGOLIN
Name: Christopher J. Margolin
Title: Vice President, General Counsel
and Secretary

EXHIBIT A

Form of Promissory Note

US$35,000,000

New York, New York
November 9, 2006

FOR VALUE RECEIVED, XOMA (US) LLC, a Delaware limited liability company (the "Borrower"), hereby promises to pay to the order of Goldman Sachs Specialty Lending Holdings, Inc. or its registered assigns (the "Lender"), in lawful money of the United States of America, in same day funds on the Maturity Date the principal sum of thirty-five million dollars (US$35,000,000).

The Borrower also promises to pay interest on the unpaid principal amount hereof in like money, from the date hereof until such unpaid principal is paid in full, at the rates, at the times and in the manner provided in the Loan Agreement referred to below.

This Note is the Note referred to in the Loan Agreement, dated as of November 9, 2006, between the Borrower and the Lender (as amended from time to time, the "Loan Agreement") and is entitled to the benefits thereof and of the other Loan Documents. This Note is secured as provided in the Loan Documents. This Note is subject to optional prepayment, in whole or in part, prior to the Maturity Date as provided in the Loan Agreement.

If an Event of Default shall occur and be continuing, the principal of and accrued interest on this Note may become or be declared to be due and payable in the manner and with the effect provided in the Loan Agreement.

The Borrower hereby waives presentment, demand, protest or notice of any kind in connection with this Note.

Capitalized terms used but not defined herein shall have the meanings given to them in the Loan Agreement.

THIS NOTE SHALL BE CONSTRUED IN ACCORDANCE WITH AND BE GOVERNED BY THE LAW OF THE STATE OF NEW YORK (WITHOUT GIVING EFFECT TO ANY CONFLICT OF LAWS PRINCIPLES THAT WOULD REQUIRE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION).

XOMA (US) LLC

By: /s/ J. DAVID BOYLE II
Name: J. David Boyle II
Title: Vice President, Finance and
Chief Financial Officer

EXHIBIT B

Form of Notice of Borrowing

[*]

EXHIBIT C

[Form of Security Agreement]

EXHIBIT D-1

Form of Certificate of Borrower

[*]

EXHIBIT D-2

Form of Certificate of XOMA

[*]

EXHIBIT D-3

Form of Certificate of XOMA Bermuda

[*]

EXHIBIT E

Existing Liens and Related Indebtedness

[*]

EXHIBIT F

Revenue Milestones

[*]

Form of Assignment and Acceptance

[*]

[*]

[*]

XOMA BCE/HE Intellectual Property

XOMA Patent Rights – Bacterial Expression

A. Title: Modular Assembly of Antibody Genes, Antibodies Prepared Thereby and Use

Based on PCT/US88/02514, which corresponds to U.S. Application No. 07/077,528, which is a continuation-in-part PCT/US86/02269 (abandoned), which is a continuation-in-part of U.S. Application No. 06/793,980 (abandoned).

COUNTRY	APPLICATION NO.	PATENT NO.
Australia	23244/88	632,462
Canada	572,398	1,341,235
Denmark	192/90	174824
Denmark	200301155	PR 175654 B1
Denmark	200301156	PR 175581 B1
Europe	EP 88907510.7	EP 0371998
Austria	EP 88907510.7	EP 0371998
Belgium	EP 88907510.7	EP 0371998
France	EP 88907510.7	EP 0371998
Germany	EP 88907510.7	P 3888186.1
Italy	EP 88907510.7	EP 0371998
Luxembourg	EP 88907510.7	EP 0371998
Netherlands	EP 88907510.7	EP 0371998
Sweden	EP 88907510.7	EP 0371998
Switzerland / Liechtenstein	EP 88907510.7	EP 0371998
United Kingdom	EP 88907510.7	EP 0371998
Europe	EP 93100041.8	EP 0550400
Austria	EP 93100041.8	EP 0550400
Belgium	EP 93100041.8	EP 0550400
France	EP 93100041.8	EP 0550400
Germany	EP 93100041.8	P 3855421.6
Italy	EP 93100041.8	EP 0550400
Luxembourg	EP 93100041.8	EP 0550400
Netherlands	EP 93100041.8	EP 0550400
Sweden	EP 93100041.8	EP 0550400
Switzerland/ Liechtenstein	EP 93100041.8	EP 0550400
United Kingdom	EP 93100041.8	EP 0550400
Europe	EP 95119798.7	EP 0731167
Austria	EP 95119798.7	EP 0731167
Belgium	EP 95119798.7	EP 0731167
France	EP 95119798.7	EP 0731167
Germany	EP 95119798.7	P 3856440.12
Italy	EP 95119798.7	EP 0731167

Luxembourg	EP 95119798.7	EP 0731167
Netherlands	EP 95119798.7	EP 0731167
Sweden	EP 95119798.7	EP 0731167
Switzerland/Liechtenstein	EP 95119798.7	EP 0731167
United Kingdom	EP 95119798.7	EP 0731167
Japan	506481/88	2991720

Based on U.S. Application No. 07/501,092 filed March 29, 1990, which is a continuation-in-part of U.S. Application No. 07/077,528 (Modular Assembly of Antibody Genes, Antibodies Prepared Thereby and Use; Robinson, Liu, Horwitz, Wall, Better) and of U.S. Application No. 07/142,039 (Novel Plasmid Vector with Pectate Lyase Signal Sequence; Lei, Wilcox).

