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

FORM 10-Q

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

For the quarterly period ended March 31, 2020

OR

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

For the transition period from _____to_____

Commission File No. 0-14710

XOMA Corporation
(Exact name of registrant as specified in its charter)

Delaware	**52-2154066**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
2200 Powell Street, Suite 310 Emeryville, California	**94608**
(Address of principal executive offices)	**(Zip Code)**

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	**Trading symbol(s):**	**Name of each exchange on which registered:**
Common Stock, $0.0075 par value	XOMA	The Nasdaq Global Market

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 whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☒
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of May 1, 2020, the registrant had 11,014,673 shares of common stock, $0.0075 par value per share, outstanding.

XOMA CORPORATION

FORM 10-Q

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PART I - FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

XOMA CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	March 31, 2020 (unaudited)	December 31, 2019 (Note 1)
ASSETS		
Current assets:		
Cash	$ 53,312	$ 56,688
Trade and other receivables, net	1,312	2,933
Income tax receivable	1,526	—
Prepaid expenses and other current assets	205	352
Total current assets	56,355	59,973
Property and equipment, net	28	34
Operating lease right-of-use assets	473	510
Long-term royalty receivables	34,375	34,375
Equity securities	408	681
Other assets	151	151
Total assets	$ 91,790	$ 95,724
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 717	$ 614
Accrued and other liabilities	709	945
Contingent consideration under royalty purchase agreements	75	75
Operating lease liabilities	167	163
Unearned revenue recognized under units-of-revenue method	1,267	1,096
Contract liabilities	798	798
Current portion of long-term debt	6,390	5,184
Total current liabilities	10,123	8,875
Unearned revenue recognized under units-of-revenue method – long-term	14,842	15,317
Long-term debt	25,141	27,093
Long-term operating lease liabilities	365	408
Other liabilities – long-term	200	43
Total liabilities	50,671	51,736
Commitments and Contingencies (Note 10)		
Stockholders' equity:		
Convertible preferred stock, $0.05 par value, 1,000,000 shares authorized, 6,256 shares issued and outstanding at March 31, 2020 and December 31, 2019	—	—
Common stock, $0.0075 par value, 277,333,332 shares authorized, 9,761,901 and 9,758,583 shares issued and outstanding at March 31, 2020 and December 31, 2019, respectively	73	73
Additional paid-in capital	1,240,188	1,238,299
Accumulated deficit	(1,199,142)	(1,194,384)
Total stockholders' equity	41,119	43,988
Total liabilities and stockholders' equity	$ 91,790	$ 95,724

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

(Note 1) The consolidated balance sheet as of December 31, 2019 has been derived from the audited consolidated financial statements as of that date included in the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

XOMA CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME
(unaudited)
(in thousands, except per share amounts)

	Three Months Ended March 31,	
	2020	2019
Revenues:		
Revenue from contracts with customers	$ 500	$ 8,026
Revenue recognized under units-of-revenue method	304	105
Total revenues	804	8,131
Operating expenses:		
Research and development	62	256
General and administrative	6,358	5,939
Total operating expenses	6,420	6,195
(Loss) income from operations	(5,616)	1,936
Other (expense) income, net:		
Interest expense	(542)	(429)
Other (expense) income, net	(126)	1,726
(Loss) income before income tax	(6,284)	3,233
Income tax benefit	1,526	—
Net (loss) income and comprehensive (loss) income	$ (4,758)	$ 3,233
Net (loss) income and comprehensive (loss) income available to common stockholders, basic	$ (4,758)	$ 1,881
Net (loss) income and comprehensive (loss) income available to common stockholders, diluted	$ (4,758)	$ 1,935
Basic net (loss) income per share available to common stockholders	$ (0.49)	$ 0.22
Diluted net (loss) income per share available to common stockholders	$ (0.49)	$ 0.21
Weighted average shares used in computing basic net (loss) income per share available to common stockholders	9,761	8,706
Weighted average shares used in computing diluted net (loss) income per share available to common stockholders	9,761	9,324

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

XOMA CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(unaudited)
(in thousands)

	Three Months Ended March 31, 2020						
	Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
Balance, December 31, 2019	6	$ —	9,759	$ 73	$ 1,238,299	$ (1,194,384)	$ 43,988
Issuance of common stock related to 401(k) contribution	—	—	3	—	88	—	88
Stock-based compensation expense	—	—	—	—	1,788	—	1,788
Disgorgement of stockholder's short-swing profits	—	—	—	—	13	—	13
Net loss and comprehensive loss	—	—	—	—	—	(4,758)	(4,758)
Balance, March 31, 2020	6	—	9,762	73	1,240,188	(1,199,142)	41,119

	Three Months Ended March 31, 2019						
	Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
Balance, December 31, 2018	6	$ —	8,691	$ 65	$ 1,211,122	$ (1,192,402)	$ 18,785
Exercise of stock options	—	—	24	—	115	—	115
Issuance of common stock related to 401(k) contribution	—	—	7	—	102	—	102
Vesting of restricted stock units	—	—	2	—	—	—	—
Stock-based compensation expense	—	—	—	—	1,728	—	1,728
Issuance of common stock	—	—	—	—	66	—	66
Net income and comprehensive income	—	—	—	—	—	3,233	3,233
Balance, March 31, 2019	6	—	8,724	65	1,213,133	(1,189,169)	24,029

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

XOMA CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(in thousands)

	Three Months Ended March 31,	
	2020	**2019**
Cash flows from operating activities:		
Net (loss) income	$ (4,758)	$ 3,233
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Stock-based compensation expense	1,788	1,728
Common stock contribution to 401(k)	88	102
Depreciation and amortization	6	6
Amortization of debt issuance costs, debt discount and final payment on debt	191	110
Provision for bad debt	1,409	—
Non-cash lease expense	37	488
Change in fair value of equity securities	273	(715)
Changes in assets and liabilities:		
Trade and other receivables, net	212	(1,329)
Income tax receivable	(1,526)	—
Prepaid expenses and other assets	147	42
Accounts payable and accrued liabilities	38	(116)
Unearned revenue recognized under units-of-revenue method	(304)	(105)
Operating lease liabilities	(39)	(528)
Other liabilities	158	241
Net cash (used in) provided by operating activities	(2,280)	3,157
Cash flows from investing activities:		
Payments related to purchase of royalty rights	—	(300)
Net cash used in investing activities	—	(300)
Cash flows from financing activities:		
Proceeds from exercise of options	—	237
Payment of preferred and common stock issuance costs for prior year	(166)	(376)
Principal payments – debt	(938)	—
Principal payments – finance lease	(5)	(3)
Proceeds from disgorgement of stockholder's short-swing profits	13	—
Taxes paid related to net share settlement of equity awards	—	(59)
Net cash used in financing activities	(1,096)	(201)
Net (decrease) increase in cash	(3,376)	2,656
Cash at the beginning of the period	56,688	45,780
Cash at the end of the period	$ 53,312	$ 48,436
Supplemental Cash Flow Information:		
Cash paid for interest	$ 199	$ 107
Non-cash investing and financing activities:		
Prepaid financing cost related to issuance of common stock	$ —	$ 66
Estimated fair value of contingent consideration under the royalty purchase agreements	$ —	$ 75

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

XOMA CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Description of Business

XOMA Corporation (referred to as "XOMA" or the "Company"), a Delaware corporation, is a biotech royalty aggregator with a sizable portfolio of economic rights to future potential milestone and royalty payments associated with partnered pre-commercial therapeutic candidates. The Company's portfolio was built through licensing its proprietary products and platforms from its legacy discovery and development business, combined with acquisitions of rights to future milestones and royalties that the Company has made since the royalty aggregator business model was implemented in 2017. The Company expects that most of its future revenue will be based on payments the Company may receive for milestones and royalties related to these programs.

Liquidity and Financial Condition

The Company has incurred significant operating losses and negative cash flows from operations since its inception. As of March 31, 2020, the Company had cash of $53.3 million. Based on the Company's current cash balance and its ability to control discretionary spending, such as royalty acquisitions, the Company has evaluated and concluded its financial condition is sufficient to fund its planned operations and commitments and contractual obligations for a period of at least one year following the date that these condensed consolidated financial statements are issued.

2. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany accounts and transactions among consolidated entities were eliminated upon consolidation. The unaudited condensed consolidated financial statements were prepared in accordance with generally accepted accounting principles ("GAAP") in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. As permitted under those rules certain footnotes or other financial information can be condensed or omitted. These financial statements and related disclosures have been prepared with the assumption that users of the interim financial information have read or have access to the audited consolidated financial statements for the preceding fiscal year. Accordingly, these statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2019, filed with the U.S. Securities and Exchange Commission ("SEC") on March 10, 2020.

These financial statements have been prepared on the same basis as the Company's annual consolidated financial statements and, in the opinion of management, reflect all adjustments, consisting only of normal recurring adjustments that are necessary for a fair statement of the Company's consolidated financial information. The interim results of operations are not necessarily indicative of the results that may be expected for the full year.

Use of Estimates

The preparation of financial statements in conformity with GAAP in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosures. On an ongoing basis, management evaluates its estimates including, but not limited to, those related to revenue recognition, equity securities, operating lease right-of-use assets and liabilities, legal contingencies, royalty receivables, contingent considerations under royalty purchase agreements, revenue recognized under units-of-revenue method, income taxes and stock-based compensation. The Company bases its estimates on historical experience and on various other market-specific and other relevant assumptions that are believed 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 significantly from these estimates, such as the Company's billing under government contracts and amortization of the payments received from HealthCare Royalty Partners II, L.P. ("HCRP"). Under the Company's contracts with the National Institute of Allergy and Infectious Diseases ("NIAID"), a part of the National Institutes of Health ("NIH"), the Company billed using NIH's provisional rates and thus is subject to future audits at the discretion of NIAID's contracting office. In October of 2019, NIH notified the Company that it engaged KPMG to perform an audit of the Company's incurred cost submissions for 2013, 2014 and 2015. This audit is not complete and may result in an adjustment to revenue previously reported which potentially could be material. In addition, under the contracts with HCRP, the amortization for the reporting period is calculated based on the payments expected to be made by the licensees to HCRP over the term of the arrangement. Any changes to the estimated payments by the licensees to HCRP can result in a material adjustment to revenue previously reported.

The worldwide spread of the COVID-19 pandemic is expected to result in a global slowdown of economic activity which is likely to result in delays or terminations of clinical trials underlying our royalty purchase agreements. Estimates and assumptions about future events and their effects cannot be determined with certainty and therefore require the exercise of judgment. These estimates may change, as new events occur and additional information is obtained, and are recognized in the condensed consolidated financial statements as soon as they become known. Actual results could differ from those estimates and any such differences may be material to the Company's financial statements.

Revenue Recognition

The Company recognizes revenue from all contracts with customers according to Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers* ("ASC 606"), except for contracts that are within the scope of other standards, such as leases, insurance, collaboration arrangements and financial instruments. The Company recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration which the Company expects to receive in exchange for those goods or services.

To determine revenue recognition for arrangements that the Company determines are within the scope of ASC 606, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Company satisfies a performance obligation. The Company only applies the five-step model to contracts when it is probable that Company will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of ASC 606, the Company assesses the goods or services promised within each contract and determines those that are performance obligations, and assesses whether each promised good or service is distinct. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation based on relative fair values, when (or as) the performance obligation is satisfied.

The Company recognizes revenue from its license and collaboration arrangements and royalties. The terms of the arrangements generally include payment to the Company of one or more of the following: non-refundable, upfront license fees, development, regulatory and commercial milestone payments, and royalties on net sales of licensed products.

License of intellectual property

If the license to the Company's intellectual property is determined to be distinct from the other performance obligations identified in the arrangement, the Company recognizes revenue from non-refundable, upfront fees allocated to the license when the license is transferred to the customer and the customer is able to use and benefit from the license. For licenses that are bundled with other promises, such as transfer of related materials, process and know-how, the Company utilizes judgement to assess the nature of the combined performance obligation to determine whether the combined performance obligation is satisfied over time or at a point in time. Under the Company's license agreements, the nature of the combined performance obligation is the granting of licenses to the customers as the other promises are not separately identifiable in the context of the arrangement. Since the Company grants the license to a customer as it exists at the point of transfer, and is not involved in any future development or commercialization of the products related to the license, the nature of the license is a right to use the Company's intellectual property as transferred. As such, the Company recognizes revenue related to the combined performance obligation upon completion of the delivery of the related materials, process and know-how (i.e., at a point in time).

Milestone payments

At the inception of each arrangement that includes development and regulatory milestone payments, the Company evaluates whether the milestones are considered probable of being reached and estimates the amount to be included in the transaction price. ASC 606 suggests two alternatives to use when estimating the amount of variable consideration: the expected value method and the most likely amount method. Under the expected value method, an entity considers the sum of probability-weighted amounts in a range of possible consideration amounts. Under the most likely amount method, an entity considers the single most likely amount in a range of possible consideration amounts. The Company uses the most likely amount method for development and regulatory milestone payments.

If it is probable that a significant cumulative revenue reversal would not occur, the associated milestone value is included in the transaction price. Milestone payments that are not within the control of the Company or the licensee, such as regulatory approvals, are not considered probable of being achieved until those approvals are received. The transaction price is then allocated to each performance obligation on a relative stand-alone selling price basis. The Company recognizes revenue as or when the performance obligations under the contract are satisfied. At the end of each subsequent reporting period, the Company re-evaluates the probability or achievement of each such milestone and any related constraint, and if necessary, adjusts its estimates of the overall transaction price. Any such adjustments are recorded on a cumulative catch-up basis, which would affect revenue and earnings in the period of adjustment.

Royalties

For arrangements that include sales-based royalties, including milestone payments based on the level of sales, and the license is deemed to be the predominant item to which the royalties relate, the Company recognizes revenue at the later of (i) when the related sales occur, or (ii) when the performance obligation to which some or all of the royalty has been allocated has been satisfied (or partially satisfied).

Upfront payments and fees are recorded as deferred revenue upon receipt or when due, and may require deferral of revenue recognition to a future period until the Company performs its obligations under these arrangements. Amounts payable to the Company are recorded as accounts receivable when the Company's right to consideration is unconditional. The Company does not assess whether a contract has a significant financing component if the expectation at contract inception is such that the period between payment by the customer and the transfer of the promised goods or services to the customer will be one year or less.

Sale of Future Revenue Streams

The Company has sold its rights to receive certain milestones and royalties on product sales. In the circumstance where the Company has sold its rights to future milestones and royalties under a license agreement and also maintains limited continuing involvement in the arrangement (but not significant continuing involvement in the generation of the cash flows that are due to the purchaser), the Company defers recognition of the proceeds it receives for the sale of

milestone or royalty streams and recognizes such unearned revenue as revenue under units-of-revenue method over the life of the underlying license agreement. Under the units-of-revenue method, amortization for a reporting period is calculated by computing a ratio of the proceeds received from the purchaser to the total payments expected to be made to the purchaser over the term of the agreement, and then applying that ratio to the period's cash payment.

Estimating the total payments expected to be received by the purchaser over the term of such arrangements requires management to use subjective estimates and assumptions. Changes to the Company's estimate of the payments expected to be made to the purchaser over the term of such arrangements could have a material effect on the amount of revenues recognized in any particular period.

Stock-Based Compensation

The Company recognizes compensation expense for all stock-based payment awards made to the Company's employees, consultants and directors that are expected to vest based on estimated fair values. The valuation of stock option awards is determined at the date of grant using the Black-Scholes Option Pricing Model (the "Black-Scholes Model"). The Black-Scholes Model requires inputs such as the expected term of the option, expected volatility and risk-free interest rate. To establish an estimate of expected term, the Company considers the vesting period and contractual period of the award and its historical experience of stock option exercises, post-vesting cancellations and volatility. The estimate of expected volatility is based on the Company's historical volatility. The risk-free rate is based on the yield available on United States Treasury zero-coupon issues corresponding to the expected term of the award. The Company records forfeitures when they occur.

The Company records compensation expense for service-based awards on a straight-line basis over the requisite service period, which is generally the vesting period of the award, or to the date on which retirement eligibility is achieved, if shorter.

Equity Securities

The Company received shares of common stock from Rezolute, Inc. ("Rezolute") (Note 4). Equity investments in Rezolute are classified in the condensed consolidated balance sheets as equity securities. The equity securities are measured at fair value, with changes in fair value recorded in the other (expense) income, net line item of the condensed consolidated statement of operations and comprehensive (loss) income at each reporting period. The Company remeasures its equity investments at each reporting period until such time that the investment is sold or disposed of. If the Company sells an investment, any realized gains and losses on the sale of the securities will be recognized in the condensed consolidated statement of operations and comprehensive (loss) income in the period of sale.

Purchase of Rights to Future Milestones and Royalties

The Company has purchased rights to receive a portion of certain future developmental, regulatory and commercial sales milestones, royalties and option fees on sales of products currently in clinical development. The Company acquired such rights from various entities and recorded the amount paid for these rights as long-term royalty receivables (Note 5). In addition, the Company may be obligated to make contingent payments related to certain product development milestones, fees upon exercise of options related to future license products and sales-based milestones. The contingent payments are evaluated whether they are freestanding instruments or embedded derivatives. If freestanding instruments, the contingent payments are measured at fair value at the inception of the arrangement, subject to remeasurement to fair value each reporting period. Any changes in the estimated fair value is recorded in the condensed consolidated statement of operations and comprehensive (loss) income.

The Company accounts for milestone and royalty rights related to developmental pipeline products on a non-accrual basis using the cost recovery method. These developmental pipeline products are non-commercialized, non-approved products that require Food and Drug Administration ("FDA") or other regulatory approval, and thus have uncertain cash flows. The Company is not yet able to reliably forecast future cash flows given their pre-commercial stages of development. The related receivable balance is classified as noncurrent since no payments are probable to be received in the near term. Under the cost recovery method, any milestone or royalty payment received is recorded as a direct

reduction of the recorded receivable balance. When the recorded receivable balance has been fully collected, any additional amounts collected are recognized as revenue.

The Company reviews any impairment indicators and changes in expected recoverability of the long-term royalty receivable asset regularly. If expected future cash flows discounted to the current period are less than the carrying value of the asset, the Company will record impairment. The impairment will be recognized by reducing the financial asset to an amount that represents the present value of the most recent estimate of cash flows. No impairment indicators were identified and no impairment was recorded as of March 31, 2020 and December 31, 2019.

Leases

The Company entered into a lease agreement for its corporateheadquarters in Emeryville, California and under its legacy business held leases for office and laboratory facilities in Berkeley, California. In connection with a series of restructuring events in 2017 and 2018, the Company completely vacated its leased facilities in Berkeley, California and subleased the space in the vacated buildings. In December 2019, the Company terminated its legacy operating leases in Berkeley, California and was fully released from any further payment obligations. As a result of the lease terminations the Company was also released from all financial obligations under its sublease agreements. The Company continues to lease its headquarters office space in Emeryville, California.

The Company determines the initial classification and measurement of its right-of-use assets and lease liabilities at the lease commencement date and thereafter if modified. The lease term includes any renewal options and termination options that the Company is reasonably certain to exercise. The present value of lease payments is determined by using the interest rate implicit in the lease, if that rate is readily determinable; otherwise, the Company uses its incremental borrowing rate. The incremental borrowing rate is determined by using the rate of interest that the Company would pay to borrow on a collateralized basis an amount equal to the lease payments for a similar term and in a similar economic environment. The Company built its incremental borrowing rate starting with the interest rate on its fully collateralized debt and then adjusted it for lease term length.

Rent expense for operating leases is recognized on a straight-line basis, unless the right-of-use asset has been impaired, over the reasonably assured lease term based on the total lease payments and is included in operating expenses in the condensed consolidated statements of operations and comprehensive (loss) income.

For operating leases that reflect impairment, the Company will recognize the amortization of the right-of-use asset on a straight-line basis over the remaining lease term with rent expense still included in operating expenses in the condensed consolidated statements of operations and comprehensive (loss) income.

For all leases, rent payments that are based on a fixed index or rate at the lease commencement date are included in the measurement of lease assets and lease liabilities at the lease commencement date.

The Company has elected the practical expedient to not separate lease and non-lease components. The Company's non-lease components are primarily related to property maintenance, which varies based on future outcomes, and thus is recognized in rent expense when incurred.

Prior Period Reclassifications

Within the condensed consolidated statement of cash flows, the Company separately presented the non-cash lease expense and changes in operating lease liabilities for the prior period to conform with current period presentation.

Net (Loss) Income per Share Attributable to Common Stockholders

Basic net (loss) income per share attributable to common stockholders is based on the weighted average number of shares of common stock outstanding during the period. Net loss attributable to common stockholders consists of net loss, as adjusted for any convertible preferred stock deemed dividends related to beneficial conversion features on this instrument at issuance. During periods of income, the Company allocates participating securities a proportional share of

net income, after deduction of any deemed dividends on preferred stock, determined by dividing total weighted average participating securities by the sum of the total weighted average number of common stock and participating securities (the "two-class method"). The Company's convertible preferred stock participates in any dividends declared by the Company on its common stock and are therefore considered to be participating securities. For the three months ended March 31, 2020 and 2019, the Company did not declare any dividends.

During periods of loss, the Company allocates no loss to participating securities because they have no contractual obligation to share in the losses of the Company. Diluted net (loss) income per share attributable to common stockholders is based on the weighted average number of shares outstanding during the period, adjusted to include the assumed conversion of preferred stock, and the exercise of certain stock options, RSUs, and warrants for common stock. The calculation of diluted (loss) income per share attributable to common stockholders requires that, to the extent the average market price of the underlying shares for the reporting period exceeds the exercise price of any outstanding options, RSUs or warrants and the presumed exercise of such securities are dilutive to earnings (loss) per share attributable to common stockholders for the period. Adjustments to the denominator are required to reflect the related dilutive shares.

Trade and other receivables, net

Trade and other receivables, net consist mainly of credit extended to the Company's customers in the normal course of business and are reported net of an allowance for doubtful accounts. Trade and other receivables are recorded upon triggering events specified in the agreement. Trade receivables under ASC 606 are recorded separately from contract assets when only the passage of time is required before consideration is due. The Company reviews its customer accounts on a periodic basis and records bad debt expense for specific amounts the Company evaluates as uncollectible. Past due status is determined based upon contractual terms. Amounts are written off at the point when collection attempts have been exhausted. Management estimates uncollectible amounts considering such factors as current economic conditions and historic and anticipated customer performance. This estimate can fluctuate due to changes in economic, industry, or specific customer conditions that may require adjustment to the allowance recorded by the Company. Management has included amounts believed to be uncollectible in the allowance for doubtful accounts. Any increases to allowance for doubtful accounts are charged to operating expenses. The Company recorded $1.4 million in allowance for doubtful accounts for the three months ended March 31, 2020 related to Rezolute's license agreement (Note 4).

The following table shows the activity in the allowance for doubtful accounts from continuing operations for the three months ended March 31, 2020 (in thousands):

	Three Months Ended March 31, 2020
Beginning balance	$ —
Charged to operating expenses	1,409
Ending balance	$ 1,409

Concentration of Risk

Cash and receivables are financial instruments which potentially subject the Company to concentrations of credit risk, as well as liquidity risk.

The Company monitors the creditworthiness of its customers to which it grants credit terms in the normal course of business but does not generally require collateral on receivables. For the three months ended March 31, 2020, two partners represented 62% and 38% of total revenues. For the three months ended March 31, 2019, one partner represented 99% of total revenues. As of March 31, 2020, two partners represented 62% and 38% of the trade receivables, net balance. As of December 31, 2019, one partner represented 100% of the trade receivables, net balance.

Comprehensive (Loss) Income

Comprehensive (loss) income is comprised of two components: net (loss) income and other comprehensive (loss) income. Other comprehensive (loss) income refers to gains and losses that under U.S. GAAP are recorded as an element

of stockholders' equity but are excluded from net (loss) income. The Company did not record any transactions within other comprehensive (loss) income in the periods presented and, therefore, the net (loss) income and comprehensive (loss) income were the same for all periods presented.

Accounting Pronouncements Recently Adopted

In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-13, *Fair Value Measurement (Topic 820) ("ASU 2018-13")*, which modifies, removes and adds certain disclosure requirements on fair value measurements based on the FASB *Concepts Statement, Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements*. The ASU is effective for the Company's interim and annual reporting periods during the year ending December 31, 2020, and all annual and interim reporting period thereafter. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted upon issuance of ASU 2018-13. An entity is permitted to early adopt any removed or modified disclosures upon issuance of ASU 2018-13 and delay adoption of the additional disclosures until their effective date. The Company early adopted the guidance related to removal of disclosures upon issuance of this ASU and adopted the deferred provisions as permitted under the ASU in the first quarter of 2020. The adoption of ASU 2018-13 did not have a material impact on the Company's condensed consolidated financial statements.

In November 2018, the FASB issued ASU 2018-18, Collaborative Arrangements (Topic 808) "Clarifying the Interaction between Topic 808 and Topic 606," which requires transactions in collaborative arrangements to be accounted for under ASC 606 if the counterparty is a customer for a good or service that is a distinct unit of account. The new standard also precludes an entity from presenting consideration from transactions with a collaborator that is not a customer together with revenue recognized from contracts with customers. The ASU is effective for the Company's interim and annual reporting periods during the year ending December 31, 2020, and all annual and interim reporting period thereafter. Early adoption is permitted, but no earlier than an entity's adoption date of Topic 606. This ASU requires retrospective adoption to the date the Company adopted ASC 606, January 1, 2018, by recognizing a cumulative-effect adjustment to the opening balance of retained earnings of the earliest annual period presented. The Company may elect to apply the ASU retrospectively either to all contracts or only to contracts that are not completed at the date it initially applied ASC 606. The Company adopted ASU 2018-18 as of January 1, 2020. The adoption of ASU 2018-18 did not have a material impact on the Company's condensed consolidated financial statements.

Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 replaced the incurred loss impairment methodology under current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 requires use of a forward-looking expected credit loss model for accounts receivables, loans, and other financial instruments. Adoption of the standard requires using a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the effective date to align existing credit loss methodology with the new standard. Subsequent to issuing ASU 2016-13, the FASB issued ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses*, or ASU 2018-19, for the purpose of clarifying certain aspects of ASU 2016-13. In May 2019, the FASB issued ASU 2019-05, *Financial Instruments – Credit Losses (Topic 326): Targeted Transition Relief*, or ASU 2019-05, to provide entities with more flexibility in applying the fair value option on adoption of the credit impairment standard. ASU 2018-19 and ASU 2019-05 have the same effective date and transition requirements as ASU 2016-13. ASU 2016-13 will be effective for all entities except public companies that are not smaller reporting companies for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, using a modified retrospective approach. Early adoption is permitted. The Company plans to adopt ASU 2016-13 and related updates as of January 1, 2023. The Company is currently evaluating the impact of adopting this new accounting guidance on its condensed consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes.* The amendments in ASU 2019-12 are intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. ASU 2019-12 is effective for the Company beginning January 1, 2021 with early adoption permitted. The Company is evaluating the impact of adopting this new accounting guidance on its condensed consolidated financial statements.

3. Condensed Consolidated Financial Statements Details

Equity Securities

As of March 31, 2020 and December 31, 2019, equity securities consisted of an investment in Rezolute's common stock of $0.4 million and $0.7 million, respectively (Note 4). During the three months ended March 31, 2020 and 2019, the Company recognized a loss of $0.3 million and a gain of $0.7 million, respectively, in the other (expense) income, net line item of the condensed consolidated statements of operations and comprehensive (loss) income due to the change in fair value of its investment in Rezolute's common stock.

Accrued and Other Liabilities

Accrued and other liabilities consisted of the following (in thousands):

	March 31, 2020	December 31, 2019
Accrued legal and accounting fees	$ 398	$ 256
Accrued payroll and other benefits	131	231
Interest payable	62	69
Accrued incentive compensation	55	332
Other	63	57
Total	$ 709	$ 945

Net (Loss) Income Per Share Attributable to Common Stockholders

The following is a reconciliation of the numerator (net income or loss) and the denominator (number of shares) used in the calculation of basic and diluted net (loss) income per share attributable to common stockholders (in thousands, except per share amounts):

	Three Months Ended March 31,	
	2020	2019
Numerator		
Net (loss) income	$ (4,758)	$ 3,233
Less: Allocation of undistributed earnings to participating securities	—	(1,352)
Net (loss) income available to common stockholders, basic	(4,758)	1,881
Add: Adjustments to undistributed earnings allocated to participating securities	—	54
Net (loss) income available to common stockholders, diluted	$ (4,758)	$ 1,935
Denominator		
Weighted average shares used in computing basic net (loss) income per share available to common stockholders	9,761	8,706
Effect of dilutive stock options	—	618
Weighted average shares used in computing diluted net (loss) income per share available to common stockholders	9,761	9,324
Basic net (loss) income per share of common stock	$ (0.49)	$ 0.22
Diluted net (loss) income per share of common stock	$ (0.49)	$ 0.21

Potentially dilutive securities are excluded from the calculation of diluted net (loss) income per share available to common stockholders if their inclusion is anti-dilutive.

The following table shows the weighted-average outstanding securities considered anti-dilutive and therefore excluded from the computation of diluted net (loss) income per share attributable to common stockholders (in thousands):

	Three Months Ended March 31,	
	2020	2019
Convertible preferred stock	6,256	—
Common stock options and RSUs	532	830
Warrants for common stock	15	25
Total	6,803	855

4. Licensing and Other Arrangements

Novartis – Gevokizumab (VPM087) and IL-1 Beta

On August 24, 2017, the Company and Novartis Pharma AG ("Novartis") entered into a license agreement (the "XOMA-052 License Agreement") under which the Company granted to Novartis an exclusive, worldwide, royalty-bearing license to gevokizumab ("VPM087"), a novel anti-Interleukin-1 ("IL-1") beta allosteric monoclonal antibody and related know-how and patents (altogether, the "XOMA IP"). Under the terms of the XOMA-052 License Agreement, Novartis is solely responsible for the development and commercialization of VPM087 and products containing VPM087.

On August 24, 2017, pursuant to a separate agreement (the "IL-1 Target License Agreement"), the Company granted to Novartis non-exclusive licenses to its intellectual property covering the use of IL-1 beta targeting antibodies in the treatment and prevention of cardiovascular disease and other diseases and conditions, and an option to obtain an exclusive license (the "Exclusivity Option") to such intellectual property for the treatment and prevention of cardiovascular disease.

Under the XOMA-052 License Agreement, the Company received total consideration of $30.0 million for the license and rights granted to Novartis. Of the total consideration, $15.7 million was paid in cash and $14.3 million (equal to €12.0 million) was paid by Novartis Institutes for BioMedical Research, Inc. ("NIBR"), on behalf of the Company, to settle the Company's outstanding debt with Les Laboratories Servier ("Servier") (the "Servier Loan"). In addition, NIBR extended the maturity date on the Company's debt to Novartis. The Company also received $5.0 million cash related to the sale of 539,131 shares of the Company's common stock, at a purchase price of $9.2742 per share. The fair market value of the common stock issued to Novartis was $4.8 million, based on the closing stock price of $8.93 per share on August 24, 2017, resulting in a $0.2 million premium paid to the Company.

Based on the achievement of pre-specified criteria, the Company is eligible to receive up to $438.0 million in development, regulatory and commercial milestones under the XOMA-052 License Agreement. The Company is also eligible to receive royalties on sales of licensed products, which are tiered based on sales levels and range from the high single digits to mid-teens. Under the IL-1 Target License Agreement, the Company received an upfront cash payment of $10.0 million and is eligible to receive low single-digit royalties on canakinumab sales in cardiovascular indications covered by the Company's patents. Should Novartis exercise the Exclusivity Option, the royalties on canakinumab sales will increase to the mid-single digits.

Unless terminated earlier, the XOMA-052 License Agreement and IL-1 Target License Agreement will remain in effect, on a country-by-country and product-by-product basis, until Novartis' royalty obligations end. The two agreements contain customary termination rights relating to material breach by either party. Novartis also has a unilateral right to terminate the XOMA-052 License Agreement on a product-by-product and country-by-country basis or in its entirety on six months' prior written notice to the Company. Under the IL-1 Target License Agreement, Novartis has a unilateral right to terminate the agreement on a product-by-product and country-by-country basis or in its entirety upon a prior written notice.

The XOMA-052 License Agreement and IL-1 Target License Agreement were accounted for as one arrangement because they were entered into at the same time in contemplation of each other. The Company concluded that there are multiple promised goods and services under the combined arrangement, including the transfer of license to IL-1 beta targeting antibodies, and the transfer of license, know-how, process, materials and inventory related to the VPM087 antibody, which were determined to represent two distinct performance obligations. The Company determined that the Exclusivity Option is not an option with material right because the upfront payments to the Company were not negotiated to provide an incremental discount for the future additional royalties upon exercise of the Exclusivity Option. Therefore, the Company concluded that the Exclusivity Option is not a performance obligation. The additional royalties will be recognized as revenue when, and if, Novartis exercises its option because the Company has no further performance obligations at that point.

At the inception of the arrangement, the Company determined that the transaction price under the arrangement was $40.2 million, which consisted of the $25.7 million upfront cash payments, the $14.3 million Servier Loan payoff and the $0.2 million premium on the sale of the common stock. The transaction price was allocated to the two performance obligations based on their standalone selling prices. The Company determined that the nature of the two performance obligations is the right to use the licenses as they exist at the point of transfer, which occurred when the transfer of materials, process and know-how, and filings to regulatory authority were completed. During the year ended December 31, 2017, the Company recognized the entire transaction price of $40.2 million as revenue upon completion of the delivery of the licenses and related materials, process and know-how and filings to regulatory authority.

The Company concluded that the development and regulatory milestone payments are solely dependent on Novartis' performance and achievement of specified events. The Company determined that it is not probable that a significant cumulative revenue reversal will not occur in future periods for these future payments. Therefore, the development and regulatory milestones are fully constrained and excluded from the transaction price as of March 31, 2020. Any consideration related to commercial milestones (including royalties) will be recognized when the related sales occur as they were determined to relate predominantly to the licenses granted to Novartis and therefore, have also been excluded from the transaction price. At the end of each reporting period, the Company will update its assessment of whether an estimate of variable consideration is constrained and update the estimated transaction price accordingly.

As of March 31, 2020 and December 31, 2019, there were no contract assets or contract liabilities related to this arrangement. None of the costs to obtain or fulfill the contract were capitalized. No revenue was recognized forthe three months ended March 31, 2020 and 2019.