COUNTRY	APPLICATION NO.	PATENT NO.
United States	08/235,225	5,618,920
United States	08/299,085	5,595,898
United States	08/472,691	6,204,023
United States	08/467,140	5,698,435
United States	08/450,731	5,693,493
United States	08/466,203	5,698,417
United States	11/582,563	Pending

B. Title: Novel Plasmid Vector with Pectate Lyase Signal Sequence (PelB)

Inventors:Lei, Wilcox

Based on U.S. Application No. 07/142,039 filed January 11, 1988 and PCT/US89/00077.

COUNTRY	APPLICATION NO.	PATENT NO.
Australia	29377/89	627443
Canada	587,885	1,338,807
Europe	EP 89901763.6	EP 0396612
Austria	EP 89901763.6	EP 0396612
Belgium	EP 89901763.6	EP 0396612
France	EP 89901763.6	EP 0396612
Germany	EP 89901763.6	689 26 882 T2
Italy	EP 89901763.6	EP 0396612
Luxembourg	EP 89901763.6	EP 0396612
Netherlands	EP 89901763.6	EP 0396612
Sweden	EP 89901763.6	EP 0396612
Switzerland/Liechtenstein	EP 89901763.6	EP 0396612
United Kingdom	EP 89901763.6	EP 0396612
Japan	501661/89	2980626
United States	08/472,696	5,846,818
United States	08/357,234	5,576,195

XOMA Patent Rights – Human Engineering™

A. **Title:** Methods and Materials for Preparation of Modified Antibody Variable Domains and Therapeutic Uses Thereof

Inventors: Studnicka, Little, Fishwild, Kohn

Based on PCT/US92/10906 [WO 93/11794 filed 12/14/92], which is a continuation-in-part of U.S. Serial No. 07/808,464 filed December 13, 1991 (abandoned).

COUNTRY	SERIAL NO.	PATENT NO.
United States	08/107,669	5,766,886
United States	10/340,189	Published 2003/0229207
United States	11/133,775	Published 2005/0239141
United States	08/082,842	5,869,619
United States	08/472,788	5,770,196
United States	08/477,531	5,821,123
Canada	2,103,887	2,103,887
Canada	2,507,749 DIV	Pending
Europe	EP 93901238.1	EP 0571613
Belgium	EP 93901238.1	EP 0571613
France	EP 93901238.1	EP 0571613
Germany	EP 93901238.1	DE 69233204T
Ireland	EP 93901238.1	EP 0571613
Italy	EP 93901238.1	EP 0571613
Netherlands	EP 93901238.1	EP 0571613
Spain	EP 93901238.1	ES 2202310T
Switzerland/Liechtenstein	EP 93901238.1	EP 0571613
United Kingdom	EP 93901238.1	EP 0571613
Japan	5-511171	Published 6-506362
Japan	2005-6625	Published 2005-160485

Exhibit 21.1

Subsidiaries of the Company	Jurisdiction of Organization
XOMA (Bermuda) Ltd.	Bermuda
XOMA Ireland Limited	Ireland
XOMA Technology Ltd.	Bermuda
XOMA (US) LLC	Delaware
XOMA Limited	United Kingdom

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-108306, 333-66171 and 333-39155) pertaining to the XOMA Ltd. 1981 Share Option Plan, the XOMA Ltd. Restricted Share Plan, the XOMA Ltd. Management Incentive Compensation Plan, the XOMA Ltd. 1992 Directors Share Option Plan, the XOMA Ltd. 2002 Director Share Option Plan and the XOMA Ltd. 1998 Employee Share Purchase Plan, and in the Registration Statements on Forms S-3 and S-4 (Nos. 333-112161, 333-107929, 333-07263, 333-60503, 333-130441, 333-130442, and 333-131684) and in the related Prospectuses, respectively of our reports dated March 8, 2007, with respect to the consolidated financial statements of XOMA Ltd., XOMA Ltd. management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting of XOMA Ltd., included in this Annual Report (Form 10-K) for the year ended December 31, 2006.

/s/ ERNST & YOUNG LLP

Palo Alto, California
March 8, 2007

Exhibit 31.1

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

I, John L. Castello, certify that:

1. I have reviewed this annual report on Form 10-K of XOMA Ltd.;

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

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

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

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

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

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

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

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

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

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

Date: March 8, 2007

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

Exhibit 31.2

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

I, J. David Boyle II, certify that:

1. I have reviewed this annual report on Form 10-K of XOMA Ltd.;

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

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

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

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

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

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

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

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

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

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

Date: March 8, 2007

/S/ J. DAVID BOYLE II
J. David Boyle II
Vice President, Finance and Chief Financial Officer

Exhibit 32.1

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chapter 63, Title 18 U.S.C. Section 1350(a) and (b)), the undersigned hereby certifies in his capacity as an officer of XOMA Ltd. (the "Company") that the Annual Report of the Company on Form 10-K for the year ended December 31, 2006, fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended, and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company at the end of and for the periods covered by such Report.

Date: March 8, 2007

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

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

Exhibit 32.2

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chapter 63, Title 18 U.S.C. Section 1350(a) and (b)), the undersigned hereby certifies in his capacity as an officer of XOMA Ltd. (the "Company") that the Annual Report of the Company on Form 10-K for the year ended December 31, 2006, fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended, and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company at the end of and for the periods covered by such Report.

Date: March 8, 2007

/S/ J. DAVID BOYLE II
J. David Boyle II
Vice President, Finance and Chief Financial Officer

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

News Release

Exhibit 99.1

XOMA Reports 2006 Results

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Significant Revenue Growth and Pipeline Advancement Characterize 2006

Berkeley, CA – March 8, 2006 – XOMA Ltd. (NASDAQ: XOMA), a leader in the discovery and development of antibody therapeutics for cancer and immunological disorders, today announced its results for the year ended December 31, 2006.

Total revenues in 2006 were $29.5 million, compared with $18.7 million in 2005. The increase was primarily due to revenues from XOMA's arrangements with the National Institute of Allergy and Infectious Diseases ("NIAID"), increases in royalty revenues from the sale of Genentech, Inc.'s ("Genentech", NYSE: DNA) RAPTIVA®, new royalty revenues from sales of Genentech's LUCENTIS® and revenues from XOMA's new collaboration with Schering-Plough Corporation ("Schering-Plough", NYSE: SGP). The Company expects revenues in 2007 to continue to increase as a result of its existing and additional antibody discovery and development, manufacturing service and license arrangements, royalties generated by worldwide sales of RAPTIVA® and LUCENTIS®, and the expected inception of CIMZIA™ royalties.

Operating expenses in 2006 totaled $70.2 million compared with $54.7 million in 2005. The increase was principally due to an increase in research and development spending, primarily in support of the Company's programs for its XOMA 052 and NEUPREX® products, its collaboration with Schering-Plough, and its contract development and manufacturing activities with NIAID and Taligen Therapeutics, Inc. ("Taligen"), partially offset by decreased spending on its collaboration projects with Novartis AG ("Novartis", NYSE: NVS), Genentech, and Millennium Pharmaceuticals, Inc. ("Millennium", NASDAQ: MLNM). General and administrative spending increased, although to a lesser extent, primarily as a result of increased employee related costs and professional fees.

XOMA's net loss was $51.8 million, or $(0.54) per share, for the year ended December 31, 2006, compared with net income of $2.8 million, or $0.03 per share, for 2005. 2005 net income included a one-time gain for the extinguishment of the Company's obligation to pay $40.9 million under a development loan from Genentech.

Cash, cash equivalents and short-term investments at December 31, 2006, totaled $46.4 million, compared with $43.5 million at December 31, 2005. At December 31, 2006, $44.5 million of XOMA's convertible notes were outstanding. Subsequent to year-end, $42.0 million of these notes were voluntarily converted by note holders and on March 7, 2007, XOMA announced that it has elected to automatically convert all of its remaining outstanding convertible notes (approximately $2.5 million) into common shares pursuant to the terms of the indenture governing the notes.

A more detailed discussion of XOMA's financial results appears below and in the Company's Form10-K filing.

“XOMA continued to make strong progress in 2006 by growing our revenues and developing our internal pipeline, but more importantly, by signing agreements that will bring in additional revenues and broaden our product portfolio in the future” said John L. Castello, chairman of the board, president, and chief executive officer of XOMA. “I believe XOMA is well-positioned for growth going forward.”

Key 2006 Events

- In February, XOMA announced that $60.0 million of the Company’s 6.5% Convertible Senior Notes, or 100% of the total outstanding, were tendered in exchange for $60.0 million of 6.5% Convertible SNAPs$_{sm}$. The Company also issued $12.0 million of additional Convertible SNAPs$_{sm}$. Due to investor demand, the size of the offering was increased from $10.0 million to $12.0 million and the public offering price was set at 104% of principal.
- In April, XOMA and AVEO Pharmaceuticals, Inc. (“AVEO”) announced an agreement for XOMA to utilize its Human Engineering (“HE”) technology to humanize AV-299, AVEO’s novel anti-HGF monoclonal antibody. For work conducted and licenses granted, AVEO agreed to pay XOMA an up-front license fee and, in the future, development milestone payments and royalties. In late September, XOMA and AVEO announced that XOMA had successfully completed the humanization of AV-299 and announced a $6.0 million agreement under which XOMA will manufacture and supply AV-299 in support of early clinical trials.
- In May, XOMA announced that it had entered into a letter agreement with Taligen for the development and Good Manufacturing Practices (“cGMP”) manufacture of a novel antibody fragment for the potential treatment of inflammatory diseases. The agreement calls for XOMA to utilize its Bacterial Cell Expression (“BCE”) technology and expertise to develop and scale-up production processes for Taligen’s antibody fragment and to manufacture quantities of the antibody fragment sufficient to support preclinical and initial clinical studies.
- Also in May, XOMA announced the formation of a collaboration with Schering-Plough through its research and development division, Schering-Plough Research Institute (“SPRI”), for therapeutic monoclonal antibody discovery and development. The collaboration is intended to capitalize on XOMA’s comprehensive antibody discovery, development and production technologies and expertise, which are being used to discover antibodies against targets identified by SPRI. Under the agreement, SPRI will make up-front and milestone payments to XOMA, fund XOMA’s R&D activities related to the agreement, and pay royalties to XOMA on sales of products resulting from the collaboration.
- In July, XOMA announced that LUCENTIS®, owned by Genentech and approved on June 30, 2006, by the FDA for the treatment of neovascular (wet) age-related macular degeneration, was the first marketed therapeutic product by a licensee of XOMA’s BCE