Novartis International – Anti-TGFβ Antibody (NIS793)

On September 30, 2015, the Company and Novartis International Pharmaceutical Ltd. ("Novartis International") entered into a license agreement (the "License Agreement") under which the Company granted Novartis International an exclusive, world-wide, royalty-bearing license to the Company's anti-transforming growth factor beta ("TGFβ") antibody program (now "NIS793"). Under the terms of the License Agreement, Novartis International has worldwide rights to NIS793 and is responsible for the development and commercialization of antibodies and products containing antibodies arising from NIS793. Unless terminated earlier, the License Agreement will remain in effect, on a country-by-country and product-by-product basis, until Novartis International's royalty obligations end. The License Agreement contains customary termination rights relating to material breach by either party. Novartis International also has a unilateral right to terminate the License Agreement on an antibody-by-antibody and country-by-country basis or in its entirety on one hundred eighty days' notice.

The Company concluded that there are multiple promised goods and services under the License Agreement, including the transfer of license, regulatory services and transfer of materials, process and know-how, which were determined to represent one combined performance obligation. The Company recognized the entire upfront payment of $37.0 million as revenue in the consolidated statement of comprehensive loss in 2015 as it had completed its performance obligations as of December 31, 2015.

During the year ended December 31, 2017, Novartis International achieved a clinical development milestone pursuant to the License Agreement, and as a result, the Company earned a $10.0 million milestone payment which was recognized as license fees in the consolidated statement of operations and comprehensive (loss) income. The Company is eligible to receive up to a total of $470.0 million in development, regulatory and commercial milestones under the anti-TGFB antibody agreement.

The Company concluded that the development and regulatory milestone payments are solely dependent on Novartis' performance and achievement of the specified events. The Company determined that it is not probable that a significant cumulative revenue reversal will not occur in future periods for these future payments. Therefore, the remaining development and regulatory milestones are fully constrained and excluded from the transaction price as of March 31, 2020. Any consideration related to commercial milestones (including royalties) will be recognized when the related sales occur as they were determined to relate predominantly to the licenses granted to Novartis and therefore, have also been excluded from the transaction price. At the end of each reporting period, the Company will update its assessment of whether an estimate of variable consideration is constrained and update the estimated transaction price accordingly.

The Company is also eligible to receive royalties on sales of licensed products, which are tiered based on sales levels and range from a mid-single digit percentage rate to up to a low double-digit percentage rate. Novartis International's obligation to pay royalties with respect to a particular product and country will continue for the longer of the date of expiration of the last valid patent claim covering the product in that country, or ten years from the date of the first commercial sale of the product in that country.

As of March 31, 2020 and December 31, 2019, there were no contract assets or contract liabilities related to this arrangement. None of the costs to obtain or fulfill the contract were capitalized. No revenue was recognized for the three months ended March 31, 2020 and 2019.

Rezolute

On December 6, 2017, the Company entered into a license agreement with Rezolute pursuant to which the Company granted an exclusive global license to Rezolute to develop and commercialize X358 (now "RZ358") for all indications. The Company and Rezolute also entered into a common stock purchase agreement pursuant to which Rezolute

agreed to issue to the Company, as consideration for receiving the license for RZ358, a certain number of its common stock related to its future financing activities.

Under the terms of the license agreement, Rezolute is responsible for all development, regulatory, manufacturing and commercialization activities associated with RZ358 and is required to make certain development, regulatory and commercial milestone payments to the Company of up to $232.0 million in the aggregate based on the achievement of pre-specified criteria. Under the license agreement, the Company is also eligible to receive royalties ranging from the high single digits to the mid-teens based upon annual net sales of any commercial product incorporating RZ358. Rezolute is obligated to take customary steps to advance RZ358, including using diligent efforts to commence the next clinical study for RZ358 by a certain deadline and to meet certain spending requirements on an annual basis for the program until a marketing approval application for RZ358 is accepted by the FDA. Rezolute's obligation to pay royalties with respect to a particular RZ358 product and country will continue for the longer of the date of expiration of the last valid patent claim covering the product in that country, or twelve years from the date of the first commercial sale of the product in that country.

Under the terms of the license agreement, the Company is eligible to receive a low single digit royalty on sales of Rezolute's other non-RZ358 products from its current programs. Rezolute's obligation to pay royalties with respect to a particular Rezolute product and country will continue for the longer of twelve years from the date of the first commercial sale of the product in that country or for so long as Rezolute or its licensee is selling such product in such country (the "Royalty Term"), provided that any such licensee royalty will terminate upon the termination of the licensee's obligation to make payments to Rezolute based on sales of such product in such country. Rezolute's future royalty obligations will be reduced by 20% at any time during the Royalty Term that a valid XOMA patent claim is not outstanding.

Rezolute had an option through June 1, 2019 to obtain an exclusive license for their choice of one of the Company's preclinical monoclonal antibody fragments, including X129 (the "Additional Product Option"), in exchange for a $1.0 million upfront option fee and additional clinical, regulatory and commercial milestone payments to the Company of up to $237.0 million in the aggregate based on the achievement of pre-specified criteria as well as royalties ranging from the high single digits to the mid-teens based on annual net sales. On June 1, 2019, Rezolute's right to the Additional Product Option expired unexercised.

The license agreement contains customary termination rights relating to material breach by either party. Rezolute also has a unilateral right to terminate the license agreement in its entirety on ninety days' notice at any time. The Company has the right to terminate the license agreement if Rezolute challenges the licensed patents.

Under the license agreement and common stock purchase agreement, no consideration was exchanged upon execution of the arrangement. In consideration for receiving the license for RZ358, Rezolute agreed to issue shares of its common stock and pay cash to the Company upon the occurrence of Rezolute's financing activities and the amounts to be paid to be based on the timing of those activities.

Rezolute License Agreement - First Amendment

In March 2018, the Company and Rezolute amended the license agreement and common stock purchase agreement. Pursuant to the as-amended terms of the license agreement and common stock purchase agreement, the Company was eligible to receive $6.0 million in cash, $8.5 million of Rezolute's common stock, and 7,000,000 shares of Rezolute's common stock, contingent on the completion of Rezolute's financing activities. Further, in the event that Rezolute did not complete a financing that raised at least $20.0 million in aggregate gross proceeds ("Qualified Financing") by March 31, 2019 (the "2019 Closing"), the Company would have received an additional number of shares of Rezolute's common stock equal to $8.5 million divided by the weighted average of the closing bid and ask prices or the average closing prices of Rezolute's common stock on the ten-day trading period prior to March 31, 2019. Finally, in the event that Rezolute was unable to complete a Qualified Financing by March 31, 2020, the Company would have been eligible to receive $15.0 million in cash in order for Rezolute to maintain the license. Under the common stock purchase agreement, Rezolute granted the Company the right and option to sell the greater of (i) 5,000,000 shares of common stock or (ii) one third of the aggregate shares held by the Company upon failure by Rezolute to list its shares of its common stock on the Nasdaq Stock Market or a similar national exchange on or prior to December 31, 2018.

During the three months ended March 31, 2018, the Company completed the delivery of the license and related materials, product data/filing, process and know-how to Rezolute. However, the Company determined that it was not probable that the Company would collect substantially all of the consideration to which it was entitled in exchange for the goods and services transferred to Rezolute. Therefore, the Company determined no contract existed as of March 31, 2018 and no revenue was recognized during the three months ended March 31, 2018 under the arrangement.

Rezolute completed the Interim Financing Closing and the Initial Closing financing activities, as defined in the common stock purchase agreement, during the first and second quarter of 2018, respectively. As a result, XOMA received 8,093,010 shares of Rezolute's common stock and cash of $0.5 million in April 2018. Under the license agreement, XOMA was also entitled to receive $0.3 million of reimbursable technology transfer expenses from Rezolute. The Company concluded that the payment associated with the Initial Closing represented substantially all consideration for the delivered license and technology to Rezolute. Therefore, the Company determined that a contract existed between Rezolute and XOMA under ASC 606 on April 3, 2018.

The license agreement and common stock purchase agreement were accounted for as one arrangement because they were entered into at the same time in contemplation of each other. The Company concluded that there were multiple promised goods and services under the combined arrangement, including the license to RZ358, the transfer of RZ358 materials and product data/filing, and the transfer of process and know-how related to RZ358, which were determined to represent one combined performance obligation. The Company determined that the Additional Product Option was not an option with material right because there was no upfront consideration to the Company that would result to an incremental discount for the future opt in payments. Therefore, the Company concluded that the Additional Product Option was not a performance obligation. On June 1, 2019, Rezolute's right to the Additional Product Option expired unexercised.

On April 3, 2018, the Company determined that the transaction price under the arrangement was $1.8 million, which consisted of the 8,093,010 shares of Rezolute's common stock valued at $1.0 million, $0.5 million in cash, and reimbursable technology transfer expenses of $0.3 million. During the year ended December 31, 2018, the Company recognized the entire transaction price of $1.8 million as revenue upon completion of the delivery of the licenses and related materials, product data/filing, process and know-how. The change in fair value of Rezolute's common stock after the contract inception date was due to the form of the consideration and therefore, not included in the transaction price pursuant to the accounting guidance. The Company accounts for the change in the fair value of its investment in Rezolute's common stock in the other (expense) income, net line item of the condensed consolidated statement of operations and comprehensive (loss) income.

The Company concluded that the development and regulatory milestone payments are solely dependent on Rezolute's performance and achievement of the specified events. The Company determined that it is not probable that a significant cumulative revenue reversal will not occur in future periods for these future payments. Therefore, the development and regulatory milestones are fully constrained and excluded from the transaction price as of the inception of the arrangement. Any consideration related to commercial milestones (including royalties) will be recognized when the related sales occur as they were determined to relate predominantly to the licenses granted to Rezolute and therefore, have also been excluded from the transaction price. At the end of each reporting period, the Company will update its assessment of whether the estimate of variable consideration is constrained and update the estimated transaction price accordingly.

Rezolute License Agreement - Second Amendment

On January 7, 2019, the Company and Rezolute further amended the license agreement and common stock purchase agreement. The parties agreed to replace the issuance of common stock valued at $8.5 million to XOMA upon closing of a Qualified Financing with a requirement that Rezolute make five future cash payments to XOMA totaling $8.5 million through September 2020 (the "Future Cash Payments"). The amendment also provides for early payment of the Future Cash Payments (only until the $8.5 million is reached) by making cash payments to XOMA equal to 15% of the net proceeds of each future financing following the closing of the Qualified Financing, with such payments to be credited against any remaining unpaid Future Cash Payments in reverse order of their future payment date. In addition, the license agreement amendment revised the amount Rezolute is required to expend on development of RZ358 and related licensed products, revised provisions with respect to Rezolute's diligence efforts in conducting clinical studies and eliminated XOMA's right to appoint a member to Rezolute's board of directors.

The common stock purchase agreement was amended to remove certain provisions related to the issuance of equity to XOMA in accordance with the new provisions regarding the Future Cash Payments in the license agreement. Lastly, the common stock purchase agreement was amended to provide the Company the right and option to sell up to 5,000,000 shares of Rezolute's common stock currently held by XOMA back to Rezolute upon failure by Rezolute to list its shares of its common stock on the Nasdaq Stock Market or a similar national exchange on or prior to December 31, 2019. As of December 31, 2019, Rezolute failed to list its shares of common stock on the Nasdaq Stock Market or a similar exchange. Up to 2,500,000 shares may be sold back to Rezolute during calendar year 2020.

On January 30, 2019, Rezolute closed a preferred stock financing for gross proceeds of $25.0 million, which triggered the Qualified Financing event defined under the amended common stock purchase agreement resulting in cash consideration due to XOMA of $5.5 million. In addition, the Company received from Rezolute a reimbursable technology transfer expense of $0.3 million. The cash consideration and technology reimbursement were received in February 2019.

As of March 31, 2019, Rezolute completed all financing activities, as defined in the license agreement and common stock purchase agreement, and the Company is eligible to receive $8.5 million in Future Cash Payments through September 2020 (in addition to any clinical, regulatory and annual net sales milestone payments and royalties). The Company concluded that the Future Cash Payments are dependent on Rezolute's ability to raise additional capital through future financing activities. The Company applied the variable consideration constraint to the Future Cash Payments and determined that it was probable that a significant revenue reversal would not occur in future periods for only $2.5 million of the total amount as of March 31, 2019 and recognized $2.5 million revenue in that quarter.

In July and August 2019, Rezolute received additional cash through two common stock financing events, which triggered early payment of $3.4 million of the unrecognized $6.0 million of total Future Cash Payments. In addition, the Company received the $1.5 million payment due September 30, 2019, resulting in a total of $4.9 million cash received from Rezolute in the third quarter of 2019. The Company re-assessed the outstanding $3.6 million of Future Cash Payments and determined that a significant revenue reversal was not probable due to Rezolute's recent common stock financing events. Therefore, in the third quarter of 2019, the Company recognized $6.0 million as revenue related to the remaining Future Cash Payments. In the fourth quarter of 2019, the Company received the scheduled $1.0 million Future Cash Payment from Rezolute.

Rezolute License Agreement - Third Amendment

On March 31, 2020, the Company and Rezolute further amended the license agreement to extend the payment schedule for the remaining $2.6 million in Future Cash Payments. The amendment to the payment terms was in response to Rezolute's need to preserve cash as a result of the COVID-19 pandemic and was agreed to by the Company. The extended payment schedule did not impact the total amount due, but instead, spread the $2.6 million into seven quarterly payments to be paid through September 30, 2021. The amended license agreement requires that in the event Rezolute completes a Qualified Financing at any time between March 31, 2020 and the date of the final payment, Rezolute shall pay all amounts outstanding within fifteen days following the closing of the Qualified Financing.

In the first quarter of 2020, the Company received the scheduled $0.4 million Future Cash Payment from Rezolute. The Company evaluated Rezolute's cash position as of March 31, 2020, including the estimated impact of the COVID-19 pandemic, and determined payments scheduled beyond September 30, 2020 were unlikely to be collected unless Rezolute is able to obtain additional funding, which had not occurred as of March 31, 2020. Therefore, for the three months ended March 31, 2020, the Company recorded $1.4 million in bad debt expense related to the Future Cash Payments and as of March 31, 2020, the Company has an outstanding receivable of $0.8 million.

As of March 31, 2020 and December 31, 2019, there were no contract assets or contract liabilities related to this arrangement. None of the costs to obtain or fulfill the contract were capitalized. No revenue was recognized for the three months ended March 31, 2020.

The Company reassessed the development and regulatory milestones and concluded that such variable consideration is fully constrained and excluded from the transaction price as of March 31, 2020 and December 31, 2019.

Janssen Biotech

The Company and Janssen Biotech, Inc. ("Janssen") were parties to a license agreement which was terminated in 2017. In August 2019, the Company and Janssen entered into a new agreement pursuant to which the Company granted a non-exclusive license to Janssen to develop and commercialize certain drug candidates under the XOMA patents and know-how. Under the new agreement, Janssen made a one-time payment of $2.5 million to XOMA. Additionally, for each drug candidate, the Company is entitled to receive milestone payments of up to $3.0 million upon Janssen's achievement of certain clinical development and regulatory approval events. Upon commercialization, the Company is eligible to receive 0.75% royalty on net sales of each product. Janssen's obligation to pay royalties with respect to a particular product and country will continue until the eighth-year and sixth-month anniversary of the first commercial sale of the product in such country. The new agreement will remain in effect unless terminated by mutual written agreement of the parties.

The Company concluded that the new agreement should be accounted for separately from any prior arrangements with Janssen and that the license grant is the only performance obligation under the new agreement. The Company recognized the entire one-time payment of $2.5 million as revenue in the condensed consolidated statement of comprehensive (loss) income for the year ended December 31, 2019 as it had completed its performance obligation.

The Company concluded that the development and regulatory milestone payments are solely dependent on Janssen's performance and achievement of specified events and thus it is not probable that a significant cumulative revenue reversal will not occur in future periods for these future payments. Therefore, the development and regulatory milestones are fully constrained and excluded from the transaction price as of March 31, 2020. Any consideration related to royalties will be recognized when the related sales occur as they were determined to relate predominantly to the license granted to Janssen and therefore, have also been excluded from the transaction price. At the end of each reporting period, the Company will update its assessment of whether an estimate of variable consideration is constrained and update the estimated transaction price accordingly.

As of March 31, 2020, there were no contract assets or contract liabilities related to this arrangement. None of the costs to obtain or fulfill the contract were capitalized. No revenue was recognized for the three months ended March 31, 2020.

Zydus

On March 3, 2020, the Company and Cadila Healthcare Limited ("Zydus") entered into a license agreement (the "Zydus Agreement") under which the Company granted Zydus an exclusive royalty-bearing license to the Company's anti-interleukin-2 ("IL-2") monoclonal antibody, including mAb19, for Zydus to develop and commercialize drug candidates in India, Brazil, Mexico and certain other emerging markets. The Company retains rights in all other territories, subject to a Zydus right of first negotiation. Under the terms of the Zydus Agreement, Zydus is responsible for the development and commercialization of IL-2 based immune-oncology drug candidates. XOMA is entitled to receive up to $0.5 million development and regulatory milestone payments, up to $23.5 million commercial milestone payments, and mid-single digit to low teens royalties from Zydus. The Company is also eligible to share out-licensing revenue received by Zydus should Zydus (sub)license to third parties, which are tiered based on clinical trial stage and range from a low to mid double-digit percentage rate. Unless terminated earlier, the License Agreement will remain in effect, on a product-by-product basis, until all payment obligations end. The Zydus Agreement contains customary termination rights relating to material breach by either party. Zydus also has a unilateral right to terminate the agreement upon required written notice in advance.

The Company concluded that there is one performance obligation, and it had not completed its performance obligation as of March 31, 2020. The development and regulatory milestone payments are solely dependent on Zydus' performance and achievement of the specified events. The Company determined that it is not probable that a significant cumulative revenue reversal will not occur in future periods for these future payments. Therefore, the development and regulatory milestones are fully constrained and excluded from the transaction price as of March 31, 2020. Any consideration related to commercial milestones (including royalties) will be recognized when the related sales occur as they were determined to relate predominantly to the license granted to Zydus and therefore, have also been excluded from the transaction price. Out-licensing revenue sharing will be recognized if and when Zydus receives or earns its out-licensing revenue. At the end of each reporting period, the Company will update its assessment of whether an estimate of variable consideration is constrained and update the estimated transaction price accordingly.

As of March 31, 2020, there were no contract assets or contract liabilities related to this arrangement. None of the costs to obtain or fulfill the contract were capitalized. No revenue was recognized for the three months ended March 31, 2020.

NIAID

Prior to the sale of the Company's biodefense business, the Company performed services under a $64.8 million multiple-year contract funded with federal funds from NIAID (Contract No. HHSN272200800028C), for development of anti-botulinum antibody product candidates. The contract work was being performed on a cost-plus fixed fee basis over a three-year period. The Company recognized revenue under the arrangement as the services were performed on a proportional performance basis. Consistent with the Company's other contracts with the U.S. government, invoices were provisional until finalized. The Company operated under provisional rates from 2010 through 2014, subject to adjustment based on actual rates upon agreement with the government. In 2014, upon completion of NIAID's review of hours and external expenses, XOMA agreed to exclude certain hours and external expenses resulting in a $0.4 million receivable and $0.8 million deferred revenue balances. In October of 2019, NIH, which includes NIAID, notified the Company that it engaged KPMG to perform an audit of the Company's incurred cost submissions for 2013, 2014 and 2015. This audit is not complete and may result in an adjustment to revenue previously reported which potentially could be material. As of December 31, 2017, the Company wrote off the $0.4 million receivable from NIAID as the likelihood of collection was remote. The Company classified $0.8 million as contract liabilities on the condensed consolidated balance sheets as of March 31, 2020 and December 31, 2019.

Sale of Future Revenue Streams

On December 21, 2016, the Company entered into two Royalty Interest Acquisition Agreements (together, the "Royalty Sale Agreements") with HCRP. Under the first Royalty Sale Agreement, the Company sold its right to receive milestone payments and royalties on future sales of products subject to a License Agreement, dated August 18, 2005, between XOMA and Wyeth Pharmaceuticals (subsequently acquired by Pfizer, Inc. ("Pfizer")) for an upfront cash payment of $6.5 million, plus potential additional payments totaling $4.0 million in the event three specified net sales milestones were met in 2017, 2018 and 2019. Based on actual sales, 2017, 2018, and 2019 sales milestones were not achieved. Under the second Royalty Sale Agreement entered into in December 2016, the Company sold its right to receive royalties under an Amended and Restated License Agreement dated October 27, 2006 between XOMA and Dyax Corp. for a cash payment of $11.5 million.

The Company classified the proceeds received from HCRP as unearned revenue, to be recognized as revenue under units-of-revenue method over the life of the license agreements because of the Company's limited continuing involvement in the Acquisition Agreements. Such limited continuing involvement is related to the Company's undertaking to cooperate with HCRP in the event of litigation or a dispute related to the license agreements. Because the transaction was structured as a non-cancellable sale, the Company does not have significant continuing involvement in the generation of the cash flows due to HCRP and there are no guaranteed rates of return to HCRP, the Company recorded the total proceeds of $18.0 million as unearned revenue recognized under units-of-revenue method. The Company allocated the total proceeds between the two Royalty Sale Agreements based on the relative fair value of expected payments to be made to HCRP under the license agreements. The unearned revenue is being recognized as revenue over the life of the underlying

license agreements under the "units-of-revenue" method. Under this method, amortization for a reporting period is calculated by computing a ratio of the allocated proceeds received from HCRP to the payments expected to be made by the licensees to HCRP over the term of the Acquisition Agreements, and then applying that ratio to the period's cash payment. During the third quarter of 2018, the Shire product underlying the Dyax Corp. license agreement was approved, and the Company began recognizing revenue under the units-of-revenue method due to sales of the approved product.

The Company recognized $0.3 million and $0.1 million as revenue under units-of-revenue method under these arrangements during the three months ended March 31, 2020 and 2019, respectively.

As of March 31, 2020, the Company classified $1.3 million and $14.8 million as current and non-current unearned revenue recognized under units-of-revenue method, respectively. As of December 31, 2019, the current and non-current portion of the remaining unearned revenue recognized under units-of-revenue method was $1.1 million and $15.3 million, respectively.

5. Royalty Purchase Agreements

Royalty Purchase Agreement with Agenus, Inc.

On September 20, 2018, the Company entered into a Royalty Purchase Agreement (the "Agenus Royalty Purchase Agreement") with Agenus, Inc., and certain affiliates (collectively, "Agenus"). Under the Agenus Royalty Purchase Agreement, the Company purchased from Agenus the right to receive 33% of the future royalties on six Incyte immuno-oncology assets, currently in development, due to Agenus from Incyte Europe Sarl ("Incyte") (net of certain royalties payable by Agenus to a third party) and 10% of all future developmental, regulatory and commercial milestones related to these assets. However, the Company did not have a right to the expected near-term milestone associated with the entry of INCAGN2390 (anti-TIM-3) into its Phase 1 clinical trial. The future royalties due to Agenus from Incyte are based on low-single to mid-teen digit percentage of applicable net sales.

In addition, the Company purchased from Agenus the right to receive 33% of the future royalties on MK-4830, an immuno-oncology product currently in clinical development, due to Agenus from Merck Sharp & Dohme Corp. ("Merck") and 10% of all future developmental, regulatory and commercial milestones related to this asset. The future royalties due to Agenus from Merck are based on low single digit percentage of applicable net sales. Pursuant to the Agenus Royalty Purchase Agreement, the Company's share in future potential development, regulatory and commercial milestones is up to $59.5 million. There is no limit on the amount of future royalties on sales that the Company may receive under the agreements.

Under the terms of the Royalty Purchase Agreement, the Company paid Agenus $15.0 million. The Company financed $7.5 million of the purchase price with a term loan under its Loan and Security Agreement with Silicon Valley Bank ("SVB") (Note 8).

At the inception of the agreement, the Company recorded $15.0 million as long-term royalty receivables in the condensed consolidated balance sheets. The Company continues to asses that no payments are probable to be received under this agreement in the near term. Under the cost recovery method, the Company does not expect to recognize any income related to milestones and royalties received until the investment has been fully collected. No impairment indicators were identified, and no impairment was recorded as of March 31, 2020.

Royalty Purchase Agreement with Bioasis Technologies, Inc.

On February 25, 2019, the Company entered into a Royalty Purchase Agreement (the "Bioasis Royalty Purchase Agreement") with Bioasis Technologies, Inc. and certain affiliates (collectively "Bioasis"). Under the Bioasis Royalty Purchase Agreement, the Company purchased potential future milestone and royalty rights from Bioasis for product candidates that are being developed pursuant to a license agreement between Bioasis and Prothena Biosciences Limited. In addition, the Company was granted options to purchase a 1% royalty right on the next two license agreements entered into between Bioasis and third-party licensees subject to certain payments and conditions as well as a right of first

negotiation on subsequent Bioasis license agreements with third parties. Upon exercise of the option related to the second license agreement executed by Bioasis, the Company may be obligated to pay up to $0.3 million per licensed product. Upon exercise of the option related to the third license agreement executed by Bioasis, the Company may be obligated to pay up to $0.4 million per licensed product.

Under the terms of the Bioasis Royalty Purchase Agreement, the Company paid $0.3 million and will make contingent future cash payments of up to $0.2 million to Bioasis as the licensed product candidates reach certain development milestones (the "Bioasis Contingent Consideration").

At the inception of the agreement, the Company recorded $0.4 million as long-term royalty receivables in its condensed consolidated balance sheet, including the estimated fair value of the Bioasis Contingent Consideration of $0.1 million. Future changes in the estimated fair value of the contingent consideration will be recognized in the other (expense) income, net line item of the condensed consolidated statement of operations and comprehensive (loss) income. As of March 31, 2020, there was no change in the fair value of the contingent consideration from its initial value and no amounts were paid during the three months ended March 31, 2020. The Company continues to assess that no payments are probable to be received under this agreement in the near term. Under the cost recovery method, the Company does not expect to recognize any income related to milestones and royalties received until the investment has been fully collected. No impairment indicators were identified, and no impairment was recorded as of March 31, 2020.

Royalty Purchase Agreement with Aronora, Inc.

On April 7, 2019, the Company entered into a Royalty Purchase Agreement (the "Aronora Royalty Purchase Agreement") with Aronora, Inc. ("Aronora"), which closed on June 26, 2019. Under the Aronora Royalty Purchase Agreement, the Company purchased from Aronora the right to receive future royalties and a portion of upfront, milestone, and option payments (the "Non-Royalties") related to five anti-thrombotic hematology drug candidates. Three candidates are subject to Aronora's collaboration with Bayer Pharma AG ("Bayer") (the "Bayer Products"), including one which is subject to an exclusive license option by Bayer. The Company will receive 100% of future royalties and 10% of future Non-Royalties from these Bayer Products. The other two candidates are unpartnered (the "non-Bayer Products") for which the Company will receive low-single digit percentage of net sales and 10% of Non-Royalties. The future payment percentage for Non-Royalties will be reduced from 10% to 5% upon the Company's receipt of two times the total cumulative amount of consideration paid by the Company to Aronora.

Under the terms of the Aronora Royalty Purchase Agreement, the Company paid Aronora a $6.0 million upfront payment at the close of the transaction. The Company financed $3.0 million of the upfront payment with a term loan under its Loan and Security Agreement with SVB (Note 8). The Company was required to make a contingent future cash payment of $1.0 million for each of the three Bayer Products that were active on September 1, 2019 (up to a total of $3.0 million, the "Aronora Contingent Consideration"). Pursuant to the Aronora Royalty Purchase Agreement, if the Company receives $250.0 million in cumulative royalties on net sales per product, the Company will be required to pay associated tiered milestone payments to Aronora in an aggregate amount of up to $85.0 million per product (the "Royalty Milestones"). The Royalty Milestones are paid based upon various royalty tiers prior to reaching $250.0 million in cumulative royalties on net sales per product. Royalties per product in excess of $250.0 million are retained by the Company.

At the inception of the agreement, the Company recorded $9.0 million as long-term royalty receivables in its condensed consolidated balance sheet, including the estimated fair value of the Aronora Contingent Consideration of $3.0 million. In September 2019, the Company paid the $3.0 million contingent consideration to Aronora. As the Company receives royalties from Aronora for a product, the Company will recognize the liability for future Royalty Milestones for such product when probable and estimable. The Company continues to asses that no payments are probable to be received under this agreement in the near term. Under the cost recovery method, the Company does not expect to recognize any income related to milestones and royalties received until the investment has been fully collected. No impairment indicators were identified, and no impairment was recorded as of March 31, 2020.

Royalty Purchase Agreement with Palobiofarma, S.L.

On September 26, 2019, the Company entered into a Royalty Purchase Agreement (the "Palo Royalty Purchase Agreement") with Palobiofarma, S.L. ("Palo"), a company organized and existing under the laws of Spain. Pursuant to the Palo Royalty Purchase Agreement, the Company acquired the rights to potential royalty payments in low single digit percentages of aggregate Net Sales (as defined in the Palo Royalty Purchase Agreement) associated with six drug candidates in various clinical development stages, targeting the adenosine pathway with potential applications in solid tumors, non-Hodgkin's lymphoma, asthma/chronic obstructive pulmonary disease, inflammatory bowel disease, idiopathic pulmonary fibrosis, lung cancer, psoriasis and nonalcoholic steatohepatitis and other indications (the "Palo Licensed Products") that are being developed by Palo. Novartis (the "Licensee") is a development partner on NIR178, one of the Palo Licensed Products, and such NIR178 is being developed pursuant to a license agreement between Palo and the Licensee.

Under the terms of the Palo Royalty Purchase Agreement, the Company paid Palo a $10.0 million payment at the close of the transaction which occurred simultaneously upon parties' entrance in the Palo Royalty Purchase Agreement on September 26, 2019. The Company financed $5.0 million of the payment with a term loan under its Loan and Security Agreement with SVB (Note 8).

At the inception of the agreement, the Company recorded $10.0 million as long-term royalty receivables in its condensed consolidated balance sheet. The Company continues to asses that no payments are probable to be received under this agreement in the near term. Under the cost recovery method, the Company does not expect to recognize any income related to royalties received until the investment has been fully collected. No impairment indicators were identified, and no impairment was recorded as of March 31, 2020.

There was no change in the acquired royalty rights during the three months ended March 31, 2020.

6. Fair Value Measurements

The Company records its financial assets and liabilities at fair value. The carrying amounts of certain of the Company's financial instruments, including cash, trade receivables, net and accounts payable, approximate their fair value due to their short maturities. Fair value is defined as the exchange price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The accounting guidance for fair value establishes a framework for measuring fair value and a fair value hierarchy that prioritizes the inputs used in valuation techniques. The accounting standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value, which are the following:

Level 1 – Observable inputs, such as quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs, either directly or indirectly, other than quoted prices in active markets for identical assets or liabilities, such as quoted prices in active markets for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities; therefore, requiring an entity to develop its own valuation techniques and assumptions.

The following tables set forth the Company's fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as follows (in thousands):

	Fair Value Measurements at March 31, 2020 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Equity securities	$ —	$ —	$ 408	$ 408
Liabilities:				
Contingent consideration	$ —	$ —	$ 75	$ 75

	Fair Value Measurements at December 31, 2019 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Equity securities	$	$	$ 681	$ 681
Liabilities:				
Contingent consideration	$ —	$ —	$ 75	$ 75

During the three-month period ended March 31, 2020, there were no transfers between Level 1, Level 2, or Level 3 assets reported at fair value on a recurring basis.

Equity Securities

The following table provides a summary of changes in the estimated fair value of the Company's Level 3 financial assets for the three months ended March 31, 2020 (in thousands):

Balance at December 31, 2019	$ 681
Change in fair value	(273)
Balance at March 31, 2020	$ 408

The equity securities consisted of an investment in Rezolute's common stock and are classified as long-term assets on the condensed consolidated balance sheets as of March 31, 2020 and December 31, 2019. The equity securities are revalued each reporting period with changes in fair value recorded in the other (expense) income, net line item of the condensed consolidated statements of operations and comprehensive (loss) income.

As of March 31, 2020, the Company and its valuation specialist valued the equity securities using the closing price for Rezolute's common stock traded on the over-the-counter exchange and adjusted for an illiquidity discount. The inputs used to calculate the illiquidity discount are based on observable and unobservable estimates and judgments and therefore is classified as a Level 3 fair value measurement. As the Company has the right and option to sell up to 5,000,000 shares of Rezolute's common stock back to Rezolute after December 31, 2019 (Note 4), the fair value of the equity securities was determined by dividing the total shares of Rezolute's common stock held by the Company into two tranches based on the estimated time to a potential liquidity event.

The estimated fair value of the equity securities was calculated based on the following assumptions as of March 31, 2020 and December 31, 2019:

	March 31, 2020	December 31, 2019
Closing common stock price on the Over-the-counter (OTC) exchange	$ 0.07	$ 0.12
Tranche 1:		
Discount for lack of marketability	14 %	13 %
Estimated time to liquidity of shares	0.25 year	0.25 year
Tranche 2:		
Discount for lack of marketability	35 %	33 %
Estimated time to liquidity of shares	1.5 years	1.5 years

Changes in any of the assumptions related to the unobservable inputs identified above may change the fair value of the equity securities.

Contingent Consideration

The estimated fair value of the contingent consideration liability at the inception of the Bioasis Royalty Purchase Agreement represents the future consideration that is contingent upon the achievement of specified development milestones for a product candidate. The fair value measurement is based on significant Level 3 inputs such as anticipated timelines and probability of achieving development milestones of each licensed product candidate. Changes in the fair value of the liability for contingent consideration will be recorded in the other (expense) income, net line item of the condensed consolidated statements of operations and comprehensive (loss) income until settlement. As of March 31, 2020, there were no changes in the estimated fair value of the contingent consideration from its initial value of $0.1 million.

Debt

The estimated fair value of the Company's outstanding debt is estimated using the net present value of the payments, discounted at an interest rate that is consistent with market interest rates, which is a Level 2 input. The carrying amount and the estimated fair value of the Company's outstanding long-term debt at March 31, 2020 and December 31, 2019, are as follows (in thousands):

	March 31, 2020		December 31, 2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
SVB Loans	$ 15,628	$ 15,303	$ 16,374	$ 16,048
Novartis note	15,903	15,536	15,903	15,713
Total	$ 31,531	$ 30,839	$ 32,277	$ 31,761

7. Lease Agreements

The Company leases one facility in Emeryville, California under an operating lease that expires in February 2023. The Emeryville lease contains an option to early terminate the lease by notifying the landlord on or before February 1, 2020, which expired unexercised. The lease also contains an option to extend the lease for an additional term, however, the Company is not reasonably certain to exercise this option.