technology. XOMA subsequently began receiving royalties on worldwide sales of LUCENTIS®.

- Also in July, XOMA announced that it had been awarded an exclusive $16.3 million contract from NIAID, a part of the National Institutes of Health, to produce monoclonal antibodies for the treatment of botulism to protect U.S. citizens against the harmful effects of botulinum neurotoxins used in bioterrorism. This award, which will be 100% funded with Federal funds from NIAID under Contract No. HHSN266200600008C/N01-A1-60008, followed a $15.0 million contract with NIAID (100% Federally funded under Contract No. HHSN266200500004C) announced by XOMA in March of 2005 to initiate the program. XOMA successfully completed the first contract in October of 2006 on time and on budget.
- In September, XOMA announced successful results with a research formulation of XOMA 629 (a reformulation of XMP.629) and the initiation of a development program with the goal of re-entering clinical trials of this topically-applied, reformulated drug in mild to moderate acne in 2007.
- Also in September, NEUPREX® received an orphan medicinal product designation in the European Union for use in meningococcal disease. XOMA is completing the regulatory assessment for submission of a marketing application under the European Medicines Agency's ("EMEA") Exceptional Circumstances approval mechanism.
- In October, XOMA and Affimed Therapeutics AG ("Affimed") announced a cross-license and collaboration agreement for antibody-related technologies. The agreement provides XOMA with a license under Affimed's antibody library patents for antibody discovery purposes, as well as for the development and commercialization of antibodies. In addition, Affimed has agreed to build two customized patient-derived human antibody phage display libraries according to XOMA specifications. The agreement provides Affimed with a license to use XOMA's BCE technology for research purposes, with an option to acquire a BCE license for production and commercialization of antibodies. XOMA has also agreed to provide Affimed with cell line development and process development services specific to a TandAb therapeutic product candidate that Affimed is developing.
- Also in October, XOMA entered into an agreement with Attenuon LLC to humanize ATN-658, an antibody being developed against a cancer target. This is XOMA's second HE™ agreement since launching its HE™ technology as an external business offering in 2006.
- In November, XOMA announced that it has been designated as a subcontractor under a prime contract between SRI International and NIAID. The subcontract is expected to run for five years and to result in as much as $28.1 million to XOMA. XOMA expects to manufacture a variety of monoclonal antibody therapeutic agents of importance to NIAID. If the full $28.1 million is funded, XOMA's governmental contract awards would total approximately $60 million since March of 2005.

- In November XOMA entered into a five-year, $35.0 million term loan with Goldman Sachs Specialty Lending Holdings, Inc. ("Goldman Sachs") and borrowed the full amount thereunder. The proceeds will be used for general corporate purposes. This financing was not dilutive to shareholders, and XOMA remains the owner of the royalty streams securing the loan, subject to a pledge of such streams to Goldman Sachs.
- Also in November, XOMA and Takeda Pharmaceutical Company Limited ("Takeda") announced a collaboration agreement for therapeutic monoclonal antibody discovery and development. The collaboration is intended to capitalize on XOMA's comprehensive antibody discovery, development and production technologies and expertise, and calls for Takeda to make up-front and milestone payments to XOMA, fund XOMA's R&D activities including manufacturing of the antibodies for preclinical and early clinical supplies, and pay royalties to XOMA on sales of products resulting from the collaboration.
- Also in November, XOMA announced that its cGMP pharmaceutical manufacturing facilities in Berkeley, California, have received Investigational Medicinal Products certification from the Medicines and Healthcare Products Regulatory Agency ("MHRA") of the United Kingdom. The MHRA certification approves XOMA's manufacturing facilities for the production of biological investigational medicinal products to be used in clinical trials in the European Union.
- In December, XOMA announced pre-clinical and preliminary results from two Phase I studies of the anti-CD40 monoclonal antibody, HCD122, in patients with multiple myeloma and advanced chronic lymphocytic leukemia under its antibody development and commercialization agreement with Novartis. This antibody has a dual mechanism of action blocking tumor cell growth and survival signal as well as recruiting immune effector cells to kill tumor cells.