The Company also previously leased two facilities in Berkeley, California under operating leases that had remaining lease terms until 2021 and 2023. On December 18, 2019, the Company entered into a Lease Termination Agreement ("the Lease Termination") with each of the 7th Street Properties II ("7th Street LP") and 7th Street Property General Partnership ("7th Street GP") to early terminate the Company's two operating leases in Berkeley, California. As a result of the lease terminations the Company was also released from all financial obligations under its sublease agreements. The Company agreed to pay an early termination fee of $1.6 million in total and recognized a loss on lease termination of $0.4 million for the year ended December 31, 2019, which was included in other (expense) income, net in the consolidated statements of operations and comprehensive (loss) income.

The following table summarizes maturity of the Company's operating lease liabilities as of March 31, 2020 (in thousands):

Undiscounted lease payments	Operating Leases
2020 (excluding three months ended March 31, 2020)	$ 142
2021	196
2022	202
2023	35
Thereafter	—
Total undiscounted lease payments	575
Present value adjustment	(43)
Total net lease liabilities	$ 532

Rent expense recognized for operating leases was $44,000 and $0.6 million for the three months ended March 31, 2020 and 2019, respectively. Under the terms of the lease agreements, the Company is also responsible for certain variable lease payments that are not included in the measurement of the lease liability. Variable lease payments for operating leases were $2,000 and $0.6 million for the three months ended March 31, 2020 and 2019, respectively, including non-lease components such as common area maintenance fees.

The following information represents supplemental disclosure for the statement of cash flows related to operating leases (in thousands):

	March 31, 2020	March 31, 2019
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows under operating leases	$ 46	$ 649

The present value assumptions used in calculating the present value of the lease payments as of March 31, 2020 and December 31, 2019 were as follows:

	March 31, 2020	December 31, 2019
Weighted-average remaining lease term		
Operating leases	2.92 years	3.17 years
Weighted-average discount rate		
Operating leases	5.51 %	5.51 %

Sublease Agreements

In December 2019, the Company's rights and obligations under its sublease arrangements transferred to 7th Street LP and 7th Street GP, and the Company was released from all financial obligations under its sublease agreements. Upon termination, the Company recognized a loss on lease termination of $0.4 million in Other (expense) income.

For the three months ended March 31, 2019, the Company recognized $0.8 million of sublease income under these sublease agreements in Other (expense) income. No sublease income was recognized for the three months ended March 31, 2020 due to the termination of the sublease agreements in 2019.

8. Long-Term Debt and Other Financings

Silicon Valley Bank Loan Agreement

On May 7, 2018 (the "Effective Date"), the Company executed a Loan and Security Agreement (the "Loan Agreement") with SVB. Under the Loan Agreement, upon the Company's request, SVB may make advances (each, a "Term Loan Advance") available to the Company up to $20.0 million (the "Term Loan"). The available fund may be increased up to $40.0 million upon the Company's request and approval by the bank subject to the Company's compliance with certain internal and credit requirements. The Company was allowed to borrow advances under the Term Loan from the Effective Date until the earlier of March 31, 2019 or an event of default (the "Draw Period"). In March 2019, the Draw Period was extended from March 31, 2019 to March 31, 2020. As of March 31, 2020, the Loan Agreement has not been amended to extend the Draw Period further. Unless an event of default occurs, the period to draw may have been extended to March 31, 2020, if the Company received $20.0 million in gross cash proceeds from milestone/licensing payments by March 31, 2019. In the event of a default related to the Note Agreement with Novartis, SVB's obligation to make any credit extensions to the Company under the Loan Agreement will immediately terminate. The interest rate will be calculated at a rate equal to the greater of (i) 4.75%, and (ii) 0.25% plus the prime rate as reported from time to time in The Wall Street Journal.

Payments under the Loan Agreement are interest only until the first anniversary of the funding date of each Term Loan Advance. The interest-only period will be followed by equal monthly payments of principal and interest over 24 months. Each Term Loan Advance will mature at the earlier of (i) the 23 months following the applicable term loan amortization date for each such Term Loan Advance (ii) March 1, 2023, or (iii) 30 days prior to the earliest maturity of any portion of the Company's loan with Novartis (the "Loan Maturity Date"). After repayment, no Term Loan Advance (or any portion thereof) may be reborrowed.

The entire principal balance, including a final payment fee equal to 8.5% of the principal, will be due and payable on the Loan Maturity Date. If the Company prepays the Term Loan Advance prior to the Loan Maturity Date, it will pay SVB a prepayment premium, based on a prepayment fee equal to 3.00% of the amount prepaid, if the prepayment occurs on or before the first anniversary of the Effective Date, 2.00% of the amount prepaid, if the prepayment occurs after the first anniversary of the Effective Date but prior to the second anniversary of the Effective Date, and 1.00% of the amount prepaid if the prepayment occurs after the second anniversary of the Effective Date. In the event of a default, a default interest rate of an additional 4% may be applied to the outstanding payments due to SVB, and SVB may declare all outstanding obligations immediately due and payable and take such other actions as set forth in the Loan Agreement.

The Company's obligations under the Loan Agreement are secured by a security interest in substantially all of its assets, other than its intellectual property. The Loan Agreement includes customary affirmative and restrictive covenants, but does not include any financial maintenance covenants, and also includes standard events of default, including payment defaults.

In connection with the Loan Agreement, the Company issued a warrant to SVB which is exercisable in whole or in part for up to an aggregate of 6,332 shares of common stock with an exercise price of $23.69 per share (the "Warrant"). The Warrant may be exercised on a cashless basis and is exercisable within 10 years from the date of issuance or upon the consummation of certain acquisitions of the Company. The fair value of the Warrant issued to SVB was determined using

the Black-Scholes Model and was estimated to be $0.1 million. In addition, the Company incurred debt issuance costs of $0.2 million in connection with the Loan Agreement.

On March 4, 2019, the Loan Agreement was amended to extend the Draw Period from March 31, 2019 to March 31, 2020. In connection with the amendment, the Company issued a second warrant to SVB which is exercisable in whole or in part for up to an aggregate of 4,845 shares of common stock with an exercise price of $14.71 per share. The fair value of the second warrant issued to SVB was determined using the Black-Scholes Model and was estimated to be $0.1 million.

As of March 31, 2020, both warrants are outstanding. In addition, both warrants may be exercised on a cashless basis and are exercisable within 10 years from the date of issuance or upon the consummation of certain acquisitions of the Company.

In September 2018, the Company borrowed advances of $7.5 million under the Loan Agreement in connection with the Agenus Royalty Purchase Agreement (Note 5). The Company recorded a discount of $0.3 million against the debt, which is being amortized to interest expense over the term of the Term Loan Advance using the effective interest method.

During the year ended December 31, 2019, the Company borrowed advances totaling $9.5 million under the Loan Agreement in connection with the Aronora Royalty Purchase Agreement, Palo Royalty Purchase Agreement and payment of the Aronora Contingent Consideration (Note 5). The Company recorded a discount of $45,000 against the debt, which is being amortized to interest expense over the term of the Term Loan Advance using the effective interest method.

The Company recorded $0.2 million and $0.1 million of non-cash interest expense resulting from the amortization of the discount and accretion of the final payment for the three months ended March 31, 2020 and 2019, respectively.

As of March 31, 2020, the carrying value of the debt under the Loan Agreement was $15.6 million. Of this amount, $6.4 million is classified as current portion of long-term debt and $9.2 million is classified as long-term debt on the condensed consolidated balance sheet. As of December 31, 2019, the carrying value of the debt under the Loan Agreement was $16.4 million. Of this amount, $5.2 million was classified as current portion of long-term debt and $11.2 million was classified as long-term debt on the condensed consolidated balance sheet.

Novartis Note

In May 2005, the Company executed a secured note agreement (the "Note Agreement") with Novartis, which was due and payable in full in June 2015. Under the Note Agreement, the Company borrowed semi-annually to fund up to 75% of the Company's research and development and commercialization costs under its collaboration arrangement with Novartis, not to exceed $50.0 million in aggregate principal amount. Interest on the principal amount of the loan accrued at six-month LIBOR plus 2%, which was equal to 4.7% at March 31, 2020 is payable semi-annually in June and December of each year. Additionally, the interest rate resets in June and December of each year. At the Company's election, the semi-annual interest payments could be added to the outstanding principal amount, in lieu of a cash payment, as long as the aggregate principal amount did not exceed $50.0 million. The Company made this election for all interest payments. Loans under the Note Agreement were secured by the Company's interest in its collaboration with Novartis, including any payments owed to it thereunder.

On September 30, 2015, concurrent with the execution of a license agreement with Novartis International as discussed in Note 4, XOMA and NIBR, who assumed the rights to the note from Novartis Vaccines Diagnostics, Inc. executed an amendment to the Note Agreement (the "Secured Note Amendment") under which the parties extended the maturity date of the note from September 30, 2015 to September 30, 2020, and eliminated the mandatory prepayment previously required to be made with certain proceeds of pre-tax profits and royalties. In addition, upon achievement of a specified development and regulatory milestone, the then-outstanding principal amount of the note will be reduced by $7.3 million rather than the Company receiving such amount as a cash payment.

On September 22, 2017, in connection with the XOMA-052 License Agreement with Novartis, the Company and NIBR executed an amendment to the Secured Note Amendment under which the parties further extended the maturity date of the Secured Note Amendment from September 30, 2020 to September 30, 2022.

As of March 31, 2020 and December 31, 2019, the outstanding principal balance under the Secured Note Amendment was $15.9 million, and was included in long-term debt in the accompanying condensed consolidated balance sheets.

Payments of Long-Term Debt

Aggregate future principal, final payment fees and discounts of the Company's long-term debt as of March 31, 2020, are as follows (in thousands):

2020 (excluding three months ended March 31, 2020)	$ 4,868
2021	8,534
2022	21,798
Thereafter	—
Total payments	35,200
Less: interest, final payment fees, discount and issuance costs	(3,669)
Total payments, net of interest, final payment fees, discount and issuance costs	31,531
Less: current portion of long-term debt	(6,390)
Long-term debt	$ 25,141

Interest Expense

Amortization of debt issuance costs and discounts are included in interest expense. Interest expense in the condensed consolidated statements of operations and comprehensive (loss) income relates to the following debt instruments (in thousands):

	Three Months Ended March 31,	
	2020	2019
SVB loan	$ 383	$ 242
Novartis note	158	186
Other	1	1
Total interest expense	$ 542	$ 429

9. Common Stock Warrants

As of March 31, 2020 and December 31, 2019, the following common stock warrants were outstanding:

Issuance Date	Expiration Date	Balance Sheet Classification	Exercise Price per Share	March 31, 2020	December 31, 2019
February 2015	February 2020	Stockholders' equity	$ 66.20	—	9,063
February 2016	February 2021	Stockholders' equity	$ 15.40	8,249	8,249
May 2018	May 2028	Stockholders' equity	$ 23.69	6,332	6,332
March 2019	March 2029	Stockholders' equity	$ 14.71	4,845	4,845
				19,426	28,489

10. Commitments and Contingencies

Collaborative Agreements, Royalties and Milestone Payments

The Company has committed to make potential future milestone payments and legal fees to third parties as part of licensing and development programs. Payments under these agreements become due and payable only upon the achievement of certain developmental, regulatory and commercial milestones by the Company's licensees. Because it is uncertain if and when these milestones will be achieved, such contingencies, aggregating up to $7.6 million (assuming one product per contract meets all milestones events) have not been recorded on the accompanying condensed consolidated balance sheets. The Company is unable to determine precisely when and if payment obligations under the agreements will become due as these obligations are based on milestone events, the achievement of which is subject to a significant number of risks and uncertainties.

Contingent Consideration

Pursuant to the Company's royalty purchase agreement with Bioasis the Company has committed to pay the Bioasis Contingent Consideration. The Company recorded $0.1 million for the Bioasis Contingent Consideration which represents the estimated fair value of these potential future payments at the inception of the agreements. The contingent consideration is remeasured at fair value at each reporting period, with changes in fair value recorded in other (expense) income, net. As of March 31, 2020, there were no changes in the estimated fair value of the contingent consideration from its initial value. The liability for future Aronora Royalty Milestones will be recorded when the amounts by product are estimable and probable. As of March 31, 2020, none of these Aronora Royalty Milestones were assessed to be probable and as such, none was recorded on the condensed consolidated balance sheet.

11. Stock-based Compensation

The Company may grant qualified and non-qualified stock options, RSUs, common stock and other stock-based awards under various plans to directors, officers, employees and other individuals. Stock options are granted at exercise prices of not less than the fair market value of the Company's common stock on the date of grant. Additionally, the Company has an Employee Stock Purchase Plan ("ESPP") that allows employees to purchase Company shares at a purchase price equal to 85% of the lower of the fair market value of the Company's common stock on the first trading day of the offering period or on the last day of the offering period.

Stock Options

Stock options generally vest monthly over three years for employees and one year for directors. Stock options held by employees who qualify for retirement age (defined as employees that are a minimum of 55 years of age and the sum of their age plus years of full-time employment with the Company exceeds 70 years) vest on the earlier of scheduled vest date or the date of retirement.

The fair value of the stock options granted during the three months ended March 31, 2020 and 2019, was estimated based on the following weighted average assumptions:

	Three Months Ended March 31,	
	2020	2019
Dividend yield	0 %	0 %
Expected volatility	100 %	103 %
Risk-free interest rate	0.90 %	2.55 %
Expected term	5.57 years	5.60 years

Stock option activity for the three months ended March 31, 2020, was as follows:

	Number of shares	Weighted Average Exercise Price Per Share	Weighted Average Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at beginning of year	1,839,623	$ 20.42	6.88	$ 26,829
Granted	138,800	21.28		
Exercised	—	—		
Forfeited, expired or cancelled	(17,011)	147.00		
Outstanding at end of period	1,961,412	$ 19.39	6.92	$ 17,154
Exercisable at end of period	1,539,655	$ 19.74	6.31	$ 15,682

The aggregate intrinsic value of stock options exercised during the three months ended March 31, 2019 was $0.2 million. No options were exercised during the three months ended March 31, 2020.

The weighted-average grant-date fair value per share of the options granted during the three months ended March 31, 2020 and 2019 was $16.30 and $11.27, respectively.

As of March 31, 2020, $4.0 million of total unrecognized compensation expense related to stock options is expected to be recognized over a weighted average period of 1.99 years.

Performance-Based Stock Options

Stock-based compensation expense associated with the corporate performance-based stock options is recognized if the performance condition is considered probable of achievement using management's best estimates. In 2017, the Company granted performance-based stock options with vesting criteria related to performance in 2017, 2018, and 2019. In 2019, the Company had 41,250 shares remaining related to outstanding performance-based stock options with a grant date fair value of $0.2 million that had vesting criteria based solely on the achievement of fiscal year 2019 corporate goals as set by the Compensation Committee of the Company's Board of Directors. For the year ended December 31, 2019, the Company determined that all remaining performance criteria were achieved and therefore the related expense of $0.2 million was recognized for the year ended December 31, 2019. As of March 31, 2020, no performance-based stock options were outstanding and there was no unrecognized compensation costs related to these outstanding performance-based stock options.

Stock-based Compensation Expense

The following table shows total stock-based compensation expense for stock options, RSUs and ESPP in the condensed consolidated statements of operations and comprehensive (loss) income (in thousands):

	Three Months Ended March 31,	
	2020	2019
Research and development	$ —	$ 49
General and administrative	1,788	1,679
Total stock-based compensation expense	$ 1,788	$ 1,728

12. Capital Stock

Rights Offering 2019

On December 2, 2019, the Company commenced a rights offering to raise up to $22.0 million through the distribution of subscription rights to holders of its common stock, Series X preferred stock and Series Y preferred stock (the "2019 Rights Offering"). In December 2019, the Company sold a total of 1,000,000 shares of common stock under

the 2019 Rights Offering for aggregate gross proceeds of $22.0 million. Total offering costs of $0.2 million were offset against the proceeds from the sale of common stock, for total net proceeds of $21.8 million.

The 2019 Rights Offering was fully backstopped by Biotechnology Value Fund, L.P. ("BVF") pursuant to the terms of an Investment Agreement between the Company and BVF (the "Investment Agreement"). In total, BVF purchased 845,463 shares of common stock and the Company will pay approximately $18,000 for BVF's reasonable legal fees and expenses in connection with the Investment Agreement and the 2019 Rights Offering. One of the Company's Directors, Matthew Perry, is the President of BVF. Each share of common stock has a stated value of $22.00 per share. As of December 31, 2019, BVF owned approximately 27.1% of the Company's total outstanding shares of common stock, and if all of the Series X and Series Y convertible preferred shares were converted, BVF would own 55.6% of the Company's total outstanding shares of common stock. Due to its significant equity ownership, BVF is considered a related party of the Company.

Preferred Stock

The Company sold directly to BVF 5,003 shares of Series X convertible preferred stock in 2017 and 1,252.772 shares of Series Y preferred stock in 2018. The Series X and Series Y convertible preferred stock have the following characteristics, which are set forth in Certificates of Designation of Preferences, Rights and Limitations filed with the Delaware Secretary of State.

Dividends— Holders of convertible preferred stock are entitled to receive dividends on shares of convertible preferred stock equal (on an as if converted to common stock basis) to and in the same form as dividends actually paid on the Company's common stock.

Liquidation Rights— In the event of the Company's liquidation, dissolution or winding up, holders of convertible preferred stock will participate, on a pro-rata basis, with any distribution of proceeds to holders of common stock.

Conversion— Each share of Series X and Series Y is convertible into 1,000 shares of registered common stock based on a conversion price of $4.03 per share and $13.00 per share of common stock, respectively.

Voting Rights— Convertible preferred stock will generally have no voting rights, except as required by law and except that the consent of the holders of the outstanding convertible preferred stock will be required to amend the terms and to issue additional shares of the preferred stock.

Classification— The Company evaluated the convertible preferred stock for liability or equity classification under the applicable accounting guidance and determined that equity treatment was appropriate because the convertible preferred stock did not meet the definition of the liability instruments defined thereunder for convertible instruments. Specifically, the convertible preferred shares are not mandatorily redeemable and do not embody an obligation to buy back the shares outside of the Company's control in a manner that could require the transfer of assets. Additionally, the Company determined that the convertible preferred stock would be recorded as permanent equity, not temporary equity, given that they are not redeemable for cash or other assets (i) on a fixed or determinable date, (ii) at the option of the holder, and (iii) upon the occurrence of an event that is not solely within control of the Company. The Company has also evaluated the embedded conversion and contingent redemption features within the convertible preferred stock in accordance with the accounting guidance for derivatives and determined that bifurcation is not required for any embedded feature.

Beneficial Conversion Feature— The fair value of the common stock into which the Series X convertible preferred stock is convertible exceeded the allocated purchase price of the Series X convertible preferred stock by $5.6 million on the date of issuance, as such the Company recorded a deemed dividend. The Company recognized the resulting beneficial conversion feature as a deemed dividend equal to the number of shares of Series X convertible preferred stock sold on February 16, 2017 multiplied by the difference between the fair value of the common stock and the Series X convertible preferred stock effective conversion price per share on that date. The dividend was reflected as a one-time, non-cash, deemed dividend to the holders of Series X convertible preferred stock on the date of issuance, which is the date the stock first became convertible. There was no beneficial conversion feature associated with the issuance of Series Y convertible preferred stock.

2018 ATM Agreement

On December 18, 2018, the Company entered into an At The Market Issuance Sales Agreement (the "2018 ATM Agreement") with H.C. Wainwright & Co., LLC ("HCW"), under which the Company may offer and sell from time to time at its sole discretion shares of its common stock through HCW as its sales agent, in an aggregate amount not to exceed $30.0 million. HCW may sell the shares by any method permitted by law deemed to be an "at the market" offering as defined in Rule 415 of the Securities Act, and will use its commercially reasonable efforts consistent with its normal trading and sales practices to sell the shares up to the amount specified. The Company will pay HCW a commission of up to 3% of the gross proceeds of any shares of common stock sold under the 2018 ATM Agreement. No shares have been sold under the 2018 ATM Agreement since the agreement was executed.

13. Income Taxes

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security ("CARES") Act was enacted and signed into law. The CARES Act includes a number of income tax changes, including, but not limited to (1) permitting NOL carrybacks to offset 100% of taxable income for taxable years beginning before 2021, (2) accelerating AMT tax refunds, (3) temporarily increasing the allowable business interest deduction from 30% to 50% of adjusted taxable income, and (4) providing a technical correction for depreciation as relates to qualified improvement property.

The Company recorded an income tax benefit of $1.5 million for the first quarter ended March 31, 2020 as a result of the CARES Act, which was enacted on March 27, 2020. The CARES Act permits the Company to carry back losses from 2018 to offset its income in 2017 resulting in an income tax receivable. The Company continues to maintain a full valuation allowance against its remaining net deferred tax assets.

The Company has a total of $5.5 million of gross unrecognized tax benefits, none of which would affect the effective tax rate upon realization. The Company currently has a full valuation allowance against its U.S. net deferred tax assets, which would impact the timing of the effective tax rate benefit should any of these uncertain tax positions be favorably settled in the future.

The Company does not expect its unrecognized tax benefits to change significantly over the next twelve months. The Company will recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. Through March 31, 2020, the Company has not accrued interest or penalties related to uncertain tax positions.

14. Subsequent Event

In February 2020, BVF elected to increase the beneficial ownership limitation of the Series Y preferred stock to 50%, which became effective on April 11, 2020. On April 15, 2020, BVF converted all of their shares of Series Y preferred stock into common stock. Immediately following the conversion, BVF owned approximately 36.6% of the Company's total outstanding shares of common stock.

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

Forward Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and the Private Securities Litigation Reform Act of 1995, which are subject to the "safe harbor" created by those sections. Forward-looking statements are based on our management's beliefs and assumptions and on information currently available to them. In some cases you can identify forward-looking statements by words such as "may," "will," "should," "could," "would," "expects," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "potential," "intend" and similar expressions intended to identify forward-looking statements. Examples of these statements include, but are not limited to, statements regarding: our future operating expenses, our future losses, the success of our strategy as a royalty aggregator, extent to which our issued and pending patents may protect our products and technology, the potential of our existing product candidates to lead to the development of commercial products, our ability to receive potential milestone or royalty payments under license and collaboration agreements and the timing of receipt of those payments, and the impact of the recent and evolving COVID-19 pandemic. 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 our licensees engaged in the development of new products in a regulated market. Among other things: our product candidates subject to our out-license agreements are still being developed, and our licensees' may require substantial funds to continue development which may not be available; we may not be successful in entering into out-license agreements for our product candidates; if our therapeutic product candidates do not receive regulatory approval, our third-party licensees will not be able to manufacture and market them; products or technologies of other companies may render some or all of our product candidates noncompetitive or obsolete; 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; even once approved, a product may be subject to additional testing or significant marketing restrictions, its approval may be withdrawn or it may be voluntarily taken off the market; we and our licensees are subject to various state and federal healthcare related laws and regulations that may impact the commercialization of our product candidates and could subject us to significant fines and penalties; and certain of our technologies are in-licensed from third parties, so our capabilities using them are restricted and subject to additional risks. These and other risks, including those related to current economic and financial market conditions, are contained principally in Part II, Item 1A of this Quarterly Report on Form 10-Q and our other filings with the SEC. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Quarterly Report on Form 10-Q. You should read this Quarterly Report on Form 10-Q completely and with the understanding that our actual future results may be materially different from those we expect. Except as required by law, we assume no obligation to update these forward-looking statements, whether as a result of new information, future events or otherwise.

The following discussion and analysis should be read in conjunction with the unaudited financial statements and notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q and with the audited consolidated financial statements and related notes thereto included as part of our Annual Report on Form 10-K for the year ended December 31, 2019.

Overview

We are a biotech royalty aggregator with a sizable portfolio of economic rights to future potential milestone and royalty payments associated with partnered pre-commercial therapeutic candidates. Our portfolio was built through licensing our proprietary products and platforms from our legacy discovery and development business, combined with acquisitions of rights to future milestones and royalties that we have made since our royalty aggregator business model was implemented in 2017. We expect that most of our future revenue will be based on payments we may receive for milestones and royalties related to these programs.

Recent Business Developments

COVID-19

The worldwide spread of the COVID-19 pandemic poses risks to our business as clinical trials industry-wide have slowed. Our business is dependent on the continued development and commercialization efforts of our licensees and our royalty agreement counterparties. We are monitoring our portfolio programs for potential delays in underlying research programs and elections of our partners to continue or cease development. Delays in clinical trials and underlying research programs may lead to delayed revenue from milestones from our licensees or, if certain research programs are discontinued, we may recognize impairment charges for our royalty receivables. COVID-19 may impact our underlying programs in a variety of ways which are unknown in length and scope at this time.

We amended our license agreement with Rezolute, Inc. (“Rezolute”) to extend payment schedule of the $2.6 million balance receivable from Rezolute. If Rezolute is unable to obtain additional financing due to COVID-19 related economic conditions, a portion of the receivable balance may not be collectible (see further discussion below).

Zydus

In March 3, 2020, we entered into a license agreement (the “Zydus Agreement”) with Cadila Healthcare Limited (“Zydus”) under which we granted Zydus an exclusive royalty-bearing license to our anti-interleukin-2 (“IL-2”) monoclonal antibody, including mAb19, for Zydus to develop and commercialize drug candidates in India, Brazil, Mexico and certain other emerging markets. We retain rights in all other territories, subject to a Zydus right of first negotiation. Under the terms of the Zydus Agreement, Zydus is responsible for the development and commercialization of IL-2 based immune-oncology drug candidates. XOMA is entitled to receive up to $0.5 million development and regulatory milestone payments, up to $23.5 million commercial milestone payments, and mid-single digit to low teens royalties from Zydus. We are also eligible to share out-licensing revenue received by Zydus should Zydus (sub)license to third parties, which are tiered based on clinical trial stage and range from a low to mid double-digit percentage rate.

Rezolute

In December 2017, we entered into a license and common stock purchase agreement with Rezolute, which was amended on March 30, 2018 and further amended on January 7, 2019. The license agreement was amended to eliminate the requirement that equity securities be issued to us upon the closing of the Qualified Financing (as defined in the license agreement) and to replace it with a requirement that Rezolute: (1) make five cash payments to us totaling $8.5 million following the closing of a Qualified Financing on or before specified staggered future dates through September 2020 (the “Future Cash Payments”); and (2) provide for early payment of the Future Cash Payments (only until $8.5 million is reached) by making cash payments to us equal to 15% of the net proceeds of each future financing following the closing of the Qualified Financing, with such payments to be credited against any remaining unpaid Future Cash Payments in reverse order of their future payment date. The common stock purchase agreement was amended to remove certain provisions related to the issuance of equity to us in accordance with the new provisions regarding the Future Cash Payments in the license agreement.

On March 31, 2020, we and Rezolute further amended the license agreement to extend the payment schedule for the remaining $2.6 million in Future Cash Payments. The amendment to the payment terms was in response to Rezolute’s need to preserve cash as a result of the COVID-19 pandemic and was agreed to by us. The revised payment schedule did

not impact the total amount due, but instead, spread the $2.6 million into seven quarterly payments to be paid through September 30, 2021. The amended license agreement requires that in the event Rezolute completes a Qualified Financing at any time between March 31, 2020 and the date of the final payment, Rezolute shall pay all amounts outstanding within fifteen days following the closing of the Qualified Financing.

In the first quarter of 2020, we received the scheduled $0.4 million Future Cash Payment from Rezolute. We evaluated Rezolute's cash position as of March 31, 2020, including the estimated impact of the COVID-19 pandemic, and determined payments scheduled beyond September 30, 2020 were unlikely to be collected unless Rezolute is able to obtain additional funding, which had not occurred as of March 31, 2020. Therefore, for the three months ended March 31, 2020, we recorded $1.4 million in bad debt expense related to the Future Cash Payments and as of March 31, 2020, we have an outstanding receivable of $0.8 million representing its current estimate of the Future Cash Payments expected to be received from Rezolute.

Critical Accounting Policies

Critical accounting policies are those that require significant judgment and/or estimates by management at the time that the financial statements are prepared such that materially different results might have been reported if other assumptions had been made. We consider certain accounting policies including, but not limited to, those related to revenue recognition, and stock-based compensation to be critical policies. Our significant accounting policies are included in "Part I - Item 1 – Condensed Consolidated Financial Statements - Note 2 – Basis of Presentation and Significant Accounting Policies." Other than the adverse impact of the COVID-19 pandemic on our carrying value of receivables, there have been no significant changes in our critical accounting policies during the three months ended March 31, 2020, as compared with those previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2019, filed with the SEC on March 10, 2020.

Results of Operations

Revenues

Total revenues for the three months ended March 31, 2020 and 2019, were as follows (in thousands):

	Three Months Ended March 31,		
	2020	2019	Change
Revenue from contracts with customers	$ 500	$ 8,026	$ (7,526)
Revenue recognized under units-of-revenue method	304	105	199
Total revenues	$ 804	$ 8,131	$ (7,327)

Revenue from Contracts with Customers

Revenue from contracts with customers includes upfront fees, milestone payments and royalties related to the out-licensing of our product candidates and technologies. The $0.5 million of revenue recognized for the three months ended March 31, 2020 was related to a milestone event under our license agreement with Compugen. The decrease for the three months ended March 31, 2020, as compared to the same period in 2019, was primarily due to $8.0 million of license fee revenue recognized under our license agreement with Rezolute in the first quarter of 2019.

The generation of future revenues related to licenses, milestones, and royalties is dependent on the achievement of milestones or product sales by our existing licensees. Due to the anticipated impact of COVID-19 on clinical trial activities of our licensees, potential milestone payments may be delayed.

Revenue recognized under units-of-revenue method

Revenues recognized under the units-of-revenue method include the amortization of unearned revenue of $0.3 million and $0.1 million for the three months ended March 31, 2020 and 2019, respectively, from the sale of royalty interests to HealthCare Royalty Partners II, L.P ("HCRP"). These are recognized based on the sales of products underlying the agreements with HCRP.

Research and Development Expenses

Research and development ("R&D") expenses were $0.1 million for the three months ended March 31, 2020, compared with $0.3 million for the same period in 2019. The decrease of $0.2 million for the three months ended March 31, 2020, compared to the same period of 2019, was due to a $0.2 million decrease in salary and related expenses.

We expect our R&D spending during the remainder of 2020 to be lower than 2019 levels.

General and Administrative Expenses

General and administrative ("G&A") expenses include salaries and related personnel costs, professional fees, and facilities costs. G&A expenses were $6.4 million for the three months ended March 31, 2020, compared with $5.9 million for the same period in 2019. The increase of $0.5 million for the three months ended March 31, 2020, as compared to the same period of 2019, was primarily due to $1.4 million recognized in bad debt expense and an increase of $0.3 million in professional fees, partially offset by a decrease of $1.2 million in facilities costs due to the early termination of our legacy leases in Berkeley, California in December 2019

We expect to continue recognizing savings in facilities costs related to our legacy leases throughout the remainder of 2020, and in light of recent developments of COVID-19, we are evaluating the reduction of certain discretionary costs for the remainder of 2020. We do not anticipate any reduction to headcount, but we do expect to recognize a slight decrease in salaries and related personnel costs due to the termination of our Chief Business Officer in August of 2019. Finally, we expect to continue to actively evaluate potential acquisitions of milestone and royalty rights, which may result in an increase in related professional fees.

Other (Expense) Income

Interest Expense

Amortization of debt issuance costs and discounts are included in interest expense. Interest expense is shown below for the three months ended March 31, 2020 and 2019 (in thousands):

	Three Months Ended March 31,		
	2020	2019	Change
SVB loan	$ 383	$ 242	141
Novartis note	158	186	(28)
Other	1	1	—
Total interest expense	$ 542	$ 429	$ 113

The increase in interest expense compared with 2019 is primarily due to the outstanding loan balance with SVB. We expect our interest expense to increase for the remainder of 2020 related to the outstanding SVB loan balance and to increase further if we choose to access additional funds.

Other (Expense) Income, Net

The following table shows the activity in other (expense) income, net for the three months ended March 31, 2020 and 2019 (in thousands):

	Three Months Ended March 31,		
	2020	2019	Change
Other (expense) income, net			
Investment income	$ 147	$ 248	$ (101)
Change in fair value of equity securities	(273)	715	(988)
Sublease income	—	753	(753)
Other	—	10	(10)
Total other (expense) income, net	$ (126)	$ 1,726	$ (1,852)

As a result of the early termination of our legacy leases in December 2019, we are no longer party to any subleases, resulting in a decrease in sublease income for the three months ended March 31, 2020 as compared with the same period of 2019.

We own equity securities consisting of shares of Rezolute's common stock which are remeasured at fair value at each reporting period. For the three months ended March 31, 2020 and 2019, we remeasured the fair value of the equity securities and recognized a loss of $0.3 million and a gain of $0.7 million, respectively.

Provision for Income Taxes

We recorded an income tax benefit of $1.5 million for the quarter ended March 31, 2020 as a result of the CARES Act, which was enacted on March 27, 2020. The CARES Act permits us to carry back losses from 2018 to offset income in 2017 resulting in an income tax receivable. We continue to maintain a full valuation allowance against our remaining net deferred tax assets.

Liquidity and Capital Resources

The following table summarizes our cash, working capital and cash flow activities for each of the periods presented (in thousands):

	March 31, 2020	December 31, 2019	Change
Cash	$ 53,312	$ 56,688	$ (3,376)
Working capital	$ 46,232	$ 51,098	$ (4,866)

	Three Months Ended March 31,		
	2020	2019	Change
Net cash (used in) provided by operating activities	$ (2,280)	$ 3,157	$ (5,437)
Net cash used in investing activities	—	$ (300)	300
Net cash used in financing activities	(1,096)	(201)	(895)
Net (decrease) increase in cash	$ (3,376)	$ 2,656	$ (6,032)

Cash (Used in) Provided by Operating Activities

Net cash used in operating activities for the three months ended March 31, 2020 of $2.3 million was primarily due to the $4.8 million net loss incurred, partially offset by stock-based compensation expense of $1.8 million. Compared to the same period in 2019, the net cash provided by operating activities of $3.2 million was primarily due to the $5.5 million cash receipts under the license and common stock purchase agreement with Rezolute in January 2019.