Key Events of Early 2007

- In January, XOMA announced that Schering-Plough exercised its right to initiate additional discovery and development programs under its collaboration for therapeutic antibody products. XOMA received up-front payments for each of the additional collaboration programs and will also receive research funding for each project as well as development milestone payments and royalties on the sale of any products that result from the collaboration.
- Also in January, XOMA announced that it had initiated an open label, dose escalating Phase I/II clinical trial of NEUPREX® in adults and children undergoing bone marrow transplantation at several Harvard Medical school clinics. The trial will be conducted by Drs. Eva Guinan and Ofer Levy of the Harvard Medical School. XOMA expects to add other sites to the study during 2007.

- In January, LUCENTIS® was approved for sale in the European Union. XOMA receives a royalty on worldwide sales of LUCENTIS®.
- In early February, Genentech released positive statistically significant safety and efficacy results of a 12-week Phase IV study of RAPTIVA® in psoriasis of the hands and feet.
- In mid-February, XOMA announced that its Chief Executive Officer, Jack Castello, plans to retire and the commencement of a search for a new CEO.
- Also in February, XOMA announced that its exclusivity obligation to Novartis for the development of antibody therapeutics in oncology had expired and that XOMA and Takeda had expanded their existing collaboration to include new oncology targets. XOMA announced that payments from Takeda under its expanded collaboration could reach more than $230 million.
- On March 7, 2007, XOMA announced that it has elected to automatically convert all of its remaining outstanding convertible notes (approximately $2.5 million) into common shares pursuant to the terms of the indenture governing the notes.

Financial Discussion

Revenues

Total revenues for 2006 were $29.5 million, compared with $18.7 million in 2005. License and collaborative fee revenues were $2.8 million in 2006, compared with $5.1 million in 2005. Contract and other revenues were $16.3 million in 2006, compared with $7.4 million in 2005. The increase resulted primarily from the Company's service arrangements with NIAID, AVEO, Schering-Plough, Cubist Pharmaceuticals, Inc. ("Cubist", NASDAQ: CBST), and Taligen. Royalties in 2006 totaled $10.3 million compared with $6.2 million in 2005, reflecting the growth in RAPTIVA® sales and the commencement of LUCENTIS® sales.

Revenues for the next several years will be largely determined by the timing and extent of royalties generated by worldwide sales of RAPTIVA® and LUCENTIS®, the expected inception of CIMZIA™ royalties, the amortization of payments made to XOMA pursuant to existing collaboration agreements, and by the establishment and nature of future antibody discovery, manufacturing service, out-licensing and collaboration arrangements.

Expenses

In 2006, research and development expenses were $52.1 million, compared with $39.9 million in 2005. The $12.2 million increase in 2006 compared with 2005 primarily reflects increases in spending on the Company's contracts with NIAID, Taligen and AVEO, its development of XOMA 052 and NEUPREX®, and its collaborations with Schering-Plough and Lexicon Pharmaceuticals, Inc., partially offset by decreased spending on its collaboration agreements with Novartis, Genentech, Aphton Corporation and Millennium, its development of XOMA 629 and the termination of its agreement with Cubist.

In 2006, general and administrative expenses were $18.1 million compared with $14.8 million in 2005. The $3.3 million increase for 2006 resulted primarily from increased employee-related costs, debt issuance expenses related to the Company's February 2006 convertible debt, and increased legal, audit and other consulting fees.

Interest Expense

Interest expense was $12.9 million in 2006 compared with $4.3 million in 2005. Interest expense for 2006 primarily consisted of $6.9 million from the revaluation of the embedded derivative on the Company's convertible debt, $3.4 million of interest expense payable and $1.0 million in net amortization of debt issuance costs, discount and premium on the convertible debt, in addition to $1.0 million of interest payable on the Company's note with Novartis. Interest expense for 2005 primarily consisted of interest on convertible debt.

Long-term Debt

At December 31, 2006, XOMA had $44.5 million of 6.5% convertible senior notes due in 2012, $35.0 million of a 5-year term loan facility with Goldman Sachs established in November of 2006, and $16.4 million of long term debt to Novartis. The long term debt to Novartis represents XOMA's draw down of a $50.0 million loan facility established to facilitate XOMA's participation in its oncology collaboration with Novartis.

Subsequent to year-end, $42.0 million of the notes were voluntarily converted by note holders. On March 7, 2007, XOMA announced that it has elected to automatically convert all of its remaining outstanding convertible notes (approximately $2.5 million) into common shares pursuant to the terms of the indenture governing the notes.

Liquidity and Capital Resources

Cash, cash equivalents and short-term investments at December 31, 2006, was $46.4 million compared with $43.5 million at December 31, 2005. This $2.9 million increase reflects cash used in operations of $33.3 million, cash used in the purchase of fixed assets of $8.5 million and cash transferred to restricted cash of $4.3 million more than offset by cash provided by financing activities of $48.9 million, primarily from the Company's term loan financing of $35.0 million and $12.5 million in New Notes issued for cash in the Company's convertible debt exchange. Net cash used in operating activities was $33.3 million in 2006 compared with $44.2 million in 2005.

XOMA is providing the following guidance for 2007 which will be updated on a quarterly basis. More details will be discussed in the conference call later today. We expect revenue for 2007 to increase by 95% to 105% over the $29.5 million from 2006. We expect R&D expense in 2007 to grow from the $52.1 million spent in 2006 by 25% to 30%. We expect G&A expense for 2007 to remain flat as compared with 2006. With the final conversions of the convertible notes in early 2007, net interest expense should decrease about 10% from the $11.3 million in 2006. We expect cash used in operating activities for 2007 to decrease to less than half of the $33.3 million used in 2006.

Pipeline Highlights

RAPTIVA® (Efalizumab): Collaboration with Genentech

RAPTIVA® was developed in the U.S. through a collaboration between Genentech and XOMA, and received FDA approval in October of 2003 as the first FDA-approved biologic therapy to provide continuous control of chronic moderate-to-severe plaque psoriasis in adults age 18 or older who are candidates for systemic therapy or phototherapy. Patients can self-administer the drug as a single, once weekly subcutaneous injection after training by a healthcare professional.

Genentech has been marketing RAPTIVA® in the U.S. since November of 2003. Outside the U.S. and Japan, RAPTIVA® is sold by Merck Serono S.A. ("Serono"), which announced in October of 2004 that it had received European Commission Marketing Authorization for RAPTIVA® in patients with moderate-to-severe chronic plaque psoriasis for whom other systemic treatments or phototherapy have been inadequate or inappropriate. By the end of 2006, Serono had launched RAPTIVA® in approximately 50 countries worldwide. Worldwide RAPTIVA® sales totaled $159.7 million in 2006. In early February, Genentech released positive and statistically significant safety and efficacy results of a 12-week Phase IV study of RAPTIVA® in psoriasis of the hands and feet. XOMA earns a mid single-digit royalty on sales of RAPTIVA®.

LUCENTIS® (ranibizumab injection) by Genentech

LUCENTIS® is an antibody fragment against Vascular Endothelial Growth Factor for the treatment of neovascular (wet) age-related macular degeneration, which causes vision loss in the elderly. LUCENTIS® was approved by the FDA on June 30, 2006, and in the European Union, where it is distributed by Novartis, in January of 2007. It is the first marketed therapeutic product manufactured under a license using XOMA's BCE technology. XOMA earns royalties on worldwide sales of LUCENTIS®, which totaled $407.0 million in 2006.

NEUPREX® (opebacan/rBPI$_{21}$)

NEUPREX® is an injectable formulation of opebacan, a modified recombinant fragment of human bactericidal/permeability-increasing protein ("BPI") that has anti-infective properties and it is a potent neutralizer of endotoxin. More than 1,100 patients have been treated with NEUPREX® in clinical studies without any apparent safety concerns.

In January of 2007, in conjunction with Harvard Medical School, XOMA initiated a Phase I/II clinical trial of NEUPREX® in adults and children undergoing allogeneic hematopoietic stem cell transplantation ("HSCT") to evaluate safety, pharmacokinetics and markers of biological activity. Earlier research indicates that endotoxemia can induce or worsen acute graft vs. host disease in these patients who are also susceptible to infectious complications due to the large doses of radiation or chemotherapy they receive prior to transplantation. The Company expects to add other sites to this study during 2007. Success in HSCT trials may be relevant to potential use in acute radiation syndrome as part of the U.S. Government's bio-defense efforts.

XOMA is also supporting investigator-initiated trials in pediatric patients with congenital heart abnormalities requiring open heart surgery and in patients with burn injuries. These Phase I trials are evaluating NEUPREX®'s safety and its role in improving endotoxin-induced complications in these patient populations. The Company expects these trials to conclude in 2007 and to then evaluate options for conducting additional studies.

In September of 2006, the EMEA granted an orphan medicinal product designation to NEUPREX® in meningococcal sepsis, a potentially life-threatening bacterial infection predominantly affecting young children. XOMA is completing the regulatory assessment for NEUPREX® under the EMEA Exceptional Circumstances mechanism during the first half of 2007 and intends to base its planned application on existing Phase III clinical trial data.

XOMA 052 (formerly XMA005.2)

XOMA 052 is a HE™ monoclonal antibody with very high-affinity and potent inhibitory activity against its inflammatory target. This high potency means that it may be suitable for use as a monthly-dose injectable therapeutic. The Company is currently developing XOMA 052 for targeting multiple inflammatory indications such as osteoarthritis and rheumatoid arthritis, where less frequent dosing could be a significant marketing advantage. The Company plans to enter clinical trials in 2007.