Cash Used in Investing Activities

No cash was provided by or used in investing activities for the three months ended March 31, 2020. Net cash used in investing activities for the three months ended March 31, 2019 was due to the purchase of milestone and royalty rights of $0.3 million in connection with the Bioasis Royalty Purchase Agreement executed in February 2019.

Cash Used in Financing Activities

Net cash used in financing activities for the three months ended March 31, 2020 of $1.1 million was primarily related to the $0.9 million in debt principal payments under the SVB loan agreements and $0.2 million payment of issuance costs related to the rights offering completed in 2019.

Net cash used in financing activities for the three months ended March 31, 2019 of $0.2 million was primarily due to payment of issuance costs related to the rights offering executed in 2018 and At The Market Issuance Sales Agreement (the "2018 ATM Agreement"), offset by proceeds received from the exercise of stock options.

Silicon Valley Bank Loan Agreement

Under our Loan Agreement with SVB, upon our request, SVB may make advances available to us up to $20.0 million. In March 2019, we and SVB amended the Loan Agreement to extend the draw period from March 31, 2019 to March 31, 2020. Our draw period lapsed on March 31, 2020 with no further extension. In connection with the amendment in March 2019, we issued a second warrant to SVB which is exercisable in whole or in part for up to an aggregate of 4,845 shares of common stock with an exercise price of $14.71 per share. The warrant may be exercised on a cashless basis and is exercisable within 10 years from the date of issuance or upon the consummation of certain acquisitions of XOMA. As of March 31, 2020, we had an outstanding principal balance of $15.6 million under the Loan Agreement, and $6.4 million was classified as current portion of long-term debt.

2018 ATM Agreement

On December 18, 2018, we entered into an At The Market Issuance Sales Agreement (the "2018 ATM Agreement") with H.C. Wainwright & Co., LLC ("HCW"), under which we may offer and sell from time to time at our sole discretion shares of our common stock through HCW as our sales agent, in an aggregate amount not to exceed $30.0 million. HCW may sell the shares by any method permitted by law deemed to be an "at the market" offering as defined in Rule 415 of the Securities Act, and will use its commercially reasonable efforts consistent with its normal trading and sales practices to sell the shares up to the amount specified. We are required to pay HCW a commission of up to 3% of the gross proceeds of any shares of common stock sold under the 2018 ATM Agreement. We have not sold any shares of common stock under the 2018 ATM Agreement.

* * *

We have incurred significant operating losses since our inception and have an accumulated deficit of $1.2 billion as of March 31, 2020. As of March 31, 2020, we had $53.3 million in cash, which we anticipate will enable us to maintain our operations for a period of at least 12 months following the filing date of this report.

We are taking steps to manage our resources by reducing and/or deferring certain discretionary expenditures to mitigate the adverse impact of the COVID-19 pandemic. Future impacts of COVID-19 may require further actions to improve our cash position, which may include reducing or delaying acquisitions of additional royalty and milestone rights or obtaining additional funds through debt arrangements, under the 2018 ATM Agreement, or other equity issuances. Our ability to raise additional capital in the equity and debt markets, should we choose to do so, is dependent on a number of factors, including, but not limited to, the market demand for our common stock, which itself is subject to a number of development and business risks and uncertainties, our creditworthiness and the uncertainty that we would be able to raise such additional capital at a price or on terms that are favorable to us. In addition, our ability to raise additional funds may be adversely impacted by deteriorating global economic conditions and the recent disruptions to and volatility in the credit and financial markets in the United States and worldwide resulting from the ongoing COVID-19 pandemic.

Changes in Commitments and Contingencies

Our commitments and contingencies were reported in our Annual Report on Form 10-K for the year ended December 31, 2019, as filed with the SEC. Except as noted below, there have been no material changes from the commitment and contingencies previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2019.

Contingent Consideration

Pursuant to the Bioasis Royalty Purchase Agreement, we have committed to pay contingent consideration of up to $0.2 million to Bioasis as the licensed product candidates reach certain development milestones. We recorded the contingent consideration at $0.1 million, which represents the estimated fair value of potential future payments at the inception of the agreement.

The contingent consideration is remeasured at fair value at each reporting period, with changes in the fair value recorded in the other (expense) income, net line item of our condensed consolidated statement of operations and comprehensive (loss) income. As of March 31, 2020, there were no changes in the estimated fair value of the contingent consideration from its initial value.

Off-balance Sheet Arrangements

We have not engaged in any off-balance sheet arrangements, including the use of structured finance, special purpose entities or variable interest entities.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and are not required to provide the information required under this item.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Controls and Procedures

We have established disclosure controls and procedures, as defined in Rule 13a-15(e) and 15d-15(e) of the Exchange Act. Our Chief Executive Officer and our Chief Financial Officer have concluded, based on the evaluation of the effectiveness of our disclosure controls and procedures by our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, as of the end of the period covered by this report, that our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control

There have been no changes in our internal controls over financial reporting as defined in Rule 13a-15(f) under the Exchange Act during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. While COVID-19 has resulted in our staff operating remotely, our established internal control structure is not impacted. As we continue to monitor and adapt to the changing environment due to COVID-19, we will continue to evaluate our internal controls over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

This Quarterly Report on Form 10-Q contains forward-looking information based on our current expectations. Because our actual results may differ materially from any forward-looking statements made by or on behalf of us, this section includes a discussion of important factors that could affect our actual future results, including our revenues, expenses, operating results, cash flows, net loss and loss per share. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. You should carefully consider these risk factors, together with all of the other information included in this Quarterly Report on Form 10-Q as well as our other publicly available filings with the U.S. Securities and Exchange Commission, or SEC.

We have marked with an asterisk (*) those risks described below that reflect substantive changes from, or additions to, the risks described in our Annual Report on Form 10-K for the year ended December 31, 2019.

Risks Related to our Royalty Aggregator Strategy

The COVID-19 pandemic could adversely impact our licensees or royalty-agreement counterparties, which could cause delays or elimination of our receipts of potential milestones and royalties under our licensing or royalty and milestone acquisition arrangements.*

In December 2019, a novel strain of coronavirus, COVID-19, was first identified in China and has surfaced in several regions across the world. In March 2020, the disease was declared a pandemic by the World Health Organization. The outbreak has reached most developed countries and resulted in the implementation of significant governmental measures, including lockdowns, closures, quarantines and travel bans, intended to control the spread of the virus.

As the situation with COVID-19 continues to evolve, the companies which are working to develop and commercialize our and their products could be materially and adversely affected by the risks, or the public perception of the risks, related to this pandemic, which could cause delays, suspensions or cancellations of their drug development efforts including, without limitation, their clinic trials which would correspondingly delay, suspend or negate the timing of our potential receipts of milestones and royalties under our out-licensing or royalty acquisition agreements. The disruptions to our licensees or royalty purchase agreement counterparties could include, without limitation:

- delays or difficulties in recruiting and enrolling new patients in their clinical trials;
- delays or difficulties in clinical site initiation, including difficulties in recruiting clinical site investigators and clinical site staff;
- diversion of healthcare resources away from the conduct of clinical trials, including the diversion of hospitals serving as their clinical trial sites and hospital staff supporting the conduct of their clinical trials;
- interruption of key clinical trial activities, such as clinical trial site monitoring, due to limitations on travel imposed or recommended by federal or state governments, employers and others;
- limitations in employee resources that would otherwise be focused on the conduct of their clinical trials, including because of sickness of employees or their families or the desire of employees to avoid contact with large groups of people;
- interruption in global shipping that may affect the transport of clinical trial supplies and materials, such as the investigational drug product used in their clinical trials;
- delays in receiving approval from the U.S. Food and Drug Administration (“FDA”), the European Medicines Agency (“EMA”) and other U.S. and foreign federal, state and local regulatory authorities to initiate their planned clinical trials;

- changes in FDA, state and local regulation (and those of their foreign counterparts if applicable) as part of a response to the COVID-19 outbreak which may change the ways in which clinical trials are conducted or discontinue clinical trials altogether;

- delays in necessary interactions with regulators, ethics committees and other important agencies and contractors due to limitations in employee resources or forced furlough of government employees;

- delay in the timing of other interactions with the FDA due to absenteeism by federal employees or by the diversion of their efforts and attention to approval of other therapeutics or other activities related to COVID-19; and

- refusal of the FDA to accept data from clinical trials in affected geographies outside the United States or of foreign regulatory authorities to accept data from clinical trials in affected areas outside their applicable countries.

The global outbreak of COVID-19 continues to rapidly evolve. The extent to which the COVID-19 pandemic may impact our business and prospects and the overall economies of the U.S. and other countries will depend on future developments, which are highly uncertain and cannot be predicted with confidence, such as the ultimate geographic spread of the disease, the duration of the outbreak, travel restrictions and social distancing in the United States and other countries, business closures or business disruptions and the effectiveness of actions taken in the United States and other countries to contain and treat the disease.

The COVID-19 pandemic poses risks to our business, including at our headquarters in Emeryville, California, which has been subject to the statewide "stay-at-home" order issued by the Governor of the State of California, as well as the business or operations of our partners and other third parties with whom we conduct business.*

COVID-19 has spread to multiple countries, including the United States, China, and several European countries. In March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic, and the U.S. government imposed restrictions on travel between the United States, China, Europe and certain other countries. Further, the President of the United States declared the COVID-19 pandemic a national emergency, invoking powers under the Stafford Act, the legislation that directs federal emergency disaster response. Similarly, the State of California declared a state of emergency related to the spread of COVID-19, on March 19, 2020, the Governor of California issued an executive order that directed all individuals living in the State of California to stay at home or their place of residence for an indefinite period of time (subject to certain exceptions to facilitate authorized necessary activities) to mitigate the impact of the COVID-19 pandemic.

In response to these public health directives and orders, we have implemented a work-from-home policy for all employees. We have been able to maintain our operations and productivity thus far; however, prolonged continuance of the "stay-at-home" order may negatively impact productivity, disrupt our business and delay our timelines, the magnitude of which will depend, in part, on the length and severity of the restrictions and other limitations on our ability to conduct our business in the ordinary course.

In addition, quarantines, stay-at-home, executive and similar government orders, shutdowns or other restrictions on the conduct of business operations could impact personnel at third-party clinical testing sites, manufacturing facilities, or the availability or cost of materials, which would disrupt our licensees' and royalty purchase agreement counterparties' supply chains.

The spread of COVID-19, which has caused a broad impact globally, may materially affect us economically. While the potential economic impact brought by, and the duration of, COVID-19 may be difficult to assess or predict, it has significantly disrupted global financial markets, and may limit our ability to access capital, which could in the future negatively affect our liquidity. A recession or market correction resulting from the spread of COVID-19 could materially affect our business and the value of our common stock.

The ultimate impact of the COVID-19 outbreak or a similar health epidemic is highly uncertain and subject to change. We do not yet know the full extent of potential delays or impacts on our business, our clinical trials, healthcare systems or the global economy as a whole. However, the effects could have a material impact on our operations, and we will continue to monitor the COVID-19 situation closely.

Our acquisitions of potential future royalty and/or milestone payments may not produce anticipated revenues and/or may be negatively affected by a default or bankruptcy of the licensor(s) or licensee(s) under the applicable license agreement(s) covering such potential royalties and/or milestones, and if such transactions are secured by collateral, we may be, or may become, under-secured by the collateral or such collateral may lose value and we will not be able to recuperate our capital expenditures associated with the acquisition.*

We are engaged in a continual review of opportunities to acquire future royalties, milestones and other payments related to drug development and sales as part of our royalty aggregator strategy or to acquire companies that hold royalty assets. Generally, at any time, we seek to have acquisition opportunities in various stages of active review, including, for example, our engagement of consultants and advisors to analyze particular opportunities, technical, financial and other confidential information, submission of indications of interest and involvement as a bidder in competitive auctions. Many potential acquisition targets do not meet our criteria, and for those that do, we may face significant competition for these acquisitions from other royalty buyers and enterprises. Competition for future asset acquisition opportunities in our markets could increase the price we pay for such assets and could reduce the number of potential acquisition targets. The success of our acquisitions is based on our ability to make accurate assumptions regarding the valuation, timing and amount of potential future royalty and milestone payments as well as the viability of the underlying technology and intellectual property. The failure of any of these acquisitions to produce anticipated revenues may materially and adversely affect our financial condition and results of operations.

Some of these acquisitions may expose us to credit risk in the event of a default by or bankruptcy of the licensor(s) or licensee(s) that are parties to the applicable license agreement(s) covering the potential milestone and royalty streams being acquired. In addition, the impact of COVID-19 on the capital markets may limit our licensees' or royalty-agreement counterparties' ability to access additional funding. While we generally try to structure our receipt of potential milestone and royalty payments to minimize the risk associated with such a default or bankruptcy, there can be no assurance that any such default or bankruptcy will not adversely affect our ability to receive future potential royalty and/or milestone payments. To mitigate this risk, on occasion, we may obtain a security interest as collateral in such royalty, milestone and other payments. Our credit risk in respect of such counterparty may be exacerbated when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount we are due pursuant to the terms of the particular assets. This could occur in circumstances where the original collateral was not sufficient to cover a complete loss (e.g., our interests were only partially secured) or may result from the deterioration in value of the collateral, so that, in either such case, we are unable to recuperate our full capital outlay. Any such losses resulting therefrom could materially and adversely affect our financial condition and results of operations.

Many of our potential royalty acquisitions may be associated with drug products that are in clinical development and have not yet been commercialized. To the extent that such products are not successfully developed and commercialized, our financial condition and results of operations may be negatively impacted.

As part of our royalty aggregator strategy, we will purchase future milestone and royalty streams associated with drug products which are in clinical development and have not yet been commercialized. To the extent that any such drug products are not successfully developed and subsequently commercialized, the value of our acquired potential milestone and royalty streams will be negatively affected. The ultimate success of our royalty aggregator strategy will depend on our ability to properly identify and acquire high quality products and the ability of the applicable counterparty to innovate, develop and commercialize their products, in increasingly competitive and highly regulated markets. Their inability to do so would negatively affect our ability to receive royalty and/or milestone payments. In addition, we are dependent, to a large extent, on third parties to enforce certain rights for our benefit, such as protection of a patent estate, adequate reporting and other protections, and their failure to do so would presumably negatively impact our financial condition and results of operations.

We depend on our licensees and royalty-agreement counterparties for the determination of royalty and milestone payments. While we typically have primary or back-up rights to audit our licensees and royalty-agreement counterparties, the independent auditors may have difficulty determining the correct royalty calculation, we may not be able to detect errors and payment calculations may call for retroactive adjustments. We may have to exercise legal remedies, if available, to resolve any disputes resulting from the audit.

The royalty and milestone payments we may receive are dependent on our licensees' achievement of regulatory and developmental milestones and product sales. Each licensee's calculation of the royalty payments is subject to and dependent upon the adequacy and accuracy of its sales and accounting functions, and errors may occur from time to time in the calculations made by a licensee and/or a licensee may fail to report the achievement of royalties or milestones in whole or in part. Our license and royalty agreements typically provide us the primary or back-up right to audit the calculations and sales data for the associated royalty payments; however, such audits may occur many months following our recognition of the royalty revenue, may require us to adjust our royalty revenues in later periods and may require expense on the part of the Company. Further, our licensees and royalty-agreement counterparties may be uncooperative or have insufficient records, which may complicate and delay the audit process.

Although we intend to regularly exercise our royalty audit rights as necessary and to the extent available, we rely in the first instance on our licensees and royalty-agreement counterparties to accurately report the achievement of milestones and royalty sales and calculate and pay applicable milestones and royalties and, upon exercise of such royalty and other audit rights, we rely on licensees' and royalty-agreement counterparties' cooperation in performing such audits. In the absence of such cooperation, we may be forced to incur expenses to exercise legal remedies, if available, to enforce our agreements.

The lack of liquidity of our acquisitions of future potential milestones and royaltiesmay adversely affect our business and, if we need to sell any of our acquired assets, we may not be able to do so at a favorable price, if at all. As a result, we may suffer losses.

We generally acquire milestone and royalty rights that have limited secondary resale markets and may be subject to transfer restrictions. The illiquidity of most of our milestone and royalty receivable assets may make it difficult for us to dispose of them at a favorable price if at all and, as a result, we may suffer losses if we are required to dispose of any or all such assets in a forced liquidation or otherwise. In addition, if we liquidate all or a portion of our potential future milestone and/or purchased royalty stream interests quickly or relating to a forced liquidation, we may realize significantly less than the value at which we had previously recorded these interests.

Our royalty aggregator strategy may require that we register with the SEC as an "investment company" in accordance with the Investment Company Act of 1940.

The rules and interpretations of the SEC and the courts, relating to the definition of "investment company" are very complex. While we currently intend to conduct our operations so that we will not be an investment company under applicable SEC interpretations, we can provide no assurance that the SEC would not take the position that the Company would be required to register under the Investment Company Act of 1940 (the "'40 Act") and comply with the '40 Act's registration and reporting requirements, capital structure requirements, affiliate transaction restrictions, conflict of interest rules, requirements for disinterested directors, and other substantive provisions. We monitor our assets and income for compliance under the '40 Act and seek to conduct our business activities to ensure that we do not fall within its definitions of "investment company" or qualify under one of the exemptions or exclusions provided by the '40 Act and corresponding SEC regulations. If we were to become an "investment company" and be subject to the restrictions of the '40 Act, those restrictions would likely require significant changes in the way we do business and add significant administrative burdens to our operations. To ensure that we do not fall within the '40 Act, we may need to take various actions which we might otherwise not pursue. These actions may include restructuring the Company and/or modifying our mixture of assets and income or a liquidation of certain of our assets.

Risks Related to our Financial Results and Capital Requirements

We have sustained losses in the past, and we expect to sustain losses in the foreseeable future.

We have incurred significant operating losses and negative cash flows from operations since our inception. We had net losses of $2.0 million and $13.3 million for the years ended December 31, 2019 and December 31, 2018, respectively. As of March 31, 2020, we had an accumulated deficit of $1.2 billion. 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.

To date, we have financed our operations primarily through the sale of equity securities and debt and royalty interests and payments received under our collaboration and licensing arrangements. The size of our future net losses will depend, in part, on the rate of our future expenditures and our and our partners' ability to generate revenues. If our partners' product candidates are not successfully developed or commercialized by our licensees, or if revenues are insufficient following regulatory approval, we will not achieve profitability and our business may fail. Our ability to achieve profitability is dependent in large part on the success of our and our licensees' ability to license product candidates, and the success of our licensees' development programs, both of which are uncertain. Our success is also dependent on our licensees obtaining regulatory approval to market product candidates which may not materialize or prove to be successful.

Our royalty aggregator strategy may require us to raise additional funds to acquire milestone and royalty interests; we cannot be certain that funds will be available or available at an acceptable cost of capital, and if they are not available, we may be unsuccessful in acquiring milestone and royalty interests to sustain the business in the future.

We may need to commit substantial funds to continue our business, and we may not be able to obtain sufficient funds on acceptable terms, if at all. Any additional debt financing or additional equity that we raise may contain terms that are not favorable to us and/or result in dilution to our stockholders, including pursuant to our 2018 ATM Agreement. If we raise additional funds through licensing arrangements with third parties, we may be required to relinquish some rights to our technologies or our product candidates, grant licenses on terms that are not favorable to us or enter into a license arrangement for a product candidate at an earlier stage of development or for a lesser amount than we might otherwise choose.

If adequate funds are not available on a timely basis, we may:

- reduce or eliminate royalty aggregation efforts;
- further reduce our capital or operating expenditures;
- curtail our spending on protecting our intellectual property; or
- take other actions which may adversely affect our financial condition or results of operations.

We have significantly restructured our business and revised our business plan and there are no assurances that we will be able to successfully implement our revised business plan or successfully operate as a royalty aggregator.

We have historically been focused on discovering and developing innovative therapeutics derived from our unique platform of antibody technologies. We have now become a royalty aggregator where we focus on expanding our pipeline of fully-funded programs by out-licensing our internally developed product candidates and acquiring potential milestone and royalty revenue streams on additional third party drug product candidates. Our strategy is based on a number of factors and assumptions, some of which are not within our control, such as the actions of third parties. There can be no assurance that we will be able to successfully execute all or any elements of our strategy, or that our ability to successfully execute our strategy will be unaffected by external factors. If we are unsuccessful in acquiring potential milestone and royalty revenue streams on additional drug product candidates, or those acquisitions do not perform to our expectations, our financial performance and balance sheet could be adversely affected.

We may not fully realize the expected benefits of our cost-saving initiatives.

Maintaining a low corporate cost structure is a key element of our current business strategy. If we experience unanticipated inefficiencies caused by our reduced headcount, we may be unable to fully execute our new strategy. In addition, we may incur expenses in excess of what we anticipate. Any of these outcomes could prevent us from meeting our strategic objectives and could adversely impact our results of operations and financial condition.

Risks Related to Our Reliance on Third Parties

We rely heavily on licensee relationships, and any disputes or litigation with our partners or termination or breach of any of the related agreements could reduce the financial resources available to us, including our ability to receive milestone payments and future royalty revenues.

Our existing collaborations may not continue or be successful, and we may be unable to enter into future collaborative arrangements to develop and commercialize our unpartnered assets. Generally, our current collaborative partners also have the right to terminate their collaborations at will or under specified circumstances. If any of our collaborative partners breach or terminate their agreements with us or otherwise fail to conduct their collaborative activities successfully (for example, by not making required payments when due, or at all or failing to engage in commercially reasonable efforts to develop products if required), our product development under these agreements will be delayed or terminated. Disputes or litigation may also arise with our collaborators (with us and/or with one or more third parties), including those over ownership rights to intellectual property, know-how or technologies developed with our collaborators.

Our licensees rely on third parties to provide services in connection with our product candidate development and manufacturing programs. The inadequate performance by or loss of any of these service providers could affect our licensees' product candidate development.

Third parties provide services in connection with preclinical and clinical development programs, including *in vitro* and *in vivo* studies, assay and reagent development, immunohistochemistry, toxicology, pharmacokinetics, clinical trial support, manufacturing and other outsourced activities. If these service providers do not adequately perform the services for which we or our licensees have contracted, or cease to continue operations, and we are not able to find a replacement provider quickly or we lose information or items associated with our drug product candidates, our or our licensees' development programs and receipt of any potential resulting income may be delayed.

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

Because our licensees, suppliers and contractors are independent third parties, they may be subject to different risks than we are and have significant discretion in, and different criteria for, determining the efforts and resources they will apply related to their agreements with us. If these licensees, suppliers and contractors do not successfully perform the functions for which they are responsible, we may not have the capabilities, resources or rights to do so on our own.

We do not know whether we or our licensees will successfully develop and market any of the products that are or may become the subject of any of our licensing arrangements. In addition, third-party arrangements such as ours also increase uncertainties in the related decision-making processes and resulting progress under the arrangements, as we and our licensees may reach different conclusions, or support different paths forward, based on the same information, particularly when large amounts of technical data are involved.

Under our contract with NIAID, a part of the National Institute of Health ("NIH"), we invoiced using NIH provisional rates, and these are subject to future audits at the discretion of NIAID's contracting office. In October of 2019, NIH notified us that it engaged KPMG LLP ("KPMG") to perform an audit of our Incurred Cost Submissions for 2013, 2014 and 2015 and the audit is still in progress. This audit may result in an adjustment to revenue previously reported, which potentially could be material.

Failure of our licensees' product candidates to meet current Good Manufacturing Practices standards may subject our licensees to delays in regulatory approval and penalties for noncompliance.

Our licensees may rely on third party manufacturers and such contract manufacturers are required to produce clinical product candidates under current Good Manufacturing Practices ("cGMP") to meet acceptable standards for use in clinical trials and for commercial sale, as applicable. If such standards change, the ability of contract manufacturers to produce our and our licensees' drug product candidates on the schedule required for our clinical trials or to meet commercial requirements may be affected. In addition, contract manufacturers may not perform their obligations under their agreements with our licensees or may discontinue their business before the time required by us to successfully produce clinical and commercial supplies of our licensees' product candidates.

Contract manufacturers are subject to pre-approval inspections and periodic unannounced inspections by the FDA and corresponding state and foreign authorities to ensure strict compliance with cGMP and other applicable government regulations and corresponding foreign standards. We do not have control over a third-party manufacturer's compliance with these regulations and standards. Any difficulties or delays in contractors' manufacturing and supply of our licensees' product candidates or any failure of our licensees' contractors to maintain compliance with the applicable regulations and standards could increase costs, reduce revenue, make our licensees postpone or cancel clinical trials, prevent or delay regulatory approval by the FDA and corresponding state and foreign authorities, prevent the import and/or export of our licensees' product candidates, or cause any of our licensees' product candidates that may be approved for commercial sale to be recalled or withdrawn.

Certain of our technologies are in-licensed from third parties, so our and our licensees' capabilities using them are restricted and subject to additional risks.

We have licensed technologies from third parties. These technologies include phage display technologies licensed to us in connection with our bacterial cell expression technology licensing program and antibody products. However, our and our licensees' 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 we are unable to maintain our licenses, patents or other intellectual property, we could lose important protections that are material to continuing our operations and for future prospects. Our licensors also may seek to terminate our license, which could cause us and our licensees to lose the right to use the licensed intellectual property and adversely affect our and our licensees' ability to commercialize our technologies, products or services.

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

The same factors that affect us directly also can adversely affect us indirectly by affecting the ability of our partners and others with whom we do business to meet their obligations to us and reduce our ability to realize the value of the consideration provided to us by these other companies in connection with their licensing of our products.

Risks Related to an Investment in Our Common Stock

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

There can be no assurance that the market price of our common stock will not decline below its present market price or that there will be an active trading market for our common stock. 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 stock price. We have experienced significant volatility in the price of our common stock. From January 1, 2020, through May 1, 2020, the share price of our common stock has ranged from a high of $28.78 to a low of $14.14. Additionally, we have two significant holders of our stock that could affect the liquidity of our stock and have a significant negative impact on our stock price if one or both of the holders were to quickly sell their ownership positions.

Our results of operations and liquidity needs could be materially negatively affected by market fluctuations or an economic downturn.

Our results of operations could be materially negatively affected by economic conditions generally, both in the United States and elsewhere around the world. Concerns over inflation, energy costs, geopolitical issues, the availability and cost of credit, and the U.S. financial markets have in the past contributed to, and may continue in the future contribute to, increased volatility and diminished expectations for the economy and the markets. Domestic and international equity markets periodically experience heightened volatility and turmoil. These events may have an adverse effect on us. In the event of a market downturn, our results of operations could be adversely affected by those factors in many ways, including making it more difficult for us to raise funds if necessary, and our stock price may decline.

We may issue additional equity securities and thereby materially and adversely affect the price of our common stock. In addition, under certain circumstances each share of outstanding Series X and Series Y preferred stock could be converted into 1,000 shares of common stock which could cause a substantial dilution to our earnings per share and a change in the majority voting control of our Company, if enough of such preferred shares are converted to common shares.*

We expect that significant additional capital will be needed in the future to continue our planned operations. To the extent we raise additional capital by issuing equity securities, our stockholders may experience substantial dilution. We may sell common stock, convertible securities or other equity securities in one or more transactions at prices and in such a manner as we determine from time to time, including pursuant to our 2018 ATM Agreement. If we sell common stock, convertible securities or other equity securities in more than one transaction, investors may be materially diluted by subsequent sales. These sales may also result in material dilution to our existing stockholders, and new investors could gain rights superior to our existing stockholders. If we issue additional equity securities, the price of our common stock may be materially and adversely affected.

We are authorized to issue, without stockholder approval, 1,000,000 shares of preferred stock, of which 5,003 shares of Series X preferred stock and 1,252.772 shares of Series Y preferred stock were issued and outstanding as of March 31, 2020. Each share of Series X and Series Y is convertible into 1,000 shares of registered common stock. The total number of shares of common stock issuable upon conversion of all issued Series X and Series Y convertible preferred stock would be 6,255,772 shares. Each share is convertible at the option of the holder at any time, provided that the holder will be prohibited from converting into common stock if, as a result of such conversion, the holder, together with its affiliates, would beneficially own a number of shares above a conversion blocker, which was initially set at 19.99% of our total common stock then issued and outstanding immediately following the conversion of such shares. A holder of Series X or Y preferred shares may elect to increase or decrease the conversion blocker above or below 19.99% on 61 days' notice, provided the conversion blocker does not exceed the limits under Nasdaq Marketplace Rule 5635(b), to the extent then applicable. If holders of our Series X and Series Y convertible preferred stock elect to convert their preferred shares into common stock such conversion would dilute our currently outstanding common stock both in number and in earnings per share. Biotechnology Value Fund, L.P. ("BVF") (and its affiliates), as current holders of all shares of our Series X and Series Y preferred stock, would, if they converted all such shares to common stock, obtain majority voting control of the Company. In February 2020, the holders of Series Y convertible preferred shares elected to increase the beneficial ownership limitation to 50% and on April 15, 2020 BVF converted all of their shares of Series Y preferred stock into common stock. Immediately following the conversion, BVF owned approximately 36.6% the Company's total outstanding shares of common stock.

In addition, funding from collaboration partners and others has in the past and may in the future involve issuance by us of our common stock. 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 issuance by us of equity securities, whether through an underwritten public offering, an at the market offering, a private placement, in connection with a collaboration or otherwise could result in dilution in the value of our issued and outstanding shares, and a decrease in the trading price of our common stock.

We may sell additional equity or debt securities to fund our operations, which may result in dilution to our stockholders and impose restrictions on our business.

In order to raise additional funds to support our operations, we may sell additional equity or convertible debt securities, which would result in dilution to our stockholders and/or debt securities which may impose restrictive covenants that would adversely impact our business. The sale of additional equity or convertible debt securities could result in the issuance of additional shares of our capital stock and dilution to all of our stockholders. The incurrence of indebtedness would result in increased fixed payment obligations and could also result in certain restrictive covenants, such as limitations on our ability to incur additional debt, limitations on our ability to acquire, sell or license intellectual property rights and other operating restrictions that could adversely impact our ability to conduct our business. If we are unable to expand our operations or otherwise capitalize on our business opportunities, our business, financial condition and results of operations could be materially adversely affected and we may not be able to meet our debt service obligations.

Our organizational documents contain provisions that may prevent transactions that could be beneficial to our stockholders and may insulate our management from removal.

Our charter and by-laws:

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

- authorize our Board of Directors to issue up to 1,000,000 shares of preferred stock without stockholder approval and to set the rights, preferences and other designations, including voting rights, of those shares as the Board of Directors may determine.

In addition, we are subject to the provisions of Section 203 of the Delaware General Corporation Law (the "DGCL"), that may prohibit large stockholders, in particular those owning 15% or more of our outstanding common stock, from merging or combining with us.

These provisions of our organizational documents and the DGCL, 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 stock, could limit the ability of stockholders 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.

As a public company in the United States, we are subject to the Sarbanes-Oxley Act. We have determined our disclosure controls and procedures and our internal control over financial reporting are effective. We can provide no assurance that we will, at all times, in the future be able to report that our internal controls over financial reporting are effective.

Companies that file reports with the SEC, including us, are subject to the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 ("SOX"). Section 404 requires management to establish and maintain a system of internal control over financial reporting, and annual reports on Form 10-K filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), must contain a report from management assessing the effectiveness of our internal control over financial reporting. Ensuring we have adequate internal financial and accounting controls and procedures in place to produce accurate financial statements on a timely basis is a time-consuming effort that needs to be re-evaluated frequently. Failure on our part to have effective internal financial and accounting controls would cause our financial reporting to be unreliable, could have a material adverse effect on our business, operating results, and financial condition, and could cause the trading price of our common stock to fall.

We incur significant costs as a result of operating as a public company, which may adversely affect our operating results and financial condition.

As a public company, we incur significant accounting, legal and other expenses, including costs associated with our public company reporting requirements. We also anticipate that we will continue to incur costs associated with corporate governance requirements, including requirements and rules under SOX and the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank") among other rules and regulations implemented by the SEC, as well as listing requirements of Nasdaq. Furthermore, these laws and regulations could make it difficult or costly for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. The impact of these requirements could also make it difficult for us to attract and retain qualified persons to serve on our Board of Directors, our Board Committees or as executive officers.

New laws and regulations as well as changes to existing laws and regulations affecting public companies, including the provisions of SOX and Dodd-Frank and rules adopted by the SEC and Nasdaq, will likely result in increased costs to us as we respond to their requirements. We continue to invest resources to comply with evolving laws and regulations, and this investment may result in increased general and administrative expense.

Our ability to use our net operating loss carry-forwards and other tax attributes will be substantially limited by Section 382 of the U.S. Internal Revenue Code.

Under the federal income tax law, federal net operating losses incurred in 2020 and in future years may be carried forward indefinitely, but the deductibility of such federal net operating losses is limited. It is uncertain if and to what extent various states will conform to the federal tax law. In addition, Section 382 of the U.S. Internal Revenue Code of 1986, as amended, and corresponding provisions of state law, generally limit the ability of a corporation that undergoes an “ownership change” to utilize its net operating loss carry-forwards (“NOLs”) and certain other tax attributes against any taxable income in taxable periods after the ownership change. The amount of taxable income in each taxable year after the ownership change that may be offset by pre-change NOLs and certain other pre-change tax attributes is generally equal to the product of (a) the fair market value of the corporation’s outstanding shares (or, in the case of a foreign corporation, the fair market value of items treated as connected with the conduct of a trade or business in the United States) immediately prior to the ownership change and (b) the long-term tax exempt rate (i.e., a rate of interest established by the U.S. Internal Revenue Service that fluctuates from month to month). In general, an “ownership change” occurs whenever the percentage of the shares of a corporation owned, directly or indirectly, by “5-percent shareholders” (within the meaning of Section 382 of the Internal Revenue Code) increases by more than 50 percentage points over the lowest percentage of the shares of such corporation owned, directly or indirectly, by such “5-percent shareholders” at any time over the preceding three years.

Based on an analysis under Section 382 of the Internal Revenue Code (which subjects the amount of pre-change NOLs and certain other pre-change tax attributes that can be utilized to an annual limitation), we experienced ownership changes in 2009 and 2012, which substantially limit the future use of our pre-change NOLs and certain other pre-change tax attributes per year. In February 16, 2017, we completed an equity financing for net proceeds of $24.8 million which triggered an additional ownership change under Section 382 that significantly impacted the availability of our tax attributes against future income. Further, due to the existence of a net unrealized built-in loss at the ownership change date, Section 382 further limits our ability to fully utilize the tax deductions associated with certain of our assets, including depreciation and amortization deductions recognized during the 60-month period following the ownership change ending in 2022. Although these deductions will occur in the post-change period, Section 382 treats the deductions as pre-change losses subject to the annual 382 limitation. As of March 31, 2020, we have excluded the NOLs and research and development credits that will expire as a result of the annual limitations. To the extent that we do not utilize our carry-forwards within the applicable statutory carry-forward periods, either because of Section 382 limitations or the lack of sufficient taxable income, the carry-forwards will also expire unused.