XOMA 629 (a reformulation of XMP.629)

XOMA 629 is a topical anti-bacterial formulation of a BPI-derived peptide under development as a possible treatment for acne. Certain bacteria commonly found on human skin are associated with inflammatory lesions in acne patients. The emergence of strains resistant to current antibiotics used to treat acne has encouraged the Company's researchers to review the properties of the compound for this dermatological indication. In August of 2004, XOMA announced that the results of a Phase II trial were inconclusive at demonstrating a clinical benefit of XMP.629 when compared with vehicle gel. In September of 2006, the Company announced that it had reformulated its original gel to increase its skin penetration and improve other characteristics. XOMA is currently conducting preclinical studies to optimize the reformulated product and intends to initiate Phase I clinical trials in 2007.

HCD122 (formerly CHIR-12.12) with Novartis

HCD122 is a fully human anti-CD40 antagonist antibody intended as a treatment for B-cell mediated diseases, including malignancies and autoimmune diseases. This antibody has a dual mechanism of action blocking tumor cell growth and survival signal as well as recruiting immune effector cells to kill tumor cells. HCD122 is the first product candidate selected under the multi-product antibody development and commercialization agreement for the treatment of cancer announced by Novartis and XOMA, initiated in March of 2004. In April of 2005, the Company announced the initiation of a Phase I study for patients with advanced chronic lymphocytic leukemia and in October of 2005, it initiated a second Phase I study for patients with multiple myeloma. In December of 2006 the Company reported favorable preliminary results of these Phase I trials, as well as favorable pre-clinical results of comparisons of HCD122 with RITUXAN®. Both Phase I trials are ongoing. The Company expects to expand clinical development with one or more additional indications in 2007. In

addition, the Company is investigating a number of undisclosed preclinical stage programs with Novartis.

Metabolic Disease Target: Collaboration with Lexicon

In June of 2005, XOMA began a collaboration to jointly develop and commercialize multiple antibody drugs for metabolic disease targets discovered by Lexicon using their proprietary gene knock-out technology. The initial targets are secreted proteins involved in various metabolic functions. Antibodies to these targets may be developed to treat a variety of metabolic diseases. During 2006, XOMA continued to make pre-clinical progress on the development of antibodies against these targets.

Contract Development and Collaboration Agreements

Anti-Botulinum Neurotoxin Program: Contract with NIAID

In July of 2006, XOMA was awarded a $16.3 million contract to produce monoclonal antibodies for the treatment of botulism to protect U.S. citizens against the harmful effects of botulinum neurotoxins used in bioterrorism. The contract work is being performed on a cost plus fixed fee basis over a three year period.

In March of 2005, XOMA was awarded a $15.0 million contract from NIAID to develop three anti-botulinum neurotoxin monoclonal antibody therapeutics. The contract work was performed over an 18-month period and was completed in October of 2006.

Undisclosed Targets: Collaboration with Schering-Plough

In May of 2006, XOMA entered into a collaboration agreement with Schering-Plough for therapeutic monoclonal antibody discovery and development. During the collaboration, XOMA will discover therapeutic antibodies against one or more targets selected by Schering-Plough, use its phage display libraries to generate fully human antibodies and the Company's proprietary HE™ technology to humanize antibody candidates generated by hybridoma techniques, perform pre-clinical studies to support regulatory filings, cell line and process development and produce antibodies for initial clinical trials. In January of 2007, XOMA announced that this collaboration had been expanded to include additional disease targets. XOMA estimates that it could receive more than $75 million before royalties over the life of the agreement in aggregate upfront, R&D funding, milestone and other payments.

Undisclosed Targets: Collaboration with Takeda

In November of 2006, the Company entered into a collaboration agreement with Takeda for therapeutic monoclonal antibody discovery and development. During the collaboration, XOMA will discover therapeutic antibodies against multiple targets selected by Takeda. In February of 2007, XOMA announced that this collaboration had been expanded to include additional disease targets in oncology. XOMA estimates that it could receive more than $230 million, before royalties, over the life of the agreement in aggregate upfront, R&D funding, milestone and other payments.

Investor Conference Call

XOMA has scheduled an investor conference call and webcast to discuss its 2006 results for this afternoon, March 8, 2007, beginning at 5:00 PM EST (2:00 P.M. PST). Investors are invited to listen to the conference call by phone or via XOMA's website, http://www.xoma.com. The webcast will be archived on the site and available for replay until close of business on June 8, 2007. To obtain phone access to the live audiocast in the U.S. and Canada, dial 1-877-407-9205. International callers should dial 1-201-689-8054. No conference ID is necessary. An audio replay will be available by telephone beginning two hours following the conclusion of the webcast until 11:59 pm Eastern (8:59 pm Pacific) on March 22, 2007. Access numbers for the replay are 1-877-660-6853 (U.S./Canada) or 1-201-612-7415 (International). Two access numbers are required for the replay: account # 286 and conference ID # 232186.

About XOMA

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

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

Certain statements contained herein related to levels of future revenues, future sales of approved products, and amounts of payments under existing agreements, as well as other statements related to current plans for product development and manufacturing and existing and potential collaborative and licensing relationships, or that otherwise relate to future periods, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements are based on assumptions that may not prove accurate. Actual results could differ materially from those anticipated due to certain risks inherent in the biotechnology industry and for companies engaged in the development of new products in a regulated market.

Among other things revenue levels may be other than as expected due to unanticipated changes in XOMA's research and development programs; unavailability of additional arrangements, lower than anticipated sales of approved products or failure of products to receive approval; the sales efforts for approved products may not be successful if the parties responsible for marketing and sales fail to meet their commercialization goals, due to the strength of competition, if physicians do not adopt the products as treatments for their patients or if remaining regulatory approvals are not obtained or maintained; and

XOMA will not receive the estimated total amounts of funds if it cannot successfully discover and develop antibodies as called for in its existing collaborations.

These and other risks, including those related to the results of discovery and pre-clinical testing; the timing or results of pending and future clinical trials (including the design and progress of clinical trials; safety and efficacy of the products being tested; action, inaction or delay by the FDA, European or other regulators or their advisory bodies; and analysis or interpretation by, or submission to, these entities or others of scientific data); changes in the status of existing collaborative relationships; the ability of collaborators and other partners to meet their obligations; XOMA's ability to meet the demands of the United States government agency with which it has entered into its government contracts; competition; market demands for products; scale-up and marketing capabilities; availability of additional licensing or collaboration opportunities; international operations; share price volatility; XOMA's financing needs and opportunities; uncertainties regarding the status of biotechnology patents; uncertainties as to the costs of protecting intellectual property; and risks associated with XOMA's status as a Bermuda company, are described in more detail in XOMA's most recent filing on Form 10-K and in other SEC filings. Consider such risks carefully when considering XOMA's prospects.

Condensed Financial Statements Follow

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Contact:
Paul Goodson
Sr. Director, Investor Relations
Tel: (510) 204-7270
goodson@xoma.com

CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	December 31, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 28,002	$ 20,804
Short-term investments	18,381	22,732
Restricted cash	4,330	—
Receivables	13,390	5,186
Related party receivables	56	98
Prepaid expenses	1,061	975
Debt issuance costs	668	493
Total current assets	65,888	50,288
Property and equipment, net	22,434	19,056
Related party receivables – long-term	38	93
Debt issuance costs – long-term	2,661	2,683
Deposits	457	457
Total assets	$ 91,478	$ 72,577
LIABILITIES AND SHAREHOLDERS' EQUITY (NET CAPITAL DEFICIENCY)		
Current liabilities:		
Accounts payable	$ 4,186	$ 5,648
Accrued liabilities	7,086	5,717
Accrued interest	1,794	1,652
Deferred revenue	9,601	3,527
Total current liabilities	22,667	16,544
Deferred revenue – long-term	8,768	4,333
Convertible debt – long-term	46,823	60,000
Interest bearing obligation – long-term	51,393	12,373
Total liabilities	129,651	93,250
Commitments and contingencies		
Shareholders' equity (net capital deficiency):		
Preference shares, $.05 par value, 1,000,000 shares authorized		
Series A, 210,000 designated, no shares issued and outstanding at December 31, 2006 and 2005	—	—
Series B, 8,000 designated, 2,959 shares issued and outstanding at December 31, 2006 and 2005; aggregate liquidation preference of $29.6 million	1	1
Common shares, $.0005 par value, 210,000,000 shares authorized, 105,454,389 and 86,312,712 shares outstanding at December 31, 2006 and 2005, respectively	53	43
Additional paid-in capital	689,315	655,041
Accumulated comprehensive income	(9)	(66)
Accumulated deficit	(727,533)	(675,692)
Total shareholders' equity (net capital deficiency)	(38,173)	(20,673)
Total liabilities and shareholders' equity (net capital deficiency)	$ 91,478	$ 72,577

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	Year Ended December 31,		
	2006	2005	2004
Revenues:			
License and collaborative fees	$ 2,846	$ 5,061	$ 3,573
Contract and other revenue	16,329	7,392	—
Royalties	10,323	6,216	92
Total revenues	29,498	18,669	3,665
Operating costs and expenses:			
Research and development (including contract related of $10,909, $5,536, and $40, respectively, for the years ended December 31, 2006, 2005 and 2004)	52,094	39,896	49,784
General and administrative	18,088	14,798	15,604
Collaboration arrangement	—	—	16,373
Total operating costs and expenses	70,182	54,694	81,761
Loss from operations	(40,684)	(36,025)	(78,096)
Other income (expense):			
Investment and interest income	1,675	1,882	499
Interest expense	(12,932)	(4,254)	(1,229)
Gain on extinguishment of debt	—	40,935	—
Other income (expense)	100	244	(116)
Net income (loss) before taxes	(51,841)	2,782	(78,942)
Income tax expense	—	3	—
Net income (loss)	$(51,841)	$ 2,779	$(78,942)
Basic and diluted net income (loss) per common share	$ (0.54)	$ 0.03	$ (0.93)
Shares used in computing basic net income (loss) per common share	95,961	86,141	84,857
Shares used in computing diluted net income (loss) per common share	95,961	90,063	84,857