Risks Related to the Development and Commercialization of our Current and Future Product Candidates

We may not be able to successfully identify and acquire and/or in-license other products, product candidates, programs or companies to grow and diversify our business, and, even if we are able to do so, we may not be able to successfully manage the risks associated with integrating any such products, product candidates, programs or companies into our business or we may otherwise fail to realize the anticipated benefits of these licenses or acquisitions.

To grow and diversify our business, we plan to continue our business development efforts to identify and seek to acquire and/or in-license potential milestone and royalty streams or companies. Future growth through acquisition or in-licensing will depend upon the availability of suitable products, product candidates, programs or companies for acquisition or in-licensing on acceptable prices, terms and conditions. Even if appropriate opportunities are available, we may not be able to acquire rights to them on acceptable terms, or at all. The competition to acquire or in-license rights to promising products, product candidates, programs and companies is fierce, and many of our competitors are large, multinational pharmaceutical and biotechnology companies with considerably more financial, development and commercialization resources, personnel, and experience than we have. In order to compete successfully in the current business climate, we may have to pay higher prices for assets than may have been paid historically, which may make it more difficult for us to realize an adequate return on any acquisition.

Even if we are able to successfully identify and acquire or in-license new products, product candidates, programs or companies, we may not be able to successfully manage the risks associated with integrating any products, product candidates, programs or companies into our business or the risks arising from anticipated and unanticipated problems in connection with an acquisition or in-licensing. Further, while we seek to mitigate risks and liabilities of potential acquisitions through, among other things, due diligence, there may be risks and liabilities that such due diligence efforts fail to discover, that are not disclosed to us, or that we inadequately assess. Any failure in identifying and managing these risks and uncertainties effectively would have a material adverse effect on our business. In any event, we may not be able to realize the anticipated benefits of any acquisition or in-licensing for a variety of reasons, including the possibility that a product candidate fails to advance to clinical development, proves not to be safe or effective in clinical trials, or that a product fails to reach its forecasted commercial potential or that the integration of a product, product candidate, program or company gives rise to unforeseen difficulties and expenditures. Any failure in identifying and managing these risks and uncertainties would have a material adverse effect on our business.

We may not be successful in entering into out-license agreements for our product candidates, which may adversely affect our liquidity and business.

We intend to pursue a strategy to out-license all of our product candidates in order to provide for potential payments, funding and/or royalties on future product sales. The out-license agreements may be structured to share in the proceeds received by a licensee as a result of further development or commercialization of the product candidates. We may not be successful in entering into out-licensing agreements with favorable terms as a result of factors, many of which are outside of our control. These factors include:

- research and spending priorities of potential licensing partners;
- willingness of, and the resources available to, pharmaceutical and biotechnology companies to in-license product candidates to fill their clinical pipelines; or
- our inability to generate proof-of-concept data and to agree with a potential partner on the value of our product candidates, or on the related terms.

If we are unable to enter into out-licensing agreements for our product candidates and realize license, milestone and/or royalty fees when anticipated, it may adversely affect our liquidity, which in turn may harm our business.

If our licensees' therapeutic product candidates do not receive regulatory approval, our licensees will be unable to market them.

Our licensees' product candidates cannot be manufactured and marketed in the United States or any other countries without required regulatory approvals. The U.S. government and governments of other countries extensively regulate many aspects of our product candidates, including:

- clinical development and testing;
- manufacturing;
- labeling;
- storage;
- record keeping;
- promotion and marketing; and
- importing 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.

Initiation of clinical trials requires approval by health authorities. Clinical trials involve the administration of the investigational new drug to healthy volunteers or to patients under the supervision of a qualified principal investigator. Clinical trials must be conducted in accordance with FDA and International Conference on Harmonization Good Clinical Practices and the European Clinical Trials Directive, as applicable, under protocols that detail the objectives of the study, the parameters to be used to monitor safety and the efficacy criteria to be evaluated. Other national, foreign and local regulations also may apply. The developer of the drug must provide information relating to the characterization and controls of the product before administration to the patients participating in the clinical trials. This requires developing approved assays of the product to test before administration to the patient and during the conduct of the trial. In addition, developers of pharmaceutical products must provide periodic data regarding clinical trials to the FDA and other health authorities, and these health authorities may issue a clinical hold upon a trial if they do not believe, or cannot confirm, that the trial can be conducted without unreasonable risk to the trial participants.

The results of the preclinical studies and clinical testing, together with chemistry, manufacturing and controls information, are submitted to the FDA and other health authorities in the form of a New Drug Application ("NDA") for a drug, and in the form of a Biologic License Application ("BLA") for a biological product, requesting approval to commence commercial sales. In responding to an NDA or BLA, the FDA or foreign health authorities may grant marketing approvals, request additional information or further research, or deny the application if they determine the application does not satisfy regulatory approval criteria. Regulatory approval of an NDA, BLA, or supplement is never guaranteed. The approval process can take several years, is extremely expensive and can vary substantially based upon the type, complexity, and novelty of the products involved, as well as the target indications. Our licensees ultimately may not be able to obtain approval in a timely fashion or at all.

The FDA and foreign health authorities have substantial discretion in the drug and biologics approval processes. Despite the time and expense incurred, failure can occur at any stage, and our potential development partners could encounter problems that cause abandonment of clinical trials or cause them to repeat or perform additional preclinical, clinical or manufacturing-related studies.

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 a submitted product application may cause delays in the approval or rejection of an application.

The FDA and other regulatory agencies have 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 or other regulatory agencies will be satisfied with our licensees' submissions or whether the FDA or other regulatory agencies will raise questions that may be material and delay or preclude product approval or manufacturing facility approval. In light of this discretion and the complexities of the scientific, medical and regulatory environment, our or our licensees' interpretation or understanding of the FDA's or other regulatory agencies' requirements, guidelines or expectations may prove incorrect, which also could delay further or increase the cost of the approval process.

Our licensees and potential milestone and royalty providers face uncertain results of clinical trials of product candidates.

Drug development has inherent risk, and our licensees and potential milestone and royalty providers are required to demonstrate through adequate and well-controlled clinical trials that product candidates are effective, with a favorable benefit-risk profile for use in their target profiles before they can seek regulatory approvals for commercial use. It is possible we or our licensees may never receive regulatory approval for any licensed product candidates. Even if a product candidate receives regulatory approval, the resulting product may not gain market acceptance among physicians, patients, healthcare payors and the medical community.

Our licensees' product candidates 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 frequently are 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 licensees' future filings will be delayed;
- our licensees' preclinical studies will be successful;
- our licensees will be successful in generating viable product candidates;
- we will be successful in finding collaboration and licensing partners to advance our product candidates on our behalf;
- our licensees will be able to provide necessary data;
- results of future clinical trials by our licensees will justify further development; or
- our licensees ultimately will achieve regulatory approval for our product candidates.

The timing of the commencement, continuation and completion of clinical trials by our licensees may be subject to significant delays relating to various causes, including failure to complete preclinical testing and earlier-stage clinical trials in a timely manner, inability to engage contract research organizations and other service providers, scheduling conflicts with participating clinicians and clinical institutions, changes in key personnel at clinical institutions, difficulties in identifying and enrolling patients who meet trial eligibility criteria and shortages of available drug supply. In addition, since we license our product candidates to others to fund and conduct clinical trials, we have limited control over how quickly and efficiently such licensees advance those trials. Patient enrollment is a function of many factors, including the size of the patient population, the proximity of patients to clinical sites, the concentration of patients in specialist centers, the eligibility criteria for the trial, the existence of competing clinical trials and the availability of alternative or new

treatments. Regardless of the initial size or relative complexity of a clinical trial, the costs of such trial may be higher than expected due to increases in duration or size of the trial, changes in the protocol under which the trial is being conducted, additional or special requirements of one or more of the healthcare centers where the trial is being conducted, or changes in the regulatory requirements applicable to the trial or in the standards or guidelines for approval of the product candidate being tested or for other unforeseen reasons.

In addition, our licensees may conduct clinical trials in foreign countries, which may subject them to further delays and expenses as a result of increased drug shipment costs, additional regulatory requirements and the engagement of foreign clinical research organizations, and may expose us and our licensees to risks associated with foreign currency transactions to make contract payments denominated in the foreign currency where the trial is being conducted.

New products and technologies of other companies may render some or all of our licensees' product candidates noncompetitive or obsolete.

New developments by others may render our licensees' product candidates or technologies obsolete or uncompetitive. Technologies developed and utilized by the biotechnology and pharmaceutical industries are changing continuously and substantially. Competition in antibody-based technologies is intense and is 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 and our licensees for many reasons, including that they may have:

- significantly greater financial resources;
- larger research and development staffs;
- 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 licensees. 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, many companies and universities tend not to announce or disclose important discoveries or development programs until their patent position is secure or, for other reasons, later. As a result, we and our licensees may not be able to track development of competitive products, particularly at the early stages.

Positive developments in connection with a potentially competing product may have an adverse impact on our future potential for receiving revenue derived from development milestones and royalties. 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 licensed product will fail, our licensees may halt development of our licensed product candidates.

Our licensees may be unable to price our products effectively or obtain coverage and adequate reimbursement for sales of our products, which would prevent our licensees' products from becoming profitable and negatively affect the royalties we may receive.

If our third-party 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 our licensees to sell the 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 coverage and adequate reimbursement from third-party payors, such as government and private insurance plans. Significant uncertainty exists as to the coverage and reimbursement status of any products for which our licensees may obtain regulatory approval. Even if coverage is available, the associated reimbursement rate may not be adequate for us and our licensees to cover related costs. Additionally, coverage and reimbursement policies for drug products can differ significantly from payor to payor as there is no uniform policy of

coverage and reimbursement for drug products among third-party payors in the United States. Therefore, the process of obtaining coverage and reimbursement is often time-consuming and costly.

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 healthcare 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 or our licensees' businesses.

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

Even if product candidates in which we have an interest receive approval in the future, they may not be accepted in the marketplace. In addition, our 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 healthcare providers and patients will accept such products, if developed. Similarly, physicians may not accept a product if they believe other products to be more effective or more cost effective or are more comfortable prescribing other products.

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 product usage directly (for example, by recommending a decreased dosage of a product in conjunction with a concomitant therapy) 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.

Even approved and marketed products are subject to risks relating to changes in the market for such products. Introduction or increased availability of generic or biosimilar versions of products can alter the market acceptance of branded products. In addition, unforeseen safety issues may arise at any time, regardless of the length of time a product has been on the market.

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 past, we were party to product liability claims filed against Genentech Inc. and, even though Genentech agreed to indemnify us in connection with these matters and these matters have been settled, there can be no assurance other product liability lawsuits will not result in liability to us or that our insurance or contractual arrangements will provide us with adequate protection against such liabilities. 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 or indemnified by a third party would have to be paid from cash or other assets, which could have an adverse effect on our business and the value of our common stock. To the extent we have sufficient insurance coverage, such a claim would presumably 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, a negative impact on our goodwill and reputation, and divert our management's attention from our business, each of which could also adversely affect our business and operating results.

If we and our partners are unable to protect our intellectual property, in particular our patent protection for our principal products, product candidates and processes, and prevent the use of the covered subject matter by third parties, our licensees' 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 or product candidates. 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 product candidates 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 U.S. Federal Courts, the U.S. Patent & Trademark Office or equivalent national courts or patent offices elsewhere may invalidate our patents or find them unenforceable. The America Invents Act introduced post-grant review procedures subjecting U.S. patents to post-grant review procedures similar to European oppositions. U.S. patents owned or licensed by us or our licensees may therefore be subject to post-grant review procedures, as well as other forms of review and re-examination. A decision in such proceedings adverse to our interests could result in the loss of valuable patent rights, which would have a material adverse effect on our business. 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 protected adequately, our licensees may not be able to commercialize our technologies or products, and our competitors could commercialize our technologies or products, which could result in a decrease in our licensees' 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 or available in the future. Accordingly, there is uncertainty as to:

- whether any pending or future patent applications held by us or our partners will result in an issued patent, or whether issued patents will provide meaningful protection against competitors or competitive technologies;
- whether competitors will be able to design around our or our partners' 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 or our partners' product candidates 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 prevent our licensees from using our technology or product candidates.

If certain patents issued to others are upheld or if certain patent applications filed by others are issued and upheld, our licensees may require licenses from others 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 will presumably be costly and may have other adverse effects on our business, such as inhibiting our licensees' 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. Our employees and contractors are typically required to sign confidentiality agreements under which they agree not to use or disclose any of our proprietary information. Research and development contracts and relationships between us and our scientific consultants and potential licensees 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 licensees' ability to develop or commercialize our products by giving others a competitive advantage or by undermining our patent position.

Litigation regarding intellectual property and/or the enforcement of our contractual rights against licensees and third parties 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 and/or enforce our contractual rights against former or current licensees or third parties, including third-party collaborators of such licensees. The cost to us of this litigation, even if resolved in our favor, could be substantial. Such litigation and any negotiations leading up to it also could divert management's attention and resources. If this litigation is resolved against us, we may lose the value associated with contract rights contained in our arrangements with licensees and third parties, our patents may be declared invalid, and we could be held liable for significant damages. While it is our current plan to pursue, on a selective basis, potential material contractual breaches against licensees and third-parties (including third-party collaborators of licensees) and/or infringement of our intellectual property rights or technology, there can be no assurance that any such enforcement actions will be successful, or if successful, the timing of such success or that we will have sufficient capital to prosecute any such actions to a successful conclusion.

In addition, we may be subject to claims that we, or our licensees, are infringing other parties' patents. If such claims are resolved against us, we or our licensees 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 or at all, thus preventing us, or our licensees, from using these products, processes or services and adversely affecting our potential future revenue.

Risks Related to Employees, Location, Data Integrity, and Litigation

The loss or COVID-19 related absence of any of our personnel, including our Chief Executive Officer or Chief Financial Officer, could delay or prevent achieving our objectives.*

Our business efforts could be adversely affected by the loss or COVID-19 related absence of one or more key members of our staff, including our executive officers: James R. Neal, our Chief Executive Officer and Thomas Burns, our Senior Vice President, Finance and Chief Financial Officer. We currently do not have key person insurance on any of our employees.

Because we are a small biopharmaceutical focused company with limited resources, we may not be able to attract and retain qualified personnel.

We had 10 employees as of May 1, 2020. We may require additional experienced executive, accounting, legal, administrative and other personnel from time to time 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 is 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 business may suffer and we may be unable to implement our current initiatives or grow effectively.

We rely and will continue to rely on outsourcing arrangements for many of our activities, including financial reporting and accounting and human resources.

Due to our small number of employees, we rely, and expect to continue to rely, on outsourcing arrangements for a significant portion of our activities, including financial reporting and accounting and human resources, as well as for certain of our functions as a public company. We may have limited control over these third parties and we cannot guarantee that they will perform their obligations in an effective and timely manner.

Our employees may engage in misconduct or other improper activities, including noncompliance with regulatory standards and requirements and insider trading.

We are exposed to the risk of employee fraud or other misconduct. Misconduct by employees could include intentional failures to comply with applicable regulations, provide accurate information to regulatory authorities, comply with federal and state fraud and abuse laws and regulations, report financial information or data accurately or disclose unauthorized activities to us. In particular, the health care industry is subject to extensive laws and regulations intended to prevent fraud, misconduct, kickbacks, self-dealing and other abusive practices. It is not always possible to identify and deter employee misconduct, and the precautions we take to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting us from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with these laws or regulations. If any such actions are instituted against us, and we are not successful in defending ourselves or asserting our rights, those actions could have a significant impact on our business, including the imposition of significant fines or other sanctions.

Calamities, power shortages or power interruptions at our Emeryville headquarters could disrupt our business and adversely affect our operations.

Our corporate headquarters is located in Emeryville, California. This location is in an area of seismic activity near active earthquake faults. Any earthquake, tsunami, terrorist attack, fire, power shortage or other calamity affecting our facilities may disrupt our business and could have material adverse effect on our results of operations.

Our business and operations would suffer in the event of system failures.

Despite the implementation of security measures, our internal computer systems and those of our current and any future licensees, suppliers, contractors and consultants are vulnerable to damage from cyberattacks, computer viruses, unauthorized access, natural disasters, terrorism, war and telecommunication and electrical failures. We could experience failures in our information systems and computer servers, which could be the result of a cyberattacks and could result in an interruption of our normal business operations and require substantial expenditure of financial and administrative resources to remedy. System failures, accidents or security breaches can cause interruptions in our operations and can result in a material disruption of our development programs and other business operations. The loss of clinical trial data from completed or future clinical trials could result in delays in our regulatory approval efforts and significantly increase our costs to recover or reproduce the data. Similarly, we rely on third parties to manufacture our product candidates, and conduct clinical trials of our product candidates, and similar events relating to their computer systems could also have a material adverse effect on our business. To the extent that any disruption or security breach were to result in a loss of, or damage to, our data or applications, or inappropriate disclosure of confidential or proprietary information, we could incur liability and the development of any of our product candidates could be delayed or otherwise adversely affected.

Data breaches and cyberattacks could compromise our intellectual property or other sensitive information and cause significant damage to our business and reputation.*

In the ordinary course of our business, we maintain sensitive data on our networks, including our intellectual property and proprietary or confidential business information relating to our business and that of our customers and business partners. The secure maintenance of this information is critical to our business and reputation. We believe companies have been increasingly subject to a wide variety of security incidents, cyberattacks and other attempts to gain unauthorized access. These threats can come from a variety of sources, all ranging in sophistication from an individual

hacker to a state-sponsored attack. Cyber threats may be generic, or they may be custom-crafted against our information systems. Cyberattacks have become more prevalent and much harder to detect and defend against. Our network and storage applications may be subject to unauthorized access by hackers or breached due to operator error, malfeasance or other system disruptions. It is often difficult to anticipate or immediately detect such incidents and the damage caused by such incidents. These data breaches and any unauthorized access or disclosure of our information or intellectual property could compromise our intellectual property and expose sensitive business information. A data security breach could also lead to public exposure of personal information of our clinical trial patients, customers and others which could expose us to liability under federal or state privacy laws. Cyberattacks can result in the theft of proprietary information which could be used to compete against us and could cause us to incur significant remediation costs, result in product development delays, disrupt key business operations and divert attention of management and key information technology resources. These incidents could also subject us to liability, expose us to significant expense and cause significant harm to our reputation and business.

U.S. and international authorities have been warning businesses of increased cybersecurity threats from actors seeking to exploit the COVID-19 pandemic. Moreover, failure to maintain effective internal accounting controls related to data security breaches and cybersecurity in general could impact our ability to produce timely and accurate financial statements and could subject us to regulatory scrutiny. In addition, these breaches and other inappropriate access can be difficult to detect, and any delay in identifying them may lead to increased harm of the type described above. Moreover, the prevalent use of mobile devices that access confidential information increases the risk of data security breaches, which could lead to the loss of confidential information, trade secrets or other intellectual property. While we have implemented security measures that are intended to protect our data security and information technology systems, such measures may not prevent such events.

Significant disruptions of information technology systems, including cloud-based systems, or breaches of data security could adversely affect our business.

Our business is increasingly dependent on critical, complex and interdependent information technology systems, including cloud-based systems, to support business processes as well as internal and external communications. Our computer systems, and those of our partners and contractors, are potentially vulnerable to breakdown, malicious intrusion and computer viruses that may result in the impairment of key business processes. Such disruptions and breaches of security could have a material adverse effect on our business, financial condition and results of operations.

In addition, our data security and information technology systems, as well as those of our partners and contractors, are potentially vulnerable to data security breaches, whether by employees or others, that may expose sensitive data or personal information to unauthorized persons. Effective May 25, 2018, the European Union (“EU”) implemented the General Data Protection Regulation (“GDPR”) a broad data protection framework that expands the scope of current EU data protection law to non-European Union entities that process, or control the processing of, the personal information of EU subjects, including clinical trial data. The GDPR allows for the imposition of fines and/or corrective action on entities that improperly use or disclose the personal information of EU subjects, including through a data security breach.

Also, in June 2018, the State of California enacted the California Consumer Privacy Act of 2018 (“CCPA”), which became effective in January 2020. The CCPA establishes a privacy framework for covered businesses, including an expansive definition of personal information and data privacy rights for California residents. The CCPA includes a framework with potentially severe statutory damages and private rights of action. The CCPA requires covered companies to provide new disclosures to California consumers (as that word is broadly defined in the CCPA), provide such consumers new ways to opt-out of certain sales of personal information, and allow for a new cause of action for data breaches. It remains unclear how the CCPA will be interpreted, but as currently written, it will likely impact our business activities and exemplifies the vulnerability of our business to not only cyber threats but also the evolving regulatory environment related to personal data. As we expand our operations, the CCPA may increase our compliance costs and potential liability. Some observers have noted that the CCPA could mark the beginning of a trend toward more stringent privacy legislation in the United States. Other states are beginning to pass similar laws. Accordingly, data security breaches experienced by us, our partners or contractors could lead to significant fines, required corrective action, the loss of trade secrets or other intellectual property, public disclosure of sensitive clinical or commercial data, and the exposure of personally identifiable information (including sensitive personal information) of our employees, partners, and others. A data security breach or

privacy violation that leads to disclosure or modification of, or prevents access to, patient information, including personally identifiable information or protected health information, could result in fines, increased costs or loss of revenue as a result of:

- harm to our reputation;
- fines imposed on us by regulatory authorities;
- additional compliance obligations under federal, state or foreign laws;
- requirements for mandatory corrective action to be taken by us; and
- requirements to verify the correctness of database contents and otherwise subject us to liability under laws and regulations that protect personal data.

If we are unable to prevent such data security breaches or privacy violations or implement satisfactory remedial measures, our operations could be disrupted, and we may suffer loss of reputation, financial loss and other regulatory penalties because of lost or misappropriated information, including sensitive patient data. In addition, these breaches and other inappropriate access can be difficult to detect, and any delay in identifying them may lead to increased harm of the type described above. Moreover, the prevalent use of mobile devices that access confidential information increases the risk of data security breaches, which could lead to the loss of confidential information, trade secrets or other intellectual property. While we have implemented security measures to protect our data security and information technology systems, such measures may not prevent such events. We expect that there will continue to be new proposed laws, regulations and industry standards relating to privacy and data protection in the United States, the EU and other jurisdictions, such as the CCPA, which has been characterized as the first "GDPR-like" privacy statute enacted in the United States because it mirrors a number of the key provisions in the GDPR. We cannot presently determine the impact such laws, regulations and standards will have on our business. In any event, it is possible that governmental authorities will conclude that our business practices do not comply with current or future statutes, regulations, agency guidance or case law involving applicable healthcare or privacy laws, including the GDPR, in light of the lack of applicable precedent and regulations.

Shareholder and private lawsuits, and potential similar or related lawsuits, could result in substantial damages, divert management's time and attention from our business, and have a material adverse effect on our results of operations.

Securities-related class action and shareholder derivative litigation has often been brought against companies, including many biotechnology companies, which experience volatility in the market price of their securities. This risk is especially relevant for us because biotechnology and biopharmaceutical companies often experience significant stock price volatility in connection with their product development programs.

It is possible that suits will be filed, or allegations received from stockholders, naming us and/or our officers and directors as defendants. These potential lawsuits are subject to inherent uncertainties, and the actual defense and disposition costs will depend upon many unknown factors. The outcome of these lawsuits is uncertain. We could be forced to expend significant resources in the defense of these suits and we may not prevail. In addition, we may incur substantial legal fees and costs in connection with these lawsuits. It is possible that we could, in the future, incur judgments or enter into settlements of claims for monetary damages. A decision adverse to our interests on these actions could result in the payment of substantial damages, or possibly fines, and could have a material adverse effect on our cash flow, results of operations and financial position.

Monitoring, initiating and defending against legal actions, including any currently pending litigation, are time-consuming for our management, are likely to be expensive and may detract from our ability to fully focus our internal resources on our business activities. The outcome of litigation is always uncertain, and in some cases could include judgments against us that require us to pay damages, enjoin us from certain activities, or otherwise affect our legal or contractual rights, which could have a significant adverse effect on our business. In addition, the inherent uncertainty of any future litigation could lead to increased volatility in our stock price and a decrease in the value of an investment in our common stock.

Risks Related to Government Regulation

Even after FDA approval, a product may be subject to additional testing or significant marketing restrictions, its approval may be withdrawn or it may be removed voluntarily from the market.

Even if our licensees receive regulatory approval for our product candidates, our licensees will be subject to ongoing regulatory oversight and review by the FDA and other regulatory entities. The FDA, the European Medicines Agency ("EMA"), or another regulatory agency may impose, as a condition of the approval, ongoing requirements for post-approval studies or post-approval obligations, including additional research and development and clinical trials, and the FDA, EMA or other regulatory agency subsequently may withdraw approval based on these additional trials or obligations.

Even for approved products, the FDA, EMA or other regulatory agency may impose significant restrictions on the indicated uses, conditions for use, labeling, advertising, promotion, marketing and production of such product. In addition, the labeling, packaging, adverse event reporting, storage, advertising, promotion and record-keeping for our products are subject to extensive regulatory requirements.

Furthermore, marketing approval of a product may be withdrawn by the FDA, the EMA or another regulatory agency or such product may be withdrawn voluntarily by our partners based, for example, on subsequently arising safety concerns. The FDA, EMA and other agencies also may impose various civil or criminal sanctions for failure to comply with regulatory requirements, including withdrawal of product approval.

Healthcare reform measures and other statutory or regulatory changes could adversely affect our business.

The United States and some foreign jurisdictions have enacted or are considering a number of legislative and regulatory proposals to change the healthcare system in ways that could affect our licensees' ability to sell our products and any products as to which we own milestone and royalty interests, if approved, profitably. Among policy makers and payors in the United States and elsewhere, there is significant interest in promoting changes in healthcare systems with the stated goals of containing healthcare costs, improving quality and expanding access. In the United States, the pharmaceutical industry has been a particular focus of these efforts and has been significantly affected by major legislative initiatives. For example, in March 2010, the United States Congress enacted the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act, or collectively the ACA, which substantially changed the way healthcare is financed by both governmental and private insurers, and continues to significantly impact the United States pharmaceutical industry. There remain judicial and Congressional challenges to certain aspects of the ACA, as well as efforts by the Trump administration to repeal or replace certain aspects of the ACA. Since January 2017, President Trump has signed two Executive Orders and other directives designed to delay the implementation of certain provisions of the ACA or otherwise circumvent some of the requirements for health insurance mandated by the ACA. Concurrently, Congress has considered legislation that would repeal or repeal and replace all or part of the ACA. While Congress has not passed comprehensive repeal legislation, several bills affecting the implementation of certain taxes under the ACA have been signed into law. The Tax Cuts and Jobs Act of 2017, or Tax Act, included a provision which repealed, effective January 1, 2019, the tax-based shared responsibility payment imposed by the ACA on certain individuals who fail to maintain qualifying health coverage for all or part of a year that is commonly referred to as the "individual mandate." In addition, the 2020 federal spending package permanently eliminates, effective January 1, 2020, the ACA-mandated "Cadillac" tax on high-cost employer-sponsored health coverage and medical device tax and, effective January 1, 2021, also eliminates the health insurer tax. In addition, the ACA has also been subject to judicial challenge. On December 14, 2018, a Texas U.S. District Court Judge ruled that the ACA is unconstitutional in its entirety because the "individual mandate" was repealed by Congress as part of the Tax Act. Additionally, on December 18, 2019, the U.S. Court of Appeals for the 5th Circuit upheld the District Court ruling that the individual mandate was unconstitutional and remanded the case back to the District Court to determine whether the remaining provisions of the ACA are invalid as well. It is unclear how this decision, future decisions, subsequent appeals, and other efforts to repeal and replace the ACA will impact the ACA and our and our licensees' businesses.

An expansion in the government's role in the U.S. healthcare industry may cause general downward pressure on the prices of prescription drug products, lower reimbursements for providers, and reduced product utilization, any of which

could adversely affect our business and results of operations. Moreover, there has been heightened governmental scrutiny in the United States of pharmaceutical pricing practices in light of the rising cost of prescription drugs and biologics. Such scrutiny has resulted in several recent congressional inquiries and proposed and enacted federal and state legislation designed to, among other things, bring more transparency to product pricing, review the relationship between pricing and manufacturer patient programs, and reform government program reimbursement methodologies for products. We cannot know what form any such new legislation may take or the market's perception of how such legislation would affect us. Any reduction in reimbursement from government programs may result in a similar reduction in payments from private payors. The implementation of cost containment measures or other healthcare reforms may prevent our licensees from being able to generate revenue, attain profitability, develop, or commercialize our current product candidates and those for which we may receive regulatory approval in the future.

We and our licensees are subject to various state and federal healthcare-related laws and regulations that may impact the commercialization of our product candidates or third-party product candidates for which we possess milestone or royalty rights or could subject us to significant fines and penalties.

Our operations may be directly or indirectly subject to various state and federal healthcare laws, including the federal Anti-Kickback Statute, the federal False Claims Act and state and federal data privacy and security laws. These laws may impact, among other things, the commercial operations for any of our product candidates that may be approved for commercial sale.

The federal Anti-Kickback Statute prohibits, among other things, persons and entities from knowingly and willfully soliciting, offering, receiving or providing any remuneration, directly or indirectly, in cash or in kind, in exchange for or to induce either the referral of an individual for, or the furnishing or arranging for the purchase, lease, or order of a good or service for which payment may be made under a federal healthcare program, such as the Medicare and Medicaid programs. The ACA modified the federal Anti-Kickback Statute's intent requirement so that a person or entity no longer needs to have actual knowledge of the statute or the specific intent to violate it to have committed a violation. In addition, several courts have interpreted the statute's intent requirement to mean that if any one purpose of an arrangement involving remuneration is to induce referrals of federal healthcare covered business, the statute has been violated. The Anti-Kickback Statute is broad and prohibits many arrangements and practices that are lawful in businesses outside of the healthcare industry.

The federal false claims laws, including the False Claims Act, and civil monetary penalties laws prohibit, among other things, persons and entities from knowingly filing, or causing to be filed, a false claim to, or the knowing use of false statements to obtain payment from the federal government. Certain suits filed under the False Claims Act, known as "qui tam" actions, can be brought by any individual on behalf of the government and such individual, commonly known as a "whistleblower," may share in any amounts paid by the entity to the government in fines or settlement. The filing of qui tam actions has caused a number of pharmaceutical, medical device and other healthcare companies to have to defend and/or settle a False Claims Act action.

The Federal Health Insurance Portability and Accountability Act of 1996 ("HIPAA") created new federal criminal statutes that prohibit, among other things, executing a scheme to defraud any healthcare benefit program, including a private payor, or falsifying, concealing or covering up a material fact or making any materially false, fictitious or fraudulent statement in connection with the delivery of, or payment for, health care benefits, items or services.

HIPAA, as amended by the Health Information Technology and Clinical Health Act, and its implementing regulations, also imposes certain requirements relating to the privacy, security and transmission of individually identifiable health information by entities subject to the law, such as certain healthcare providers, health plans, and healthcare clearinghouses as well as their respective business associates that perform certain functions or activities that involve the use or disclosure of protected health information on their behalf.

Many states also have adopted laws similar to each of the federal laws described above, some of which apply to healthcare items or services reimbursed by any source, not only federal healthcare programs, such as the Medicare and Medicaid programs. In addition, some states have laws that require pharmaceutical companies to comply with the pharmaceutical industry's voluntary compliance guidelines and the applicable compliance guidance promulgated by the

federal government. Additionally, certain state and local laws require the registration of pharmaceutical sales representatives, restrict payments that may be made to healthcare providers and other potential referral sources, and require manufacturers to report information related to payments and other transfers of value to physicians and other healthcare providers. Further, some states have laws governing the privacy and security of health information in certain circumstances, many of which are not preempted by HIPAA and differ from each other in significant ways and may not have the same effect, thus complicating compliance efforts.

Because of the breadth of these laws, and the narrowness of the statutory exceptions and regulatory safe harbors available,it is possible that some of our or our licensees' business activities could be subject to challenge under one or more of such laws.

If we or our licensees are found to be in violation of any of the laws and regulations described above or other applicable state and federal healthcare laws, we or our licensees may be subject to penalties, including significant civil, criminal, and administrative penalties, damages, fines, disgorgement, imprisonment, integrity oversight and reporting obligations, reputational harm, exclusion from government healthcare reimbursement programs and the curtailment or restructuring of our or our licensees' operations, any of which could have a material adverse effect on our business and results of operations. In addition, we and our licensees may be subject to certain analogous foreign laws and violations of such laws could result in significant penalties.

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

We or our licensees may not be able to operate successfully in any foreign market. We believe that because the pharmaceutical industry is global in nature, international activities will be a significant part of future business activities and when and if we or our licensees 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 or product candidate's development. International sales may be limited or disrupted by many factors, including without limitation:

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

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description	Incorporation By Reference			
		Form	SEC File No.	Exhibit	Filing Date
3.1	Certificate of Incorporation of XOMA Corporation	8-K	000-14710	3.1	01/03/2012
3.2	Certificate of Amendment of Certificate of Incorporation of XOMA Corporation	8-K	000-14710	3.1	05/31/2012
3.3	Certificate of Amendment of Amended Certificate of Incorporation of XOMA Corporation	8-K	000-14710	3.1	05/28/2014
3.4	Certificate of Amendment to the Amended Certificate of Incorporation of XOMA Corporation	8-K	000-14710	3.1	10/18/2016
3.5	Certificate of Designation of Preferences, Rights and Limitations of Series X Convertible Preferred Stock	8-K	000-14710	3.1	02/16/2017
3.6	Certificate of Designation of Preferences, Rights and Limitations of Series Y Convertible Preferred Stock	8-K	000-14710	3.1	12/13/2018
3.7	By-laws of XOMA Corporation	8-K	000-14710	3.2	01/03/2012
4.1	Reference is made to Exhibits 3.1, 3.2, 3.3, 3.4, 3.5, 3.6 and 3.7				
4.2	Specimen of Common Stock Certificate	8-K	000-14710	4.1	01/03/2012
4.3	Form of Warrant (February 2016 Warrant)	10-Q	000-14710	4.9	05/04/2016
4.4	Form of Warrant (May 2018 Warrant)	10-Q	000-14710	4.6	08/07/2018
4.5	Form of Warrant (March 2019 Warrant)	10-Q	000-14710	4.7	05/06/2019
10.1+#	Collaboration and License Agreement, dated as of March 5, 2020, by and between XOMA (US) LLC and Cadila Healthcare Limited				
10.2+	Amendment No. 3, dated March 31, 2020, to the Common Stock Purchase Agreement, dated December 6, 2017, between XOMA Corporation and Rezolute, Inc. (formerly AntriaBio, Inc.)				
31.1+	Certification of Chief Executive Officer, as required by Rule 13a-14(a) or Rule 15d-14(a)				
31.2+	Certification of Chief Financial Officer, as required by Rule 13a-14(a) or Rule 15d-14(a)				

Exhibit Number	Exhibit Description	Incorporation By Reference			
		Form	SEC File No.	Exhibit	Filing Date
32.1+	Certification of Chief Executive Officer and Chief Financial Officer, as required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350)(1)				
101.INS+	XBRL Instance Document				
101.SCH+	XBRL Taxonomy Extension Schema Document				
101.CAL+	XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF+	XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB+	XBRL Taxonomy Extension Labels Linkbase Document				
101.PRE+	XBRL Taxonomy Extension Presentation Linkbase Document				

+ Filed herewith

Portions of this exhibit (indicated by asterisks) have been omitted as the Registrant has determined that (i) the omitted information is not material and (ii) the omitted information would likely cause competitive harm to the Registrant if publicly disclosed.

(1) This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Registrant under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.

SIGNATURES

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

XOMA Corporation

Date: May 5, 2020

By: /s/ JAMES R. NEAL
James R. Neal
Chief Executive Officer (principal executive officer) and Director

Date: May 5, 2020

By: /s/ THOMAS BURNS
Thomas Burns
Senior Vice President, Finance and Chief Financial Officer (principal financial and principal accounting officer)

[*] = Certain information contained in this document, marked by brackets, has been omitted because it is both not material and would be competitively harmful if publicly disclosed.

Collaboration and LICENSE Agreement

This Collaboration and License Agreement (the "**Agreement**") is entered into as of February 27, 2020 (the "**Effective Date**") is entered into by and between XOMA (US) LLC, a company incorporated under the laws of Delaware, USA having its principal place of business at 2200 Powell Street, Emeryville, California, USA 94608 ("**XOMA**"), and Cadila Healthcare Limited, a company incorporated under the laws of India having its registered office at Zydus Corporate Park, Scheme No. 63, Survey No. 536, Khoraj (Gandhinagar), Nr. Vaishnodevi Circle, Sarkhej-Gandhinagar Highway, Ahmedabad-382481, Gujarat, India ("**Zydus**"). Each of XOMA and Zydus may be referred to herein as a "**Party**", or jointly as the "**Parties**".

Recitals

WHEREAS, XOMA owns or controls rights in and to its proprietary monoclonal antibodies which bind to interleukin-2 ("**IL-2**") including mAb19, and certain back-up and follow-on antibodies thereto;

WHEREAS, Zydus owns or controls rights in and to, and is currently developing, a form of IL-2 as a biosimilar to aldesleukin;

WHEREAS, Zydus desires to obtain an exclusive license in the Zydus Territory (as defined below) to develop and commercialize its version of IL-2 in combination with such IL-2 binding antibodies, including mAb19, and XOMA is willing to grant such a license on the terms and conditions set forth herein; and

WHEREAS, XOMA desires to obtain an exclusive license in the XOMA Territory (as defined below) to develop and commercialize such IL-2 binding antibodies with Zydus' version of IL-2 in combination with mAb19, and Zydus is willing to grant such a license on the terms and conditions set forth herein.

Agreement

Now, Therefore, in consideration of the foregoing premises and the mutual covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, XOMA and Zydus hereby agree as follows:

1. Definitions

1.1 "**Affiliate**" means, with respect to any party, any entity that, directly or indirectly through one or more intermediaries, controls, is controlled by or is under common control with such party, but for only so long as such control exists. As used in this Section 1.1, "control" means

(a) to possess, directly or indirectly, the power to direct the management or policies of an entity, whether through ownership of voting securities, by contract relating to voting rights or corporate governance; or (b) direct or indirect beneficial ownership of more than fifty percent (50%) (or such lesser percentage which is the maximum allowed to be owned by a foreign corporation in a particular jurisdiction) of the voting share capital or other equity interest in such entity.

1.2 "**Alliance Manager**" has the meaning set forth in Section 3.3.

1.3 "**Antibody**" means a polypeptide that is an antibody or is a part of an antibody, modified or unmodified, having at least one complementarity determining region (CDR) and which retains the ability to specifically bind antigen and can include an antigen-binding heavy chain, light chain, heavy chain-light chain dimer, Fab fragment, F(ab')2 fragment, dAb, or an Fv fragment, including a single chain Fv (scFv).

1.4 "**Anti-Corruption Laws"** means all applicable laws and regulations regarding corruption, bribery, kickbacks, ethical business conduct, fraud and money laundering.

1.5 " **Applicable Laws**" means (a) the applicable provisions of any and all national, supranational, regional, state and local laws, treaties, statutes, rules, regulations, administrative codes, guidances, ordinances, judgments, decrees, directives, injunctions, orders, permits (including MAAs) of or from any court, arbitrator, Regulatory Authority or governmental agency or authority having jurisdiction over or related to the subject item; and (b) solely with respect to Development and regulatory activities for a Product performed by or on behalf of Zydus (including related manufacturing), Core Standards.

1.6 "**Business Day**" means a day other than a Saturday, Sunday or a bank or other public holiday in Ahmedabad, Gujarat, India or San Francisco, California, USA.

1.7 "**Calendar Quarter**" means each respective period of three (3) consecutive months ending on March 31, June 30, September 30, and December 31.

1.8 "**Calendar Year** " means each respective period of twelve (12) consecutive months ending on December 31.

1.9 "**Change of Control**" means, with respect to a Party: (a) the sale of all or substantially all of its assets or all or substantially all of its assets; (b) a merger, reorganization or consolidation involving such Party in which the holders of the voting securities of such Party outstanding immediately prior to the closing of such transaction cease to beneficially own at least fifty percent (50%) of the combined voting power of the surviving entity, directly or indirectly, immediately after such merger, reorganization or consolidation; or (c) a transaction in which an entity or individual, or group of entities or individuals acting in concert, acquires more than fifty percent (50%) of the voting equity securities of such Party.

1.10 "**Claim**" has the meaning set forth in Section 11.3.

1.11 "**CMC**" means chemistry, manufacturing, and controls.

1.12 "**CMO**" means contract manufacturing organization.

1.13 "**Collaboration Know-How**" means any Know-How [*].

1.14 "**Collaboration Patents**" means any Patent Covering any invention within the Collaboration Know-How.

1.15 "**Collaboration Technology**" means the Collaboration Know-How and the Collaboration Patents.

1.16 "**Commercialization**" means the conduct of all activities undertaken before and after Regulatory Approval relating to the promotion, marketing, sale and distribution (including importing, exporting, transporting, customs clearance, warehousing, invoicing, handling and delivering Products to customers) of Products, including: (a) sales force efforts, detailing, advertising, medical education, planning, marketing, sales force training, and sales and distribution; and (b) scientific and medical affairs. For clarity, Commercialization does not include any Development activities, whether conducted before or after Regulatory Approval. "**Commercialize**" and "**Commercializing**" have correlative meanings.

1.17 "**Commercially Reasonable Efforts**" means, with respect to Zydus' obligations under this Agreement relating to XOMA Antibodies and Products, those efforts and resources that are consistent with the exercise of customary scientific and business practices, as applied in the pharmaceutical industry, for development, regulatory, manufacturing and commercialization activities conducted with respect to products at a similar stage of development or commercialization and having similar commercial potential, taking into account relative safety and efficacy, product profile, the competitiveness of the marketplace and the market potential of such products, the nature and extent of market exclusivity, including patent coverage and regulatory data protection, and price and, if relevant for the applicable country or jurisdiction, reimbursement status. Notwithstanding the foregoing, the factors to be taken into consideration in determining whether Commercially Reasonable Efforts are being or have been used shall not include [*] or [*]. Commercially Reasonable Efforts requires that Zydus: (a) promptly assign responsibility for each such obligation to specific employee(s) who are held accountable for progress and monitor such progress on an ongoing basis; (b) set and seek to achieve specific and meaningful objectives for carrying out such obligation; and (c) make and implement decisions and allocate resources designed to advance progress with respect to such objectives. Any failure by Zydus to perform (itself, or through an Affiliate or sublicensee) any material development or commercialization activities with respect to at least one Product in the Zydus Territory [*] months shall be deemed to be inconsistent with Commercially Reasonable Efforts.

1.18 "**Competing Product**" means any product that [*], whether [*], other than a Product.

1.19 "**Competitive Change of Control**" has the meaning set forth in Section 2.8(a).

1.20 "**Confidential Information**" of a Party (the "**Disclosing Party**") means all non-public Know-How, materials, and other scientific, clinical, marketing, financial or commercial information, in any form, that is: (a) disclosed by or on behalf of such Party or any of its Affiliates or otherwise made available to the other Party or any of its Affiliates; or (b) learned by such other Party pursuant to this Agreement (such other Party, the "**Receiving Party**"). The existence and

[*] = Certain information contained in this document, marked by brackets, has been omitted because it is both not material and would be competitively harmful if publicly disclosed.

terms of this Agreement are the Confidential Information of both Parties. All information disclosed by or on behalf of a Party under the Confidentiality Agreement shall be deemed the Confidential Information of such Party under this Agreement.

1.21 "**Confidentiality Agreement**" means that certain Mutual Confidentiality Agreement between XOMA and Zydus, effective [*].

1.22 "**Control**" or "**Controlled**" means, with respect to any Know-How, materials, Patents or other intellectual property rights, (a) the legal authority or right (whether by ownership, license or otherwise but without taking into account any rights granted by one Party to the other Party pursuant to this Agreement) of a Party to grant access, a license or a sublicense of or under such Know-How, materials, Patents or other intellectual property rights to the other Party, or to otherwise disclose proprietary or trade secret information to the other Party, without breaching the terms of any agreement with a Third Party, or misappropriating the proprietary or trade secret information of a Third Party; and (b) with respect to such Know-How, materials, Patents or other intellectual property rights acquired from a Third Party after the Effective Date, subject to Section 2.7(a).

1.23 "**Core Standards**" means the regulatory standards set by the applicable Regulatory Authorities in the United States, European Union, Japan and China for the submission and approval of an MAA for a Product in such country or jurisdiction, including the conduct of Development and manufacturing in connection therewith.

1.24 "**CTA**" means a clinical trial application filed with a Regulatory Authority to commence clinical trials of a Product.

1.25 "**Data**" means any and all scientific, technical and test data pertaining to any Product (including the XOMA Antibody or Zydus IL-2 contained therein), including research data, clinical pharmacology data, CMC data (including analytical and quality control data and stability data), pre-clinical data, clinical data or submissions made in association with a CTA or MAA with respect to any Product, in each case that is Controlled by a Party.

1.26 "**Develop**" means to research, develop (including clinical, pre-clinical, non-clinical and CMC development), analyze, test and conduct pre-clinical, clinical and all other regulatory trials for a Product, including all post-approval clinical trials, as well as all related regulatory activities and any and all activities pertaining to new indications, pharmacokinetic studies and all related activities including work on new formulations, new methods of treatment and CMC activities, including new manufacturing methods. "**Developing**" and "**Development**" have correlative meanings.

1.27 "**Development Plan**" has the meaning set forth in Section 4.2. An initial high-level outline of the Development Plan for the Product is attached as Exhibit A.

1.28 "**Executive Officers**" has the meaning set forth in Section 3.2(e).

1.29 "**Export Control Laws**" means all applicable U.S. laws and regulations relating to (a) sanctions and embargoes imposed by the Office of Foreign Assets Control of the U.S. Department of Treasury or (b) the export or re-export of commodities, technologies, or services,

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including the Export Administration Act of 1979, 24 U.S.C. §§ 2401-2420, the International Emergency Economic Powers Act, 50 U.S.C. §§ 1701-1706, the Trading with the Enemy Act, 50 U.S.C. §§ 1 et. seq., the Arms Export Control Act, 22 U.S.C. §§ 2778 and 2779, and the International Boycott Provisions of Section 999 of the U.S. Internal Revenue Code of 1986 (as amended).

1.30 "**FCPA**" means the U.S. Foreign Corrupt Practices Act (15 U.S.C. Section 78dd-1, et. seq.), as amended.

1.31 "**Field**" means all uses in animals and humans.

1.32 "**First Commercial Sale**" means, on a Product-by-Product and country-by-country basis, the first sale by Zydus or any of its Affiliates or Sublicensees to a Third Party for end use or consumption of a Product in a given country in the Zydus Territory after Regulatory Approval has been granted with respect to such Product in such country.

1.33 "**GAAP**" means generally accepted accounting practices in India (with respect to Zydus) or the U.S. (with respect to XOMA).

1.34 "**Governmental Authority**" means any national, international, federal, state, provincial or local government, or political subdivision thereof, or any multinational organization or any authority, agency or commission entitled to exercise any administrative, executive, judicial, legislative, police, regulatory or taxing authority or power, any court or tribunal (or any department, bureau or division thereof, or any governmental arbitrator or arbitral body).

1.35 "**ICH**" means the International Conference on Harmonisation (of Technical Requirements for Registration of Pharmaceuticals for Human Use).

1.36 "**Indemnitee**" has the meaning set forth in Section 11.3.

1.37 "**Indemnitor**" has the meaning set forth in Section 11.3.

1.38 "**Initiate**" and its correlates means, with respect to a clinical trial, the first dosing of the first subject in such clinical trial by Zydus or any of its Affiliates or Sublicensees.

1.39 "**Joint Collaboration Patent**" means a Collaboration Patent that is jointly owned by the Parties.

1.40 "**Joint Steering Committee**" or **JSC**" has the meaning set forth in Section 3.1.

1.41 "**Know-How**" means any information, discoveries, inventions, improvements, modifications, processes, methods, assays, techniques, protocols, formulas, data, know-how, trade secrets and results, whether or not patentable or copyrightable, including physical, chemical, biological, toxicological, pharmacological, safety, and pre-clinical and clinical data, dosage regimens, control assays and product specifications.

1.42 "**Licensing Party**" has the meaning set forth in Section 2.7(a).

[*] = Certain information contained in this document, marked by brackets, has been omitted because it is both not material and would be competitively harmful if publicly disclosed.

1.43 "**Losses**" has the meaning set forth in Section 11.1.

1.44 "**MAA**" means a marketing authorization application or equivalent application, and all amendments and supplements thereto, filed with the applicable Regulatory Authority.

1.45 "**Milestone Event**" means any event identified in Section 7.1.

1.46 "**Milestone Payment**" means any payment identified in Section 7.1 to be made by Zydus to XOMA on the occurrence of a Milestone Event.

1.47 "[*]" means [*].

1.48 "**Net Sales**" means, with respect to any Product, the gross amounts invoiced for sales or other dispositions of such Product by or on behalf of a Party or its Affiliates to Third Parties (other than Sublicensees, unless such Sublicensee is the end purchaser), less the following deductions to the extent included in the gross invoiced sales price for such Product or otherwise directly paid or incurred by such Party or its Affiliates, as applicable, with respect to the sale or other disposition of such Product:

(a) customary trade and quantity discounts given with respect to sales of such Product by such Party or its Affiliate;

(b) credits or allowances given or made for breakage or rejection or return of previously sold Products or for retroactive price reductions and billing errors and non-recoverable sales in line with such Party's policy as may be applicable;

(c) rebates and chargeback payments granted to managed health care organizations, pharmacy benefit managers (or equivalents thereof), national, state/provincial, local, and other governments, their agencies and purchasers and reimbursers, or to trade customers;

(d) importation charges, costs of freight, insurance, and other transportation charges directly related to the import and distribution of such Product; and

(e) taxes, duties (including but not limited to import duties) or other governmental charges (including any tax such as a value added or similar tax, other than any taxes based on income) levied on or measured by the billing amount for such Product, as adjusted for rebates and refunds.

Such amounts shall be determined in accordance with GAAP, consistently applied.

A Party shall not sell or dispose of any Product for any consideration other than exclusively monetary consideration on bona fide arms-length terms, and shall not permit its Affiliates and Sublicensees to so sell or dispose of any Product, without the other Party's prior written consent.

In no event will any particular amount identified above be deducted more than once in calculating Net Sales. Sales of a Product between a Party and its Affiliates or Sublicensees for resale shall be excluded from the computation of Net Sales, but the subsequent resale of such

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Product to a Third Party (other than a resale by a Sublicensee) shall be included within the computation of Net Sales.

Adjustment for Combination Products: Solely for the purpose of calculating Net Sales of combination products, if a Party or its Affiliates sells a Product in the form of a combination containing such Product and one or more other active ingredients (a **Combination Product**") in a particular country, Net Sales of such Combination Product in such country for the purpose of determining the royalty due to other Party will be calculated by multiplying actual Net Sales of such Combination Product in such country (calculated as set forth above) by the fraction A/(A+B), where A is the invoice price of such Product if sold separately in such country, and B is the total invoice price of the other active ingredient in the combination if sold separately in such country. If on a country-by-country basis, such other active ingredient or ingredients in the Combination Product are not sold separately in such country, but the Product component of the Combination Product is sold separately in such country, Net Sales for the purpose of determining royalties due to the other Party will be calculated by multiplying actual Net Sales of such Combination Product (calculated as set forth above) by the fraction A/C, where A is the invoice price of such Product component if sold separately, and C is the invoice price of the Combination Product. If, on a country-by-country basis, such Product component is not sold separately in such country. Net Sales for the purposes of determining royalties due to the other Party will be calculated by multiplying actual Net Sales of such Combination Product (calculated as set forth above) by the fraction D/(D+E), where D is the fair market value of the portion of the Combination Product that contains the Product, and E is the fair market value of the portion of the Combination Products containing the other active pharmaceutical ingredient included in such combination product, as such fair market values are determined by mutual agreement of the Parties, which shall not be unreasonably withheld.

Neither Party nor its Affiliates shall sell any Product in combination with or as part of a bundle with other products, or offer packaged arrangements to customers that include a Product, in such a manner as to disproportionately discount the selling price of such Product as compared with the weighted-average discount applied to such other products as a percent of the respective list prices (or if not available, a good faith estimate thereof) of such products and such Product prior to applying the discount.

1.49 "**Out-Licensing Agreement**" means a XOMA Out-Licensing Agreement or Zydus Out-Licensing Agreement, as applicable.

1.50 "**Out-Licensing Revenue**" means all amounts including up-fronts, milestone, royalties or equity investments (including the fair market value of non-cash consideration) received by a Party and its Affiliates from a Third Party as consideration for a (sub)license [*], but excluding (a) fair market payments for research and development services, (b) the fair market value of equity (provided that any premium over fair market value shall be included as Out-Licensing Revenue), (c) reimbursements of Patent expenses, (d) fair market payments for materials or inventory, (e) loans, except to the extent forgiven, (f) payments in connection with the sale of all or substantially all of the business or assets of a Party whether by merger, sale of stock or assets or otherwise; and (g) payments for assets other than such grant of rights.

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1.51 "**Patents**" means (a) all patents, certificates of invention, applications for certificates of invention, priority patent filings and patent applications, and (b) any renewals, divisions, continuations (in whole or in part), or requests for continued examination of any of such patents, certificates of invention and patent applications, and any all patents or certificates of invention issuing thereon, and any and all reissues, reexaminations, extensions, divisions, renewals, substitutions, confirmations, registrations, revalidations, revisions, and additions of or to any of the foregoing.

1.52 "**Phase 1 Clinical Trial**" means a clinical trial of a Product in human subjects, the principal purpose of which is a preliminary determination of safety in healthy individuals or patients.

1.53 "**Phase 2 Clinical Trial**" means a clinical trial of a Product in human patients in any country to determine initial efficacy and dose range finding before embarking on a Phase 3 Clinical Trial.

1.54 "**Phase 3 Clinical Trial**" means a clinical trial of a Product in human patients in any country with a defined dose or a set of defined doses of such Product designed to ascertain efficacy and safety of such Product for the purpose of preparing and submitting an MAA to an applicable Regulatory Authority. Phase 3 Clinical Trial includes a clinical trial designated as a phase 2/3 clinical trial or phase 2 clinical trial that is intended to be a pivotal clinical trial.

1.55 "**Prosecution and Maintenance**" and its correlates means the preparation, filing and prosecution of a Patent application and maintenance of a Patent (including any interferences, reissue proceedings and re-examinations).

1.56 "**Product**" means the product containing only a XOMA Antibody and a Zydus IL-2, in any formulation or presentation.

1.57 "**Product Infringement**" has the meaning set forth in Section 9.3(a).

1.58 "**Public Official or Entity**" means (a) any officer, employee (including physicians, hospital administrators, or other healthcare professionals), agent, representative, department, agency, de facto official, representative, corporate entity, instrumentality or subdivision of any government, military or international organization, including any ministry or department of health or any state-owned or affiliated company or hospital, or (b) any candidate for political office, any political party or any official of a political party.

1.59 "**Regulatory Approval**" means any and all approvals, licenses, registrations, permits, notifications and authorizations (or waivers) of any Regulatory Authority that are necessary for the manufacture, use, storage, import, transport, promotion, marketing, distribution, offer for sale, sale or other commercialization of a Product in any regulatory jurisdiction, including pricing and reimbursement approval that is necessary for commercial sale.

1.60 "**Regulatory Authority**" means any Governmental Authority that has responsibility in its applicable jurisdiction over the testing, development, manufacture, use, storage, import, transport, promotion, marketing, distribution, offer for sale, sale or other commercialization of pharmaceutical products in a given jurisdiction. For countries where

governmental approval is required for pricing or reimbursement for a pharmaceutical product to be reimbursed by national health insurance (or its local equivalent), Regulatory Authority shall also include any Governmental Authority whose review or approval of pricing or reimbursement of such product is required.

1.61 "**Regulatory Exclusivity**" means any exclusive marketing rights or data exclusivity rights conferred by any Regulatory Authority with respect to a pharmaceutical product other than Patents, including orphan drug exclusivity, new chemical entity exclusivity, data exclusivity, or pediatric exclusivity.

1.62 "**Regulatory Filings**" means all applications, filings, submissions, approvals, licenses, registrations, permits, notifications and authorizations (or waivers) with respect to the testing, Development, manufacture or Commercialization of any Product (including any XOMA Antibody or Zydus IL-2 contained therein) made to or received from any Regulatory Authority in a given country, including any CTAs and MAAs .

1.63 "**ROFN Period**" has the meaning set forth in Section 2.9.

1.64 "**ROFN Termination**" has the meaning set forth in Section 2.9.

1.65 "**Royalty Term**" means, on a Product-by-Product and country-by-country basis, the period commencing on the date of the First Commercial Sale of such Product in such country until the later of (i) the expiration of the last-to-expire Valid Claim [*] in such Country that claims [*] such Product (or [*] contained therein); (ii) [*] years after the First Commercial Sale of such Product in such country; and (iii) the expiration of all Regulatory Exclusivities for such Product in such country.

1.66 "**Safety Data**" means Data generated by or on behalf of a Party or its Affiliates or Sublicensees related solely to any adverse drug experiences and serious adverse drug experiences relating to any Product (including any XOMA Antibody or Zydus IL-2 contained therein) as such information is reportable to Regulatory Authorities. Safety Data also includes "adverse events", "adverse drug reactions" and "unexpected adverse drug reactions" as defined in the ICH Harmonised Tripartite Guideline for Clinical Safety Data Management: Definitions and Standards for Expedited Reporting.

1.67 "**Sublicensee**" means a Third Party to whom a Party grants a sublicense under the rights granted hereunder to Develop, make, use or import any Product or promote, offer for sale or sell any Product in the Field in such Party's Territory, beyond the mere right to purchase Products from such Party and its Affiliates. Neither Party nor any of its Affiliates be deemed a Sublicensee.

1.68 "**Term**" has the meaning set forth in Section 13.1.

1.69 "**Territory**" means the XOMA Territory and/or the Zydus Territory, as applicable.

1.70 "**Third Party**" means any entity other than XOMA or Zydus or an Affiliate of XOMA or Zydus.

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1.71 "**Third Party License**" has the meaning set forth in Section 2.7(a) .

1.72 "**Valid Claim**" means (a) a claim of an issued and unexpired Patent that has not been revoked or held unenforceable, unpatentable or invalid by a decision of a court or other governmental agency of competent jurisdiction that is not appealable or has not been appealed within the time allowed for appeal, and that has not been abandoned, disclaimed, denied or admitted to be invalid or unenforceable through reissue, re-examination or disclaimer or otherwise, or (b) a claim of a pending Patent application that has not been cancelled, withdrawn or abandoned or finally rejected by an administrative agency action from which no appeal can be taken.

1.73 "**XOMA Antibody**" means any of the following: (a) XOMA's proprietary monoclonal antibody known as mAb19, as more specifically described in Exhibit B, and (b) XOMA's back-up and follow-on antibodies to mAb19 as set forth in Exhibit B, and includes in each of case (a) and (b) any isoforms, allelic variants, mutants, polymorphisms, modified forms and fragments of each such antibody, and any human and non-human counterparts thereof.

1.74 "**XOMA Commercialization Plan**" has the meaning set forth in Section 5.3.

1.75 "**XOMA Partner**" means any Sublicensee of XOMA with respect to the Development and Commercialization of any Product in any country in the XOMA Territory, excluding any contract research organization or other Third Party conducting activities on solely on behalf of XOMA or its Affiliates.

1.76 "**XOMA Indemnitee**" has the meaning set forth in Section 11.2.

1.77 " **XOMA Know-How**" means all Know-How Controlled by XOMA or its Affiliates as of the Effective Date or during the Term, excluding Collaboration Know-How, that is necessary or specifically useful for the Development, manufacture or Commercialization of any Product in the Field, but excluding (a) any Know-How related to any active ingredient other than a XOMA Antibody or IL-2, and (b) any Know-How licensed to XOMA or its Affiliates by a Third Party pursuant to a license agreement that is not a Third Party License.

1.78 "**XOMA Out-Licensing Agreement**" means any agreement between XOMA or its Affiliate and a XOMA Partner pursuant to which such XOMA Partner receives a (sub)license [*] to Develop or Commercialize a Product in the XOMA Territory.

1.79 "**XOMA Out-Licensing Payment Term**" means, with respect to a particular XOMA Out-Licensing Agreement, the period commencing on the effective date of such XOMA Out-Licensing Agreement and ending upon: (a) with respect to payments under such XOMA Out-Licensing Agreement based on sales of a specific Product in a specific country, the later of (i) the expiration of the last-to-expire Valid Claim of a [*] in such country that claims [*] such Product (or [*] contained therein); (ii) [*] years after the First Commercial Sale of such Product in such country; and (iii) the expiration of all Regulatory Exclusivities for such Product in such country; and (b) with respect to all other payments under such XOMA Out-Licensing Agreement, the expiration of the last-to-expire Valid Claim of a [*] (sub)licensed to the applicable XOMA Partner pursuant to such XOMA Out-Licensing Agreement that claims [*] a Product (or [*]).

1.80 " **XOMA Patents**" means all Patents Controlled by XOMA or its Affiliates as of the Effective Date or during the Term , excluding Collaboration Patents, that are necessary or reasonably useful for the Development or Commercialization of any Product in the Field in the Zydus Territory or the manufacture of a Product in the Zydus Territory or the XOMA Territory, but excluding (a) any Patents to the extent claiming the manufacture, use or sale of any active ingredient other than a XOMA Antibody or IL-2, and (b) any Patents licensed to XOMA or its Affiliates by a Third Party pursuant to a license agreement that is not a Third Party License.

1.81 "**XOMA Sole Collaboration Patent**" means a Collaboration Patent that is solely owned by XOMA.

1.82 "**XOMA Technology**" means the XOMA Know-How and the XOMA Patents.

1.83 "**XOMA Territory**" means the world, excluding the Zydus Territory.

1.84 "**Zydus Commercialization Plan**" has the meaning set forth in Section 5.2.

1.85 "**Zydus IL-2**" means the form of IL-2 under development by Zydus as of the Effective Date, as further described in Exhibit C, and any other form of IL-2 Controlled by Zydus or its Affiliates as of the Effective Date or during the Term.

1.86 "**Zydus Indemnitee**" has the meaning set forth in Section 11.1.

1.87 "**Zydus Know-How**" means all Know-How Controlled by Zydus or its Affiliates as of the Effective Date or during the Term, excluding Collaboration Know-How, that is necessary or specifically useful for the Development, manufacture or Commercialization of any Product in the Field, but excluding (a) any Know-How related to any active ingredient other than a XOMA Antibody or IL-2, and (b) any Know-How licensed to Zydus or its Affiliate by a Third Party pursuant to a license agreement that is not a Third Party License.

1.88 "**Zydus Out-Licensing Agreement**" means any agreement between Zydus or its Affiliate and a Third Party pursuant to which such Third Party receives a (sub)license [*] to Develop or Commercialize a Product in the Zydus Territory.

1.89 "**Zydus Out-Licensing Payment Term**" means, with respect to a particular Zydus Out-Licensing Agreement, the period commencing on the effective date of such Zydus Out-Licensing Agreement and ending upon: (a) with respect to payments under such Zydus Out-Licensing Agreement based on sales of a specific Product in a specific country, the applicable Royalty Term; and (b) with respect to all other payments under such Zydus Out-Licensing Agreement, the expiration of the last-to-expire Valid Claim of a [*] (sub)licensed to the applicable Sublicensee pursuant to such Zydus Out-Licensing Agreement that claims [*] a Product (or [*] contained therein).

1.90 "**Zydus Patents**" means all Patents Controlled by Zydus or its Affiliates as of the Effective Date or during the Term, excluding Collaboration Patents, that are necessary or reasonably useful for the Development or Commercialization of any Product in the Field in the XOMA Territory or the manufacture of a Product in the Zydus Territory or the XOMA Territory, excluding (a) any Patents to the extent claiming the manufacture, use or sale of any active

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ingredient other than a XOMA Antibody or IL-2, and (b) any Patents licensed to Zydus or its Affiliates by a Third Party pursuant to a license agreement that is not a Third Party License.

1.91 "**Zydus Sole Collaboration Patent**" means a Collaboration Patent that is solely owned by Zydus.

1.92 "**Zydus Technology**" means the Zydus Know-How and the Zydus Patents.

1.93 "**Zydus Territory**" means India, Brazil, Mexico, [*].

2. Grant of Licenses

2.1 Licenses Granted to Zydus.

(a) Subject to the terms and conditions of this Agreement, XOMA hereby grants to Zydus, during the Term, (i) an exclusive (subject to XOMA's retained rights under Section 2.4), royalty-bearing license, with the right to grant sublicenses as provided in Section 2.2, under the XOMA Technology and XOMA's interest in the Collaboration Technology, to Develop, use, sell, offer for sale and import Products in the Field in the Zydus Territory; and (ii) a non-exclusive license, with the right to grant sublicenses as provided in Section 2.2, under the XOMA Technology and XOMA's interest in the Collaboration Technology, to make and have made Products (including XOMA Antibodies and Zydus IL-2 solely for use therein) anywhere in the world solely for purposes of Developing and Commercializing Products in the Field in the Zydus Territory and fulfilling Zydus' supply obligations to XOMA and XOMA Partners pursuant to Section 6.2.

(b) For clarity, the foregoing license excludes the rights to Develop, manufacture, have manufactured, use, sell, offer for sale or import any XOMA Antibody except in connection with the Development, manufacture, use, import or sale of Products in the Field in the Zydus Territory or the fulfillment of Zydus' supply obligations to XOMA and XOMA Partners pursuant to Section 6.2.

(c) Zydus acknowledges that portions of the XOMA Technology are Controlled by XOMA pursuant to the [*] Agreement and that such rights are subject to the terms and conditions of the [*] Agreement (including the retained rights thereunder), and agrees to comply with such terms and conditions.

2.2 Sublicenses. Zydus shall have the right to grant sublicenses under the license granted in Section 2.1 to any of its Affiliates or to any Third Party, provided that during the ROFN Period, such sublicenses shall require the prior written consent of XOMA, which shall not be unreasonably withheld, delayed or conditioned. All sublicenses granted under the license granted in Section 2.1 shall be in writing and shall be subject to, and consistent with, the terms and conditions of this Agreement. Zydus shall ensure that each agreement with an Affiliate or a Sublicensee granting a sublicense under the license granted in Section 2.1: (a) grants XOMA all rights with respect to Know-How made or generated by such Affiliate or Sublicensee as if such Know-How was made or generated by Zydus; (b) grants XOMA rights to cross-reference Regulatory Filings of such Affiliate or Sublicensee as if such Regulatory Filings were made or generated by Zydus; and (c) includes restrictions on activities outside the country(ies) sublicensed

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to such Affiliate or Sublicensee at least as protective of XOMA's rights as Section 5.6(a), and expressly provides that breach of such restrictions will be a material breach of the sublicense agreement giving rise to a termination right of Zydus. Zydus shall be responsible for the compliance of its Affiliates and Sublicensees with the terms and conditions of this Agreement. Within thirty (30) days after execution, Zydus shall provide XOMA with a full and complete copy of each agreement granting a sublicense under the license granted in Section 2.1 to any Third Party and any amendment thereto.

2.3 Licenses Granted to XOMA.

(a) Subject to the terms and conditions of this Agreement, Zydus hereby grants to XOMA during the Term: (i) an exclusive, royalty-bearing license, with the right to grant sublicenses through multiple tiers, under the Zydus Technology and Zydus' interest in the Collaboration Technology to Develop, manufacture, have manufactured, use, import, sell and offer for sale Products in the XOMA Territory; and (ii) a non-exclusive license, with the right to grant sublicenses as provided in Section 2.2 (applied mutatis mutandis), under the Zydus Technology and Zydus' interest in the Collaboration Technology, to make and have made Products (including XOMA Antibodies and Zydus IL-2 solely for use therein) anywhere in the world solely for purposes of Developing and Commercializing Products in the Field in the XOMA Territory.

(b) For clarity, the foregoing license excludes the rights to Develop, manufacture, have manufactured, use, sell, offer for sale or import any Zydus IL-2 except in connection with the Development, manufacture, use, import or sale of Products in the Field in the XOMA Territory.

(c) For clarity, XOMA's rights under this Section 2.3 are subject to Zydus' right of first negotiation set forth in Section 2.9 and XOMA shall not exercise any rights under this Section 2.3 unless and until the occurrence of a ROFN Termination.

2.4 Reserved Rights. XOMA hereby expressly reserves all rights to practice, and to grant licenses under, the XOMA Technology outside the scope of the exclusive license granted in Section 2.1, for any and all purposes excluding any purposes that are prohibited under this Agreement (including under Section 5.6(b)). Zydus hereby expressly reserves all rights to practice, and to grant licenses under, the Zydus Technology outside the scope of the exclusive license granted in Section 2.3, for any and all purposes, excluding any purposes that are prohibited under this Agreement (including under Sections 2.5(b), 2.8 and 5.6(a)).

2.5 No Implied Licenses; Covenants.

(a) Except as set forth in this Agreement, neither Party shall acquire any license or other intellectual property interest, by implication or otherwise, under or to any Patents, Know-How or other intellectual property owned or Controlled by the other Party. Each Party agrees not to, and not to permit any of its Affiliates or Sublicensees to, practice any Patents or Know-How licensed to it by the other Party outside the scope of the licenses granted to it under this Agreement.

(b) Zydus covenants that, during the Term, it shall not and shall cause its Affiliates and Sublicensees not to (i) Develop any Product in the XOMA Territory (excluding manufacturing development), (ii) Commercialize or conduct Medical Affairs Activities for any

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Product in the XOMA Territory, or (iii) knowingly assist any Third Party in undertaking any activity described in subclause (i) or (ii) above, except in each case with XOMA's prior written consent given on a case-by-case basis.

(c) XOMA covenants that, during the Term, it shall not and shall cause its Affiliates and XOMA Partners not to (i) Develop any Product in the Zydus Territory (excluding manufacturing development), (ii) Commercialize or conduct Medical Affairs Activities for any Product in the Zydus Territory, or (iii) knowingly assist any Third Party in undertaking any activity described in subclause (i) or (ii) above, except in each case with Zydus' prior written consent given on a case-by-case basis.

(d) XOMA covenants that, during the Term, it shall maintain the [*] Agreement in full force and effect for so long as Zydus or any of its Affiliates or Sublicensees is Developing, manufacturing or Commercializing Products in the Zydus Territory that are covered or claimed by any Patent sublicensed to Zydus hereunder pursuant to the [*] Agreement.

2.6 Use of Subcontractors. Zydus may perform its Development, manufacturing, regulatory and Commercialization activities under this Agreement through one or more subcontractors, provided that (a) Zydus shall inform the JSC in the course of the regularly scheduled JSC meetings of the subcontractors engaged or intended to be engaged by Zydus for the JSC's review, and shall provide any information related to such subcontractors and such activities as XOMA may reasonably request; (b) Zydus will remain responsible for the work allocated to, and payment to, such subcontractors to the same extent it would if it had done such work itself; (c) each subcontractor undertakes in writing obligations of confidentiality and non-use regarding Confidential Information that are substantially the same as those undertaken by the Parties pursuant to Article 12, and, for subcontractors conducting Commercialization or manufacturing activities, covenants consistent with those in Section 5.6(a); and (d) each subcontractor agrees in writing to assign all Know-How developed in the course of performing any such work to Zydus.

2.7 Third Party Licenses.

(a) If a Party (the "**Licensing Party**") enters into any agreement with a Third Party after the Effective Date that includes a sublicenseable license from such Third Party under any Know-How or Patents that are necessary or reasonably useful to Develop, manufacture or Commercialize any Product in the Field (including a XOMA Antibody or Zydus IL-2 for use therein) in the other Party's Territory, then the Licensing Party shall notify the other Party, identifying the relevant Know-How or Patents. The Licensing Party shall disclose to the other Party the substantive terms of the applicable license agreement to the extent applicable to the rights that would be sublicensed to the other Party. Such license agreement shall be deemed a "**Third Party License**", and such Know-How and Patents, to the extent falling within the definition of XOMA Technology (if XOMA is the Licensing Party) or Zydus Technology (if Zydus is the Licensing Party), will be sublicensed to the other Party only if such other Party provides the Licensing Party with written notice in which: (i) such other Party consents to adding such Patents and Know-How to the definition of XOMA Technology (where XOMA is the Licensing Party) or Zydus Technology (where Zydus is the Licensing Party); (ii) such other Party agrees to be responsible for all payments that would be owed under such license agreement as a result of the Licensing Party's granting a sublicense to such other Party or such other Party's practice

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thereunder, including such other Party and its Affiliates' and Sublicensees' Development, manufacture, use and importation of Products (or the XOMA Antibody or Zydus IL-2 used therein), and offer for sale and sale of Products, and a reasonable allocation of all other payments under such agreement, and to make all payments when due and provide all reports required under such license agreement; and (iii) such other Party acknowledges in writing that its sublicense under such license agreement is subject to the terms and conditions of such license agreement and agrees to comply therewith. For clarity, notwithstanding subsections (i) and (ii) above, the [*] Agreement is deemed to be a Third Party License.

(b) The non-Licensing Party shall (i) provide the Licensing Party, in a timely manner as necessary for Licensing Party to comply with its obligations under each Third Party License, with all information needed in order to determine the requirement to make, and the amount of, any payment thereunder, to the extent resulting from the grant, maintenance or exercise of a sublicense to the non-Licensing Party; and (ii) promptly (but in no event later than [*] days after the Licensing Party's submission of a correct invoice therefor) reimburse the non-Licensing Party for the full amount of each such payment.

(c) Each Party shall promptly notify the other Party if it becomes aware of any Know-How or Patents of a Third Party that are necessary or reasonably useful to Develop, manufacture or Commercialize any Product (including the applicable XOMA Antibody or Zydus IL-2). XOMA shall have the first right to negotiate and obtain a world-wide sublicenseable license from such Third Party under such Know-How or Patents if [*]. Zydus shall have the first right to negotiate and obtain a world-wide sublicenseable license from such Third Party under such Know-How or Patents if [*].

2.8 Competing Products.

(a) Non-Compete Obligation. During the Term, Zydus shall not, and shall ensure that its Affiliates and Sublicensees do not, directly or indirectly, alone or with or through any Third Party, Develop or Commercialize any Competing Product [*], without XOMA's prior written consent. During the Term XOMA shall not, and shall ensure that its Affiliates and Sublicensees do not, directly or indirectly, alone or with or through any Third Party, Develop or Commercialize any Competing Product [*], without Zydus' prior written consent.

(b) Change of Control of Zydus. Zydus shall notify XOMA within [*] Business Days following any Change of Control of Zydus or any of its Affiliates performing work in connection with this Agreement, which notice shall specify whether the acquirer or any of its Affiliates (other than Zydus or its Affiliates existing prior such Change of Control) has rights to a Competing Product that would cause Zydus to breach Section 2.8(a) as a result of such Change of Control (a "**Zydus Competitive Change of Control**"). Within [*] days following its receipt of Zydus' notice of a Zydus Competitive Change of Control, XOMA shall elect by written notice to Zydus : (i) to terminate this Agreement , effective [*] days after the date of XOMA's notice, or such longer period as reasonably requested by either Party to transition Development, pharmacovigilance, supply and regulatory responsibilities to XOMA, not to exceed [*] days without the other Party's prior written consent or (ii) to require Zydus and its Affiliates (including such acquirer and its Affiliates) to terminate all activities with respect to such Competing Product, in which case Zydus shall ensure that it and all Affiliates cease all manufacturing, development,

promotional and commercialization activities for such Competing Product within [*] days after receipt of XOMA's notice. During the period from the closing of the Change of Control until the effective date of termination of this Agreement or termination of all restricted activities, as applicable, Zydus and its Affiliates shall establish and enforce internal processes, policies, procedures and systems to strictly segregate information relating to any Competing Product from any Know-How related to any XOMA Antibody or Product, and shall not use, directly or indirectly, any XOMA Know-How or Zydus Know-How in connection with any Competing Product.

(c) Change of Control of XOMA. XOMA shall notify Zydus within [*] Business Days following any Change of Control of XOMA or any of its Affiliates performing work in connection with this Agreement, which notice shall specify whether the acquirer or any of its Affiliates (other than XOMA or its Affiliates existing prior such Change of Control) has rights to a Competing Product that would cause XOMA to breach Section 2.8(a) as a result of such Change of Control (a "**XOMA Competitive Change of Control**"). Within [*] days following its receipt of XOMA's notice of a XOMA Competitive Change of Control, Zydus shall elect by written notice to XOMA: (i) to terminate this Agreement, effective [*] days after the date of Zydus' notice, or (ii) to require XOMA and its Affiliates (including such acquirer and its Affiliates) to terminate all activities with respect to such Competing Product, in which case XOMA shall ensure that it and all Affiliates cease all manufacturing, development, promotional and commercialization activities for such Competing Product within [*] days after receipt of Zydus' notice. During the period from the closing of the Change of Control until the effective date of termination of this Agreement or termination of all restricted activities, as applicable, XOMA and its Affiliates shall establish and enforce internal processes, policies, procedures and systems to strictly segregate information relating to any Competing Product from any Know-How related to any Zydus Antibody or Product, and shall not use, directly or indirectly, any Zydus Know-How or XOMA Know-How in connection with any Competing Product.

2.9 Right of First Negotiation.

(a) Commencing on the Effective Date and ending one hundred and eighty (180) days following the completion of the first Phase 2 clinical trial of first Product in the Zydus Territory (i.e., database lock) (the "**ROFN Period**"), Zydus shall have the exclusive first right to negotiate an exclusive license under the XOMA Technology and XOMA's interest in the Collaboration Technology to Develop, make, have made, use, sell and offer for sale the Products in the XOMA Territory (a "**XOMA Territory License**") in accordance with this Section. If Zydus provides XOMA with written notice during the ROFN Period that it wishes to exercise such right (a "**Negotiation Notice**"), then for [*] days following XOMA's receipt of such notice (the "**Negotiation Period**") the Parties shall negotiate in good faith the commercially reasonable terms of a XOMA Territory License. If Zydus does not provide a Negotiation Notice to XOMA during the ROFN Period, or if Zydus provides a Negotiation Notice during the ROFN Period and the Parties do not execute a definitive agreement for the XOMA Territory License within the Negotiation Period (each, a "**ROFN Termination**"), then XOMA shall have the right to grant licenses to one or more Third Parties to Develop, make, have made, use, sell and offer for sale the Products in the XOMA Territory (each such Third Party, a "**XOMA Partner**"), subject to XOMA's payment obligations to Zydus as set forth in Section 7.3. If Zydus provided XOMA with a Negotiation Notice during the Negotiation Period, then notwithstanding the foregoing, for [*]

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months following the expiration of the Negotiation Period XOMA shall not grant a XOMA Territory License to any Third Party on terms that are materially less favorable to XOMA, taken as a whole, then the terms last offered in writing by Zydus.

If after [*] months of the expiration of the Negotiation Period, XOMA has not entered into a license agreement with a Third Party with respect to the Products in the XOMA Territory, then in such case, at Zydus' request, the Parties shall discuss in good faith terms on which Zydus may obtain a XOMA Territory License.

(b) It is the intention of the Parties that XOMA, prior to the ROFN Termination, shall not grant a license under the XOMA Technology and XOMA's interest in the Collaboration Technology to Develop, make, have made, use, sell and offer for sale the Products in the Field in the XOMA Territory directly or through a Third Party without Zydus having the right of first negotiation contemplated in this Section 2.9.

2.10 Termination of [*] Agreement. In the event of termination of the [*] Agreement, Zydus may elect to continue its sublicense under the [*] Agreement as a direct license from [*] by advising [*] in writing, within [*] days of Zydus' receipt of written notice of such termination, of its election, and of its agreement to assume all the obligations (including obligations for payment) of XOMA contained in the [*] Agreement applicable to the scope of Zydus' sublicense (other than obligations to seek a sublicensee), provided that [*] shall not be required to assume any obligation that is not consistent with [*] obligations under the [*] Agreement.

3. Governance

3.1 Joint Steering Committee. Within [*] days after the Effective Date, the Parties shall establish a joint steering committee (the "**Joint Steering Committee**" or the "**JSC**"), composed of two (2) representatives of each Party, to guide the collaboration of the Parties under this Agreement, including overseeing the Development of Products in the Field in the Parties' respective Territories and the exchange of information between the Parties with respect to such Development. Each JSC representative shall have knowledge and expertise in the development of products similar to Products and shall have sufficient seniority within the applicable Party to make decisions arising within the scope of the JSC's responsibilities. The JSC shall in particular:

(a) provide a forum for the discussion of the Development of Products in the Field in the Zydus Territory;

(b) review and approve any proposed amendments to the Development Plan and any significant deviations from the Development Plan;

(c) determine which Indications in the Field to pursue for each Product in the Zydus Territory;

(d) facilitate the exchange of Data and updates with respect to out-licensing activities with respect to the Products between the Parties;

(e) review all regulatory actions and communications and review and approve all Regulatory Filings for Products in the Zydus Territory;

(f) review and discuss the Commercialization of Products in the Zydus Territory, including the reports and plans provided under Section 5.2;

(g) in the event of a ROFN Termination, establish procedures for the Parties to coordinate their regulatory activities in their respective Territories (including activities being conducted by a XOMA Partner) and exchange relevant data and oversee such activities; and

(h) perform such other functions as may be appropriate to further the purposes of this Agreement with respect to the Development of Products in the Field in the Zydus Territory, as expressly set forth in this Agreement or allocated to it by the Parties' written agreement.

3.2 JSC Membership and Meetings.

(a) Members. Each Party shall notify the other Party of its JSC members within thirty (30) days after the Effective Date. Each Party may replace its JSC representatives on written notice to the other Party. Each Party shall appoint one (1) of its JSC representatives to act as a co-chairperson of the JSC. The co-chairpersons shall jointly prepare and circulate agendas to JSC members at least seven (7) days before each JSC meeting and shall direct the preparation of reasonably detailed minutes for each JSC meeting, which shall be approved by the co-chairpersons and circulated to JSC members within thirty (30) days of such meeting.

(b) Meetings. The JSC shall hold meetings at such times as it elects to do so, but in no event shall such meetings be held less frequently than once every Calendar Quarter. Meetings may be held in person, or by audio or video teleconference, as agreed by the Parties. Each Party shall be responsible for all of its own expenses of participating in JSC meetings. No action taken at any meeting of the JSC shall be effective unless at least one (1) representative of each Party is participating.

(c) Non-Member Attendance. Each Party may from time to time invite a reasonable number of participants, in addition to its representatives, to attend JSC meetings in a non-voting capacity; provided that if either Party intends to have any Third Party (including any consultant) attend such a meeting, such Party shall provide at least seven (7) days prior written notice to the other Party and obtain the other Party's approval for such Third Party to attend such meeting, which approval shall not be unreasonably withheld or delayed. Such Party shall ensure that such Third Party is bound by confidentiality and non-use obligations consistent wit h the terms of this Agreement.

(d) Limits of Authority. The JSC shall have only such powers as are expressly assigned to it in this Agreement, and such powers shall be subject to the terms and conditions of this Agreement. Without limiting the foregoing, the JSC (and the Executive Officers and a Party with final decision-making authority acting in accordance with subsection (e) below) will not have the power to amend this Agreement or to determine compliance or non-compliance with any term hereof, or to cause either Party to any action that is in violation of Applicable Laws or the terms of any applicable Third Party License. No decision of the JSC (or of the Executive Officers or of

a Party with final decision-making authority pursuant to subsection (e) below) may contravene any terms and conditions of this Agreement.

(e) JSC Decision-Making. All decisions of the JSC shall be made by unanimous vote, with each Party's representatives collectively having one (1) vote, and the JSC will endeavor to reach consensus on all matters for decision. If after reasonable discussion and good faith consideration of each Party's view on a particular matter before the JSC, the representatives of the Parties cannot reach an agreement as to such matter within five (5) Business Days after such matter was brought to the JSC for resolution, such disagreement shall be referred to the Chief Executive Officer of XOMA and the President-Biologics of Zydus (collectively, the "**Executive Officers**") for resolution, who shall use good faith efforts to resolve such matter within ten (10) Business Days after it is referred to them. If the Executive Officers are unable to reach consensus on any such matter during such period, then:

(i) Subject to Section 3.2(d), [*] shall have the deciding vote with respect to any aspects of such matter relating to [*]; provided that any such deciding vote shall be exercised in good faith, and after good faith consideration of [*] comments or requests on such matters that [*]; and

(ii) Subject to Section 3.2(d), [*] shall have the deciding vote with respect to any aspects of such matter relating to [*]; provided that any such deciding vote shall be exercised in good faith, and after good faith consideration of [*] comments or requests on such matters that [*].

3.3 Alliance Managers. Promptly after the Effective Date, each Party shall appoint an individual to act as the alliance manager for such Party (the "**Alliance Manager**"). Each Alliance Manager shall be responsible for alliance management between the Parties on a day-to-day basis throughout the Term and may also be, but need not be, a JSC member. Each Alliance Manager, if not a JSC member, shall be permitted to attend meetings of the JSC as a non-voting participant. The Alliance Managers shall be the primary contact for the Parties regarding the activities contemplated by this Agreement and shall facilitate all such activities hereunder. Each Party may replace its Alliance Manager with an alternative representative at any time with prior written notice to the other Party. Any Alliance Manager may designate a substitute to temporarily perform the functions of that Alliance Manager. Each Alliance Manager shall be charged with creating and maintaining a collaborative work environment within the JSC and between the Parties.

3.4 Discontinuation of Participation on the JSC. XOMA's membership in the JSC shall be at its sole discretion, as a matter of right and not obligation, for the sole purpose of participation in governance, decision-making, and information exchange with respect to activities within the jurisdiction of the JSC. XOMA shall have the right to withdraw, at any time, from membership on the JSC upon [*] prior written notice to Zydus, which notice shall be effective upon the expiration of such [*] period. Following the issuance of such notice: (a) XOMA's membership in the JSC shall be terminated and (b) each Party shall have the obligation to provide and the right to continue to receive the information it would otherwise be required to provide and entitled to receive under the Agreement and to participate directly with the other Party in discussions, reviews and approvals currently allocated to the JSC pursuant to this Article 3. If the

JSC is disbanded, then any data and information of the nature intended to be shared within the JSC shall be provided by each Party directly to the other Party.

4. Development and Regulatory Activities

4.1 General; Diligence.

(a) Subject to the terms and conditions of this Agreement, Zydus shall be responsible, at its sole cost and expense, for all Development of the Products in Field in the Zydus Territory, including all pre-clinical studies (including any studies required for any CTA filing for a Product in the Zydus Territory), clinical trials and regulatory activities, that are necessary for or otherwise support obtaining and maintaining Regulatory Approvals in Field in the Zydus Territory.

(b) The Parties have agreed that the financial consideration to be paid to XOMA in exchange for the rights granted and materials transferred hereunder will be largely deferred until such time as Zydus has substantially advanced the Development of the Products and commenced Commercialization of the Products, such that XOMA is reliant on Zydus' diligent Development and Commercialization of the Products to fully receive the benefit of its bargain. Accordingly, Zydus shall use Commercially Reasonable Efforts to Develop and to seek and obtain Regulatory Approval of Products in the Field in the Zydus Territory using the most efficient pathway to Regulatory Approval in the Zydus Territory, including all available accelerated or fast-track regulatory and clinical development pathways that are applicable to Products, e.g., rare disease or orphan drug approval pathways, while taking into consideration the potential impact of such Development and Regulatory Approval on the Development and Regulatory Approval of Products outside the Zydus Territory. [*] For clarity, any delay solely caused by [*] shall not be constituted as a delay in meeting the timelines. Further, the timelines and/or [*] set forth in Exhibit D may be reasonably updated from time to time based on experiment success or failure by mutual consent of both Parties through JSC; for clarity, notwithstanding Section 3.2(e), [*] the final decision with respect thereto.

(c) If the Development of the Product [*] during the ROFN Period, (i) Zydus will notify XOMA in writing [*] within [*] days of such event, [*].

4.2 Development Plan. Zydus shall conduct all Development of Products in the Zydus Territory in accordance with a comprehensive development plan for each Product (as amended in accordance with this Agreement, the "**Development Plan**"). Zydus shall not conduct any Development activity with any XOMA Antibody except as set forth in the Development Plan. Within [*] days after the Effective Date, Zydus shall prepare a detailed Development Plan for the Products, consistent with the initial high-level outline attached as Exhibit A, for the JSC's review and approval. The Development Plan shall be consistent with Section 4.1 and Exhibit D and shall include for each Product: (a) detailed descriptions of each pre-clinical study and clinical trial therefor, including the design, patient population, enrollment criteria, dosing levels, endpoints and protocols thereof; (b) the regulatory strategy in each applicable Indication throughout the Zydus Territory; and (c) timelines for Initiating each clinical trial of such Product in each Indication, timelines for filing CTAs for each Product and MAAs for each Product in each Indication in the Zydus Territory, and anticipated date of First Commercial Sale of each Product in each Country

in the Zydus Territory. From time to time, but at least every [*] months, Zydus shall update each Development Plan and submit such updated plan to the JSC for review, discussion and approval.

4.3 Transfer of Know-How.

(a) Following the Effective Date, XOMA shall transfer to Zydus the XOMA Antibodies and related XOMA Know-How that are in XOMA's possession or control, as set forth in Exhibit E. Zydus acknowledges that such materials are provided "as is" and "where is" and without any representation or warranty by XOMA as to their suitability or usability for Zydus' Development activities or any other purpose. Zydus shall be responsible for all costs associated with the transfer of the XOMA Antibodies (including shipping, packaging, insurance and other transfer costs) under this Section 4.3.

(b) In the event of a ROFN Termination, Zydus shall, within [*] days following the date of such ROFN Termination or such longer period as the Parties may agree, transfer to XOMA or its designee all Zydus Know-How in Zydus' possession or control, including the Know-How and materials described in Exhibit F. The JSC shall establish the procedures for such transfer. At XOMA's request and expense, Zydus shall provide reasonable consultation to enable XOMA and/or XOMA Partners to utilize the Zydus Know-How for the Development and manufacture of Products in the XOMA Territory.

4.4 Conduct of Development Activities. Zydus shall conduct all Development of XOMA Antibodies and Products hereunder in compliance with all Applicable Laws, including good scientific and clinical practices under the Applicable Laws of the country in which such activities are conducted.

4.5 Data.

(a) Data Ownership. As between the Parties, except as expressly set forth herein, [*] shall own such Data, subject to the licenses and other rights granted by such Party to the other Party under this Agreement with respect to the use of or access to such Data.

(b) Data Exchange. During the Term, and subject to Applicable Laws and good scientific practice, each Party shall provide to the other Party promptly upon request by such other Party (but no more frequently than once every [*] months), to the extent not already provided and at no additional cost to such other Party, electronic access to all Data generated by or on behalf of the Party or its Affiliates with respect to and in the course of conducting studies with respect to the Products (including all study reports analyzing such Data), which are necessary or reasonably useful for such other Party to obtain or maintain Regulatory Approval of such Products in its respective Territory (it being understood that [*] generate or provide any such Data [*]). Any Data provided by one Party to the other Party under this Section shall be provided in the original language in which such Data was generated, provided that, if such original language is not English, then the Party supplying such Data shall upon the other Party's request also provide English translations thereof. The Parties will cooperate and reasonably agree upon formats and procedures to facilitate the orderly and efficient exchange of such Data. Subject to subsection (c) below, such other Party and its Affiliates and (sub) licensees shall have the right to use and reference any such

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Data to obtain and maintain Regulatory Approval for the Products and otherwise Commercialize the Products in its respective Territory in accordance with the terms of this Agreement.

(c) Data from XOMA Partners. XOMA's obligation to share the Safety Data related to the Products generated by a XOMA Partner for Zydus' use in the Zydus Territory in accordance with this Agreement shall be stipulated in such XOMA Out-Licensing Agreement. XOMA shall use Commercially Reasonable Efforts to include in each XOMA Out-Licensing Agreement the right for Zydus to use in the Zydus Territory efficacy Data and Regulatory Filings for Products generated by such XOMA Partner, provided that [*], then [*] and [*] under this Agreement [*].

4.6 Conduct of Regulatory Activities. Subject to the terms and conditions of this Agreement, Zydus shall be solely responsible for formulating regulatory strategy, for preparing and filing Regulatory Filings and for obtaining and maintaining Regulatory Approvals for Products in the Field in the Zydus Territory. Zydus shall be the holder of all Regulatory Approvals for Products in the Field in the Zydus Territory and shall have responsibility for interactions with Regulatory Authorities with respect to Products in the Field in the Zydus Territory. Zydus shall consult with XOMA through the JSC regarding, and keep XOMA regularly and fully informed of, the preparation, Regulatory Authority review and approval of Regulatory Filings, which shall be subject to JSC approval, and communications with Regulatory Authorities with respect to XOMA Antibodies or Products in the Field in the Zydus Territory. In addition, Zydus shall promptly provide XOMA with copies of all material documents, information and correspondence received from a Regulatory Authority and, upon reasonable request, with copies of any other documents, reports and communications from or to any Regulatory Authority relating to XOMA Antibodies, Products or activities under this Agreement, in each case, if requested by XOMA and at XOMA's expense, with an English translation thereof. Zydus shall bear all expenses it incurs to conduct all regulatory activities under this Agreement.

4.7 Meetings with Regulatory Authorities. At each regularly scheduled JSC meeting, Zydus shall provide XOMA with a list and schedule of any substantive in-person meeting or teleconference with any Regulatory Authority (or related advisory committee) in the Zydus Territory planned for the next Calendar Quarter that relates to any XOMA Antibody or Product. In addition, Zydus shall notify XOMA as soon as reasonably possible if it becomes aware of any additional such meetings or teleconferences that become scheduled for such Calendar Quarter. XOMA shall have the right to provide input in preparation for all such meetings and teleconferences and the right, but not the obligation, to have its representatives attend and participate in such meetings and teleconferences, to the extent permitted under Applicable Laws. Each Party will be solely responsible for all costs it incurs to participate in such meetings and teleconferences.

4.8 Adverse Event Reporting; Pharmacovigilance Agreement. As between the Parties: (a) XOMA shall be responsible for the timely reporting of all relevant adverse drug reactions/experiences, product quality, product complaints and Safety Data relating to Products (including the XOMA Antibodies and Zydus IL-2 contained therein) to the appropriate Regulatory Authorities in the XOMA Territory; and (b) Zydus shall be responsible for the timely reporting of all relevant adverse drug reactions/experiences, product quality, product complaints and Safety Data relating to Products (including the XOMA Antibodies and Zydus IL-2 contained therein) to

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the appropriate Regulatory Authorities in the Zydus Territory, in each case in accordance with Applicable Laws of the relevant countries and Regulatory Authorities. The Parties shall cooperate with each other with respect to their respective pharmacovigilance responsibilities, and Zydus shall comply with all pharmacovigilance requirements necessary to support Development and Commercialization of Products in the XOMA Territory. Each Party shall be solely responsible for all costs it incurs to conduct its respective pharmacovigilance responsibilities. In the event of a ROFN Termination, the Parties shall thereafter enter into a pharmacovigilance agreement on terms that comply with ICH guidelines, including: (i) providing detailed procedures regarding the maintenance of core safety information and the exchange of Safety Data relating to XOMA Antibodies and Products worldwide within appropriate timeframes and in an appropriate format to enable each Party to meet both expedited and periodic regulatory reporting requirements; and (ii) ensuring compliance with the reporting requirements of all applicable Regulatory Authorities on a worldwide basis for the reporting of Safety Data in accordance with standards stipulated in the ICH guidelines, and all applicable regulatory and legal requirements regarding the management of Safety Data.

4.9 Records and Updates; Audits.

(a) Zydus shall maintain records, in sufficient detail and in good scientific manner, and consistent with Applicable Laws, appropriate for patent and regulatory purposes, which shall fully and properly reflect all work done and results achieved by or on behalf of Zydus in the performance of Development (including related manufacturing) and regulatory activities pursuant to this Agreement. Zydus shall keep the JSC regularly informed of the status of all Development and regulatory activities conducted with respect to Products (including the XOMA Antibodies and Zydus IL-2 contained therein) in the Zydus Territory pursuant to this Agreement. Without limiting the foregoing, at least every [*] months, Zydus shall provide the JSC or XOMA with all Zydus Know-How (including Data) generated since the last disclosure under this Section 4.9, along with an English translation thereof, and summaries in reasonable detail of all data and results generated or obtained in the course of Zydus' and its Affiliates' and Sublicensees' performance of activities with respect to Products (including the XOMA Antibodies and Zydus IL-2 contained therein), covering subject matter at a level of detail reasonably requested by XOMA and sufficient to enable XOMA to determine Zydus' compliance with its diligence obligations under Section 4.1.

(b) With respect to any facility or site at which Zydus or its Affiliates conducts any Development or regulatory activities with respect to a Product (including associated manufacturing) XOMA and its representatives shall have the right upon [*] days written notice to Zydus, and during normal business hours, to inspect such site and facility or to accompany such Party to inspect any Third Party subcontractor site and any records relating thereto once per year (or more frequently only when required by an applicable Regulatory Authority) to verify Zydus' compliance with Applicable Laws in carrying out its obligations under this Agreement, including those relating to GLP, GCP, GMP, pharmacovigilance and safety reporting, and requirements for the protection of human subjects and the diligence obligations under Section 4.1. Each Party shall bear its own costs of any such audit. If any such facility or site is found to be non-compliant with GLP, GCP, GMP, pharmacovigilance and safety reporting, or requirements for the protection of human subjects during such an audit, or other Applicable Laws and such non-compliance relates to or impacts any Development activities for a Product, Zydus shall submit to XOMA proposed

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Corrective and Preventative Actions ("**CAPA**") within [*] days after the XOMA provides notice of such non-compliance. XOMA shall have the right to review and comment on such CAPA, which comments Zydus shall consider in good faith. Zydus shall implement such CAPA promptly after review and comment by XOMA.

4.10 Out-Licensing Procedure after ROFN Termination. In the event of ROFN Termination, XOMA shall conduct its efforts to enter into Out-Licensing Agreement(s) in the XOMA Territory in accordance with a process to be defined by XOMA and [*], which process shall [*] as determined by XOMA in its reasonable business judgment. [*] of such Out-Licensing process. XOMA shall update Zydus through the JSC quarterly meetings with respect to the status of its efforts to enter into Out-Licensing Agreements in its Territory and shall consider Zydus' reasonable comments with respect to such Out-Licensing Agreements in good faith.

5. Commercialization

5.1 General. Subject to the terms and conditions of this Agreement, Zydus shall have the exclusive right to Commercialize Products in the Field in the Zydus Territory during the Term. Without limiting the foregoing, during the Term, Zydus will have the exclusive right and responsibility for the following with respect to Products in the Field in the Zydus Territory: (a) establishing the Commercialization (including marketing) strategy and tactics; (b) establishing pricing and reimbursement; (c) managed care contracting; (d) receiving, accepting and filling orders; (e) distribution to customers; (f) controlling invoicing, order processing and collecting accounts receivable for sales; and (g) recording sales in its books of account for sales.

5.2 Commercialization Plans and Reports of Zydus. Within a reasonable time (but no later than [*] months) prior to the first anticipated filing of an MAA for each Product in each country in the Zydus Territory, Zydus shall submit to the JSC a plan for the Commercialization (including marketing, promotion and pricing) of such Product in the Field in such country during the [*] years after First Commercial Sale in such country (the "**Zydus Commercialization Plan**" for such Country). Zydus shall update each Zydus Commercialization Plan on at least [*] basis (to cover the subsequent [*]-year period) and shall promptly provide each such update and any material amendments to each Zydus Commercialization Plan to JSC. Commencing no later than [*] months prior to the anticipated the First Commercial Sale of a Product in any country in the Zydus Territory, and on [*] basis thereafter, Zydus shall provide JSC with a report detailing its Commercialization activities with respect to such Product in the previous [*]-month period, covering subject matter at a level of detail reasonably requested by XOMA and sufficient to enable XOMA to determine Zydus' compliance with its diligence obligations under Section 5.4.

5.3 Commercialization Plans and Reports of XOMA. Within a reasonable time (but no later than [*] months) prior to the first anticipated filing of an MAA for each Product in each country in the XOMA Territory, XOMA shall submit to the JSC a plan for the Commercialization (including marketing, promotion and pricing) of such Product in the Field in such country during the [*] years after First Commercial Sale in such country (the "**XOMA Commercialization Plan**" for such Country). XOMA shall update each XOMA Commercialization Plan on at least [*] basis (to cover the subsequent [*]-year period) and shall promptly provide each such update and any material amendments to each XOMA Commercialization Plan to JSC. Commencing no later than [*] months prior to the anticipated the First Commercial Sale of a Product in any country in the

XOMA Territory, and on [*] basis thereafter, XOMA shall provide JSC with a report detailing its Commercialization activities with respect to such Product in the previous [*]-month period, covering subject matter at a level of detail reasonably requested by Zydus and sufficient to enable Zydus to determine XOMA's compliance with its diligence obligations under Section 5.5.

5.4 Commercial Diligence. Zydus shall use Commercially Reasonable Efforts to Commercialize each Product in each country in the Zydus Territory for which it obtains Regulatory Approval. Without limiting the foregoing, (a) Zydus shall achieve First Commercial Sale of a Product in each country in the Zydus Territory within [*] months after the first Regulatory Approval for such Product has been obtained in such country, and (b) Zydus shall deploy at least the same number of sales representatives and the same level of resources and infrastructure in connection with the Commercialization of a Product in a country as are expended by comparable pharmaceutical companies in such country in connection with the commercialization of products with similar market potential.

5.5 Commercial Diligence. If XOMA elects to directly Commercialize the Product in the XOMA Territory, then XOMA shall use Commercially Reasonable Efforts to Commercialize each Product in each country in the XOMA Territory for which it obtains Regulatory Approval. Without limiting the foregoing, in such case, (a) XOMA shall achieve First Commercial Sale of a Product in each country in the XOMA Territory within [*] months after the first Regulatory Approval for such Product has been obtained in such country, and (b) XOMA shall deploy at least the same number of sales representatives and the same level of resources and infrastructure in connection with the Commercialization of a Product in a country as are expended by comparable pharmaceutical companies in such country in connection with the commercialization of products with similar market potential.

5.6 Ex-Territory Activities.

(a) Zydus covenants that during the Term it will not (and will cause its Affiliates, Sublicensees and subcontractors conducting Commercialization and manufacturing activities for Products not to), either itself or through a Third Party, market, promote, sell or actively offer for sale Products in the XOMA Territory. Without limiting the foregoing, with respect to countries outside of the Territory, Zydus shall not (i) engage in any advertising activities relating to Products directed primarily to customers in the XOMA Territory (other than participation in conferences, congresses or scientific or medical meetings held throughout the world), or (ii) actively or intentionally solicit orders from any prospective purchaser located in the XOMA Territory. To the extent permitted by Applicable Laws, if Zydus receives any order from a prospective purchaser located in the XOMA Territory for use or delivery in a country in the XOMA Territory, Zydus shall immediately refer that order to XOMA and shall not accept any such order or deliver or tender (or cause to be delivered or tendered) any Product under such order. If Zydus knows or could reasonably be expected to know that its subcontractor, customer or distributor is actively engaged, itself or through a Third Party, in the sale or distribution of any Product in the XOMA Territory, then Zydus shall (A) immediately notify XOMA regarding such activities and provide all information available to Zydus that XOMA may reasonably request concerning such activities and (B) use Commercially Reasonable Efforts necessary to limit such sale or distribution in the XOMA Territory, including cessation of sales to such customer or distributor or enforcement and termination of its agreement with such subcontractor.

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(b) XOMA hereby covenants that during the Term it will not (and will cause its Affiliates and subcontractors conducting Commercialization and manufacturing activities for Products not to), either itself or through a Third Party, market, promote, sell or actively offer for sale Products for use in the Field in the Zydus Territory. Without limiting the foregoing, with respect to countries within the Zydus Territory, XOMA shall not (i) engage in any advertising activities relating to Products directed primarily to customers located in the Zydus Territory (other than any participation in conferences, congresses or scientific or medical meetings held throughout the world), or (ii) actively or intentionally solicit orders from any prospective purchaser of a Product located in the Zydus Territory. To the extent permitted by Applicable Laws, if XOMA receives any order from a prospective purchaser for a Product in the Zydus Territory for use or delivery in the Zydus Territory, XOMA shall immediately refer that order to Zydus and shall not accept any such order or deliver or tender (or cause to be delivered or tendered) any Product under such order. If XOMA knows or could reasonably be expected to know that its sub-contractor, customer or distributor is actively engaged, itself or through a Third Party, in the sale or distribution of any Product in the Zydus Territory, then XOMA shall (A) immediately notify Zydus regarding such activities and provide all information available to XOMA that Zydus may reasonably request concerning such activities and (B) use Commercially Reasonable Efforts necessary to limit such sale or distribution in the Zydus Territory in the Field, including cessation of sales to such customer or distributor or enforcement and termination of its agreement with such sub-contractor.

6. Manufacture and Supply

6.1 Generally. Zydus shall be solely responsible for the manufacture of the active pharmaceutical ingredients ("**API**") and for drug product for the Products in the Zydus Territory.

6.2 Supply to XOMA Partners.

(a) Clinical Supply. At the request of a XOMA Partner, Zydus shall supply API (i.e., XOMA Antibody and/or Zydus IL-2) or drug product for the applicable Product to such XOMA Partner for clinical supply for the XOMA Territory on commercially reasonable terms to be negotiated by Zydus and such XOMA Partner in good faith, and at a transfer cost [*].

(b) Commercial Supply. At the request of a XOMA Partner, Zydus shall supply API (i.e., XOMA Antibody and/or Zydus IL-2) or drug product for the applicable Product to such XOMA Partner for commercial supply for the XOMA Territory on commercially reasonable terms to be negotiated by Zydus and such XOMA Partner in good faith, and at a transfer cost [*].

6.3 Manufacturing Process Technology Transfer.

(a) Generally. At the request of a XOMA Partner upon at least [*] months prior written notice, and in accordance with subsection (c) below, Zydus shall make best efforts to transfer to such XOMA Partner or designee the manufacturing process for API (i.e., XOMA Antibody or Zydus IL-2) or drug product for the applicable Product (the "**Manufacturing Process Technology**") in accordance with this Section 6.3. For clarity, this Section 6.3 does not affect Section 6.2.

[*] = Certain information contained in this document, marked by brackets, has been omitted because it is both not material and would be competitively harmful if publicly disclosed.

(b) Terms of Transfer. Promptly following such request under Section 6.3(a), Zydus shall disclose in writing to XOMA (and such XOMA Partner, if applicable) any Third Party intellectual property to be included in such transfer ("**Third Party Transfer IP**") and the terms of any agreement between Zydus and such Third Party that would be applicable to such transfer and subsequent use of such intellectual property in connection with the Manufacturing Process Technology, including any amounts that would be owed to such Third Party in connection therewith ("**Third Party Transfer Terms**") or shall certify in writing to XOMA that no Third Party Transfer IP exists. If Zydus certifies that no Third Party Transfer IP exists, or if Zydus identifies any Third Party Transfer IP and the applicable XOMA Partner agrees to be bound by the applicable Third Party Transfer Terms, then (i) the Parties and such XOMA Partner will establish, in good faith, a schedule and plan for effecting such transfer and Zydus will thereafter co-operate with such XOMA Partner in implementing such plan, and (ii) such XOMA Partner will enter into a direct written agreement with Zydus stating that it will use the Zydus Technology solely for manufacturing and having manufactured the Products for the XOMA Territory in accordance with this Agreement and, with respect to the Third Party Transfer IP, in accordance with the applicable Third Party Transfer Terms. For clarity, Section 2.5(a) shall apply to any technology transferred under this Section 6.3.

(c) Materials, Information and Assistance. As part of such technology transfer, and subject to any applicable Third Party Transfer Terms, Zydus will make best efforts to make available to such XOMA Partner all necessary or specifically useful materials, cell lines and documentation. Such technology transfer will include at least the following activities: (i) Zydus will provide all pertinent information necessary or useful to manufacture the API or drug product, as applicable, or to support regulatory filings for the Product(s), including, without limitation, analytical testing methods, protocols and reports, batch production records, master batch records, production process documentation and standard operating procedures; (ii) Zydus will provide reasonable assistance and cooperation in order to enable such XOMA Partner or its designee to manufacture the API or Product, as applicable; (iii) Zydus will provide such XOMA Partner with access to Zydus' employees and contractors with expertise in manufacturing to answer such XOMA Partner's questions related to such transfer; and (iv) Zydus will use reasonable efforts to assist such XOMA Partner to secure supply terms for applicable raw materials from Zydus' suppliers of such raw materials and to identify a Third Party contract manufacturer.

(d) Costs. [*] reasonable, documented costs of such Manufacturing Process Technology transfer, including any amounts due to a Third Party in accordance with the applicable Third Party Transfer Terms. The Parties acknowledge that the scope of the transfer will depend on the stage of development of the Product at the time of transfer. For clarity, irrespective of the stage of development, [*] the Manufacturing Process Technology under this Section 6.3 shall only [*] for conducting the transfer of the Manufacturing Process Technology as set forth in this Section 6.3 and [*] as required pursuant to the applicable [*].

(e) XOMA Rights. If XOMA elects to directly Develop or Commercialize Products in the XOMA Territory, then XOMA shall have the same rights as a XOMA Partner under this Section 6.3.

[*] = Certain information contained in this document, marked by brackets, has been omitted because it is both not material and would be competitively harmful if publicly disclosed.

7. Fees and Payments

7.1 Milestone Payments.

(a) Development and Regulatory Milestone Payments.

(i) Within [*] days after the first achievement of each Milestone Event below (whether by Zydus or any of its Affiliates or Sublicensees), Zydus shall pay to XOMA the non-refundable, non-creditable Milestone Payment corresponding to such Milestone Event as shown below, subject to the remainder of this Section 7.1(a).

Development and Regulatory Milestone Events	Milestone Payments (in U.S. Dollars)
[*]	[*]

(ii) The Milestone Payments set forth in Section 7.1(a)(i) shall be payable only once, irrespective of the number of Products that achieve the same Milestone Event.

(iii) If Zydus [*] for a Product in the Zydus Territory without [*] for such Product in the Zydus Territory, then the Milestone Payment for [*] will be payable within [*] days after [*] for such Product [*] in the Zydus Territory, if not previously paid.

(b) Commercial Milestone Payments.

(i) Subject to Section 7.1(b)(ii), following the First Commercial Sale of a Product in the Zydus Territory, within [*] days after the end of each Calendar Quarter in which aggregate Net Sales of Products in the Zydus Territory in any Calendar Year first reach any threshold set forth in the table below, Zydus shall pay to XOMA the corresponding non-refundable, non-creditable Milestone Payment set forth below:

Annual Net Sales Milestone Events	Milestone Payments (in U.S. Dollars)
First Calendar Year in which aggregate annual Net Sales of Products in the Zydus Territory equal or exceed [*]	[*]
First Calendar Year in which aggregate annual Net Sales of Products in the Zydus Territory equal or exceed [*]	[*]
First Calendar Year in which aggregate annual Net Sales of Products in the Zydus Territory equal or exceed [*]	[*]
First Calendar Year in which aggregate annual Net Sales of Products in the Zydus Territory equal or exceed [*]	[*]

(ii) The Milestone Payments in Section 7.1(b) (i) are payable one time only and shall be additive such that if multiple Milestone Events are achieved in the same Calendar Quarter, then the Milestone Payments for all such Milestone Events shall be payable within [*] days after the end of such Calendar Quarter, and if multiple Milestone Events are achieved in the

same Calendar Year but different Calendar Quarters, then each applicable Milestone Payment will be payable within [*] days after the Calendar Quarter in which it is achieved.

7.2 Royalty Payments.

(a) Royalty Rates.

(i) Zydus. Zydus shall make Calendar Quarterly, non-refundable, non-creditable royalty payments to XOMA in accordance with Article 8 on the aggregate Net Sales of Products sold in the Zydus Territory during the applicable Royalty Term, as calculated by multiplying the applicable royalty rate set forth below by the corresponding amount of Net Sales in the Zydus Territory in the applicable Calendar Year:

Annual Aggregate Net Sales of Products in the Zydus Territory	**Royalty Rate**
For that increment of annual Net Sales less than or equal to [*]	[*]
For that increment of annual Net Sales greater than [*] and less than or equal to [*]	[*]
For that increment of annual Net Sales greater than [*] and less than or equal to [*]	[*]
For that increment of annual Net Sales greater than [*]	[*]

(ii) XOMA. XOMA shall make Calendar Quarterly, non-refundable, non-creditable royalty payments to Zydus in accordance with Article 8 on the aggregate Net Sales of Products sold in the XOMA Territory during the applicable Royalty Term, as calculated by multiplying the applicable royalty rate set forth below by the corresponding amount of Net Sales in the XOMA Territory in the applicable Calendar Year:

Annual Aggregate Net Sales of Products in the XOMA Territory	**Royalty Rate**
For that increment of annual Net Sales less than or equal to [*]	[*]
For that increment of annual Net Sales greater than [*] and less than or equal to [*]	[*]
For that increment of annual Net Sales greater than [*] and less than or equal to [*]	[*]
For that increment of annual Net Sales greater than [*]	[*]

(b) Royalty Term. Royalties shall be paid on a Product-by-Product and country-by-country basis from the First Commercial Sale of such Product in such country until the expiration of the Royalty Term for such Product and country.

7.3 Out-Licensing Revenue.

(a) Zydus shall make Calendar Quarterly, non-refundable, non-creditable payments to XOMA based on the percentage of Out-Licensing Revenue received by Zydus under each Zydus Out-Licensing Agreement during the applicable Zydus Out-Licensing Payment Term, as follows:

Date the Applicable Zydus Out-Licensing Agreement is Executed	Percentage of Out-Licensing Revenue Paid to XOMA
Prior to [*]	[*]
After [*]	[*]
After [*]	[*]

(b) In the event of a ROFN Termination, XOMA shall make Calendar Quarterly, non-refundable, non-creditable payments to Zydus based on the percentage of Out-Licensing Revenue received by XOMA under each XOMA Out-Licensing Agreement during the applicable XOMA Out-Licensing Payment Term, as follows:

Date the Applicable XOMA Out-Licensing Agreement is Executed	Percentage of Out-Licensing Revenue Paid to Zydus
Prior to [*]	[*]
After [*]	[*]
After [*]	[*]

(c) Zydus shall notify XOMA in writing within [*] days following the execution of each Zydus Out-Licensing Agreement, which notice shall specify the other party to such Zydus Out-Licensing Agreement and the financial terms thereof that are applicable to Zydus' payment obligations under subsection (a) above. Following a ROFN Termination, XOMA shall notify Zydus in writing within [*] days following the execution of each XOMA Out-Licensing Agreement, which notice shall specify the other party to such XOMA Out-Licensing Agreement and the financial terms thereof that are applicable to XOMA's payment obligations under subsection (b) above.

8. Payment; Records; Audits

8.1 Payments; Reports.

(a) Royalty payments due by Zydus to XOMA under Section 7.2 shall be calculated and reported for each Calendar Quarter in U.S. Dollars following the First Commercial Sale of the first Product in the Zydus Territory. Royalty payments due by XOMA to Zydus under Section 7.2 shall be calculated and reported for each Calendar Quarter in U.S. Dollars following

the First Commercial Sale of the first Product by XOMA or its Affiliates in the XOMA Territory. All royalty payments due under Section 7.2 shall be paid within [*] days after the end of each Calendar Quarter and shall be accompanied by a report setting forth, on a country-by-country and Product-by-Product basis, Net Sales of Products by such Party and its Affiliates in its Territory in sufficient detail to permit confirmation of the accuracy of the royalty payment made, including, for each country, the number of Products sold, the gross sales and Net Sales of Licensed Products, including the deductions from gross sales to arrive at Net Sales, the royalties payable, the method used to calculate the royalties and the exchange rates used.

(b) Out-Licensing Revenue payments due by a Party to the other Party under Section 7.3 shall be calculated and reported in U.S. Dollars for each Calendar Quarter. All Out-Licensing Revenue payments due under Section 7.3 shall be paid within [*] days after the end of each Calendar Quarter and shall be accompanied by a report setting forth, on an Out-Licensing Agreement-by-Out-Licensing Agreement basis, the Out-Licensing Revenue received by Zydus and its Affiliates and Sublicensees in the paying Party's Territory during such Calendar Quarter in sufficient detail to permit confirmation of the accuracy of the Out-Licensing Revenue payment made, including, for each such Out-Licensing Agreement all upfront, milestone and royalty payments received relating to any Product or the Collaboration Technology and the exchange rates used.

8.2 Exchange Rate; Manner and Place of Payment. All references to dollars and "$" herein shall refer to U.S. dollars. All payments hereunder shall be payable in U.S. dollars. When conversion of payments from any currency other than U.S. dollars is required, such conversion shall be at an exchange rate equal to the weighted average of the rates of exchange for the currency of the country from which such payments are payable as published by *The Wall Street Journal*, Western U.S. Edition, during the Calendar Quarter in which the applicable sales were made. All payments owed under this Agreement shall be made by wire transfer in immediately available funds to a bank and account designated in writing by the receiving Party.

8.3 Taxes.

(a) Except as otherwise provided in this Section, each Party shall be responsible for any tax obligations of its own due to this Agreement, including income tax and capital gains tax, and neither Party shall have any obligation towards the other Party in the event that the other Party fails to fully comply with its tax obligations.

(b) Subject to subsection (c) below, if any taxes are required to be withheld by the Party required to make a payment to the other Party hereunder, such paying Party will: (i) deduct such taxes from the payment made to such other Party; (ii) timely pay the taxes to the proper taxing authority; (iii) promptly send proof of payment to such other Party; and (iv) reasonably assist such other Party in its efforts to obtain a credit for such tax payment. Each Party agrees to reasonably assist the other Party in lawfully claiming exemptions from and/or minimizing such deductions or withholdings under double taxation laws or similar circumstances and shall provide the necessary documents as may be prescribed by the applicable tax authorities from time to time, including, as applicable (1) Tax Residency Certificate as obtained from relevant revenue or tax authorities, (2) Permanent Establishment Declaration and (3) Form 10F as specified under the Indian Income Tax Act.

[*] = Certain information contained in this document, marked by brackets, has been omitted because it is both not material and would be competitively harmful if publicly disclosed.

(c) Notwithstanding anything to the contrary in this Agreement, if a Party assigns or transfers some or all of its rights and obligations to any Affiliate or Third Party and if, as a result of such action, the withholding or deduction of tax required by Applicable Laws with respect to payments under this Agreement is increased, then any amount payable under this Agreement shall be increased to take into account such withheld taxes as may be necessary so that, after making all required withholdings (including withholdings on the withheld amounts), the other Party receives an amount equal to the sum it would have received had no such increased withholding been made.

(d) For all tax purposes, both Parties agree to report the transactions contemplated by this Agreement in a manner consistent with its terms and to not take any position inconsistent therewith in any tax return, refund claim, litigation, or otherwise.

8.4 Records; Audit. Each Party shall keep, and shall cause its Affiliates and Sublicensees and licensees under the Collaboration Technology to keep, complete and accurate records pertaining to the sale or other disposition of Products in sufficient detail to permit the other Party to confirm the accuracy of milestone, royalty and Out-Licensing Revenue payments due hereunder. Such records shall be kept for such period of time required by Applicable Laws, but in no case less than [*] years following the end of the Calendar Quarter to which they pertain. Each Party shall have the right to have an independent, certified public accountant reasonably acceptable to the other Party audit such records of the other Party to confirm such payments for a period covering not more than [*] years following the Calendar Quarter to which they pertain, which account shall enter into a confidentiality agreement on reasonable and customary terms with the audited Party. Such audits may be exercised only once for any period and no more than once per Calendar Year during normal business hours and upon [*] days prior written notice to the audited Party. Any such auditor shall not disclose the audited Party's Confidential Information to the auditing Party, except to the extent such disclosure is necessary to verify the accuracy of the financial reports or invoices furnished by the audited Party or the amount of payments by the audited Party under this Agreement. Any amounts shown to be owed but unpaid shall be paid within [*] days after the accountant's report, plus interest (as set forth in Section 8.5) from the original due date. Any overpayment by the audited Party revealed by an audit shall be credited against future payments owed by the audited Party to the other Party (and if no further payments are due, shall be refunded by the auditing Party at the request of the audited Party). The auditing Party shall bear the full cost of such audit unless such audit discloses an underpayment or overcharge by the audited Party of more than [*] of the amount of royalties or other payments due under this Agreement for the audited period, in which case, the audited Party shall bear the cost of such audit .

8.5 Late Payments. In the event that any payment due under this Agreement is not paid when due in accordance with the applicable provisions of this Agreement, the payment shall accrue interest from the date due at the rate of [*]; provided, however, that in no event shall such rate exceed the maximum legal annual interest rate under Applicable Laws. The payment of such interest shall not limit the Party entitled to receive payment from exercising any other rights it may have as a consequence of the lateness of any payment.

[*] = Certain information contained in this document, marked by brackets, has been omitted because it is both not material and would be competitively harmful if publicly disclosed.

9. Intellectual Property

9.1 Collaboration Know-How. The Collaboration Know-How shall be owned as follows:

(a) Any Collaboration Know-How that [*] shall be solely owned by XOMA and shall be deemed to be XOMA's Confidential Information. Zydus hereby assigns, and shall cause its Affiliates and Sublicensees to assign, to XOMA all right, title and interest in and to such Collaboration Know-How.

(b) Any Collaboration Know-How that [*] shall be owned solely by Zydus and shall be deemed to be Zydus' Confidential Information. XOMA hereby assigns, and shall cause its Affiliates and Sublicensees to assign, to Zydus all right, title and interest in and to such Collaboration Know-How.

(c) All Collaboration Know-How other than that described in subsection (a) or (b) above shall be jointly owned by the Parties. Each Party hereby assigns, and shall cause its Affiliates and Sublicensees to assign, to the other Party an undivided joint ownership in all right, title and interest in and to such Collaboration Know-How. Except to the extent either Party is restricted by the express terms of this Agreement, with respect to any Collaboration Know-How that is owned jointly by the Parties, each Party shall have the right to practice and exploit such Collaboration Know-How, with full rights to sublicense throughout the world, and without the duty of accounting to or any duty to seek consent from the other Party, and upon the reasonable request of either Party, the other Party shall execute documents that evidence or confirm the requesting Party's right to engage in such activities.

(d) Each Party shall take all reasonable actions requested by the other Party to perfect or separately document the other Party's ownership interest rights in the Collaboration Know-How as provided for in this Agreement, including by causing its and its applicable Affiliates' and Sublicensees' employees and agents to execute appropriate assignment documents, and the requesting Party shall not be required to pay any remuneration to the other Party or its Affiliates or Sublicensees, or any of their employees, or agents, for the execution of any assignments or other papers pursuant to this Section 9.1. For clarity, each Party (directly or through its applicable Affiliate or Sublicensee) shall be solely responsible for any compensation directly due to its and its Affiliates' and Sublicensees' employees and agents (i) in connection with the assignment of their respective rights to any Collaboration Know-How pursuant to this Agreement, or (b) the exploitation by any Party or its Affiliates or Sublicensees hereunder of any such Collaboration Know-How, including in each case any required by operation of Applicable Law on account of any Commercialization of any such Collaboration Know-How with respect to Products hereunder.

(e) Each Party shall promptly disclose to the other Party all Collaboration Know-How, including any invention disclosures or other similar documents submitted to such by its or its Affiliates or Sublicensees' employees, agents or contractors describing such Collaboration Know-How, and shall promptly respond to reasonable requests from such other Party for additional information relating to such Collaboration Know-How.

[*] = Certain information contained in this document, marked by brackets, has been omitted because it is both not material and would be competitively harmful if publicly disclosed.

9.2 Patent Prosecution and Maintenance.

(a) XOMA Patents.

(i) Subject to this Section 9.2(a), XOMA shall have the first right, but not the obligation, to control the Prosecution and Maintenance of the XOMA Patents worldwide and by counsel of its own choice, provided that Zydus shall bear the costs thereof for the Zydus Territory. XOMA shall consult with Zydus with respect to such Prosecution and Maintenance in the Zydus Territory, shall keep Zydus reasonably informed of the status of the XOMA Patents in the Zydus Territory and shall promptly provide Zydus with all material correspondence received from any patent authority in connection therewith. In addition, XOMA shall promptly provide Zydus with drafts of all proposed material filings and correspondence to any patent authority with respect to the XOMA Patents in the Zydus Territory for Zydus' review and comment prior to the submission of such proposed filings and correspondence. XOMA shall confer with Zydus and shall consider in good faith Zydus' comments prior to submitting such filings and correspondence, provided that Zydus provides such comments within [*] days (or a shorter period reasonably designated by XOMA if [*] days is not practicable given the applicable filing deadline) of receiving the draft filings and correspondence from XOMA.

(ii) If XOMA desires to abandon or cease the Prosecution and Maintenance of any XOMA Patent in the Zydus Territory, XOMA shall provide reasonable prior written notice to Zydus of such intention to abandon (which notice shall, to the extent possible, be given no later than [*] days prior to the next deadline for any action that must be taken with respect to any such XOMA Patent in the relevant patent office). In such case, upon Zydus' written election within [*] days after such notice from XOMA (or such shorter period as necessary to prevent abandonment), and subject to the terms of any applicable Third Party License, Zydus shall have the right to assume, at its discretion and at its sole expense, responsibility for the Prosecution and Maintenance of such XOMA Patent. If Zydus does not provide such election within [*] days after such notice from XOMA (or such shorter period as necessary to prevent abandonment), XOMA may, in its sole discretion, either continue or discontinue Prosecution and Maintenance of such XOMA Patent.

(iii) If, prior to expiration of the ROFN Period, XOMA desires to abandon or cease the Prosecution and Maintenance of any XOMA Patent in the XOMA Territory, XOMA shall provide reasonable prior written notice to Zydus of such intention to abandon (which notice shall, to the extent possible, be given no later than [*] days prior to the next deadline for any action that must be taken with respect to any such XOMA Patent in the relevant patent office). In such case, upon Zydus' written election within [*] days after such notice from XOMA (or such shorter period as necessary to prevent abandonment), and subject to the terms of any applicable Third Party License, Zydus shall have the right to assume, at its discretion and at its sole expense, responsibility for the Prosecution and Maintenance of such XOMA Patent. If Zydus does not provide such election within [*] days after such notice from XOMA (or such shorter period as necessary to prevent abandonment), XOMA may, in its sole discretion, either continue or discontinue Prosecution and Maintenance of such XOMA Patent. If Zydus assumes responsibility for a XOMA Patent in the XOMA Territory and the Parties do not enter into a written agreement for a XOMA Territory License pursuant to Section 2.9, then following the ROFN Termination Zydus shall have no further right to conduct Prosecution and Maintenance for such XOMA Patent

in the XOMA Territory and shall within [*] days following the date of the ROFN Termination transfer all patent files relating to such XOMA Patent in the XOMA Territory to XOMA or its designee.

(b) Zydus Patents.

(i) Subject to this Section 9.2(b), Zydus shall have the first right, but not the obligation, to control the Prosecution and Maintenance of all Zydus Patents worldwide, at its sole cost and expense and by counsel of its own choice. Zydus shall consult with XOMA and keep XOMA reasonably informed of the status of such Zydus Patents and shall promptly provide XOMA with all material correspondence received from any patent authority in connection therewith. In addition, Zydus shall promptly provide XOMA with drafts of all proposed material filings and correspondence to any patent authority with respect to such Zydus Patents for XOMA's review and comment prior to the submission of such proposed filings and correspondence. Zydus shall confer with XOMA and consider in good faith XOMA's comments prior to submitting such filings and correspondence, provided that XOMA provides such comments within [*] days (or a shorter period reasonably designated by Zydus if [*] days is not practicable given the filing deadline) of receiving the draft filings and correspondence from Zydus.

(ii) In the event that Zydus desires to abandon or cease the Prosecution and Maintenance of any Zydus Patent in the XOMA Territory anywhere in the world, Zydus shall provide reasonable prior written notice to XOMA of such intention to abandon (which notice shall, to the extent possible, be given no later than [*] days prior to the next deadline for any action that must be taken with respect to any such Zydus Patent in the relevant patent office). In such case, upon XOMA's written election within [*] days after such notice from XOMA (or such shorter period as necessary to prevent abandonment), XOMA shall have the right to assume, at its discretion, responsibility for the Prosecution and Maintenance of such Zydus Patent. Such Prosecution and Maintenance shall be at XOMA's sole expense; provided that until a ROFN Termination occurs. Zydus shall reimburse XOMA for the reasonable, documented costs incurred by XOMA in connection with the Prosecution and Maintenance of such Collaboration Patent. If XOMA does not provide such election within [*] days after such notice from Zydus (or such shorter period as necessary to prevent abandonment), Zydus may, in its sole discretion, either continue prosecution or discontinue prosecution and maintenance of such Zydus Patent.

(c) Collaboration Patents. Subject to this Section 9.2(c), both XOMA and Zydus shall jointly control the Prosecution and Maintenance of all Collaboration Patents worldwide. All Collaboration Patents shall be drafted and Prosecuted and Maintained through a mutually agreed law firm, who will inform and co-ordinate with both Parties for each Party's review and comment prior to the submission of such proposed filings and correspondence. Each Party shall be responsible for the costs of Prosecuting and Maintaining each Collaboration Patent in its respective Territory. Either Party may elect to cease to be responsible for such costs with respect to a Collaboration Patent in its Territory upon [*] days' prior written notice to the other Party; provided that at such other Party's request, the Party so electing shall assign to such other Party its interest in and to such Collaboration Patent.

(d) Cooperation of the Parties. Each Party agrees to cooperate fully in the Prosecution and Maintenance of Patents under this Section 9.2, at its own cost. Such cooperation

includes: (i) executing all papers and instruments, and requiring its and its Affiliates' and Sublicensees' employees or contractors to execute such papers and instruments, so as enable the other Party to apply for and to prosecute patent applications in any country as permitted by this Section 9.2; and (ii) promptly informing the other Party of any matters coming to such Party's attention that may affect the preparation, filing, prosecution or maintenance of any such patent applications.

9.3 Infringement by Third Parties.

(a) Notice. In the event that either XOMA or Zydus becomes aware of any infringement or threatened infringement by a Third Party of any XOMA Patent, Zydus Patent or Collaboration Patent, which infringing activity involves the using, making, importing, offering for sale or selling of a Product, or the submission to a Party or a Regulatory Authority of an application for a generic product referencing a Product, or any declaratory judgment or equivalent action challenging any XOMA Patent, Zydus Patent or Collaboration Patent in connection with any such infringement (each, a "**Product Infringement**"), it will notify the other Party in writing to that effect. Any such notice shall include evidence to support an allegation of infringement or threatened infringement, or declaratory judgment or equivalent action, by such Third Party.

(b) XOMA Patents, XOMA Sole Collaboration Patents and Joint Collaboration Patents in the Zydus Territory.

(i) Subject to this Section 9.3(b), Zydus shall have the first right, as between XOMA and Zydus, but not the obligation, to bring an appropriate suit or take other action against any person or entity engaged in, or to defend against, a Product Infringement of any XOMA Patent, XOMA Sole Collaboration Patent or Joint Collaboration Patent in the Zydus Territory, at its own expense and by counsel of its own choice. XOMA shall have the right, at its own expense, to be represented in any such action by counsel of its own choice, and Zydus and its counsel will reasonably cooperate with XOMA and its counsel in strategizing, preparing and prosecuting any such action or proceeding. If Zydus fails to bring an action or proceeding with respect to such Product Infringement of any XOMA Patent or any such Collaboration Patent in the Zydus Territory within (A) [*] days following the notice of alleged infringement or declaratory judgment or (B) [*] days before the time limit, if any, set forth in the appropriate laws and regulations for the filing of such actions, whichever comes first, XOMA shall have the right, but not the obligation, to bring and control any such action at its own expense and by counsel of its own choice, and Zydus shall have the right, at its own expense, to be represented in any such action by counsel of its own choice.

(ii) Except as otherwise agreed by the Parties as part of a cost-sharing arrangement, (A) any recovery or damages realized as a result of such action or proceeding with respect to XOMA Patents, XOMA Sole Collaboration Patents or Joint Collaboration Patents in the Zydus Territory shall be used first to reimburse the Parties' respective documented out-of-pocket legal expenses relating to the action or proceeding; (B) any remaining compensatory damages relating to Products (including lost sales or lost profits with respect to Products) shall be retained by the Party that brought and controlled such action or proceeding, and in the case that Zydus brought and controlled such action or proceeding, such remaining compensatory damages shall be deemed to be Net Sales subject to royalty payments to XOMA in accordance with the

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royalty provisions of Section 7.2 and for purpose of commercial Milestone Events under Section 7.1(b), and (C) any [*] shall be [*].

(c) XOMA Patents, Zydus Patents and Collaboration Patents in the XOMA Territory.

(i) XOMA shall have the sole right, as between Zydus and XOMA, but not the obligation, to bring an appropriate suit or take other action against any person or entity engaged in, or to defend against, a Product Infringement of any XOMA Patents and any XOMA Sole Collaboration Patents in the XOMA Territory, at its own expense and by counsel of its own choice. Any recovery or damages realized as a result of such action or proceeding by XOMA with respect to such XOMA Patents and XOMA Sole Collaboration Patents in the XOMA Territory shall be used first to reimburse XOMA's documented out-of-pocket legal expenses relating to the action or proceeding, and any remaining [*] damages shall be retained by XOMA.

(ii) Subject to this Section 9.3(c)(ii), XOMA shall have the first right, as between XOMA and Zydus, but not the obligation, to bring an appropriate suit or take other action against any person or entity engaged in, or to defend against, a Product Infringement of any Joint Collaboration Patent or Zydus Sole Collaboration Patent and, following a ROFN Termination, any Zydus Patent, in the XOMA Territory, at its own expense and by counsel of its own choice. Zydus shall have the right, at its own expense, to be represented in any such action by counsel of its own choice, and Zydus and its counsel will reasonably cooperate with XOMA and its counsel in strategizing, preparing and prosecuting any such action or proceeding. If XOMA fails to bring an action or proceeding with respect to such Product Infringement of any such Collaboration Patent in the XOMA Territory within (A) [*] days following the notice of alleged infringement or declaratory judgment or (B) [*] days before the time limit, if any, set forth in the appropriate laws and regulations for the filing of such actions, whichever comes first, Zydus shall have the right, but not the obligation, to bring and control any such action at its own expense and by counsel of its own choice, and XOMA shall have the right, at its own expense, to be represented in any such action by counsel of its own choice.

(iii) Except as otherwise agreed by the Parties as part of a cost-sharing arrangement, with respect to any Product Infringement action or proceeding in the XOMA Territory pursuant to subsection (ii) above: (A) any recovery or damages realized as a result of such action or proceeding shall be used first to reimburse the Parties' respective documented out-of-pocket legal expenses relating to the action or proceeding; (B) any remaining compensatory damages relating to Products (including lost sales or lost profits with respect to Products) shall be retained by the Party that brought and controlled such action or proceeding; and (C) [*] shall be [*].

(d) Zydus Patents and Zydus Sole Collaboration Patents in the Zydus Territory.
Zydus shall have the sole right, as between XOMA and Zydus, but not the obligation, to bring an appropriate suit or take other action against any person or entity engaged in, or to defend against, a Product Infringement of any Zydus Patents in the Zydus Territory and, until the occurrence of a ROFN Termination, in the XOMA Territory, at its own expense and by counsel of its own choice. Any recovery or damages realized as a result of such action or proceeding by Zydus with respect to such Zydus Patents shall be used first to reimburse the Parties' respective documented out-of-pocket legal expenses relating to the action or proceeding, and any remaining

compensatory damages relating to Products (including lost sales or lost profits with respect to Products) shall be retained by Zydus, and any [*] shall be [*].

(e) Cooperation. In the event a Party brings an action in accordance with this Section 9.3, the other Party shall cooperate reasonably, including, if required to bring such action, the furnishing of a power of attorney or being named as a party to such action.

(f) Other Infringement. XOMA shall have the sole right, but not the obligation, to bring and control, at its own cost and expense, any legal action in connection with any infringement of any XOMA Patent and any XOMA Sole Collaboration Patent that is not a Product Infringement. Zydus shall have the sole right, but not the obligation, to bring and control, at its own cost and expense, any legal action in connection with any infringement of any Zydus Patent and any Zydus Sole Collaboration Patent that is not a Product Infringement. With respect to any infringement of a Collaboration Patent that is not a Product Infringement, the Parties will confer in good faith to determine a course of action, provided that each Party shall have the right to bring and control, at its own cost and expense, any legal action in connection with any infringement of any Collaboration Patent owned by such Party (whether solely or jointly) that is not a Product Infringement.

9.4 Patent Extensions. The Parties shall cooperate in obtaining patent term restoration, supplemental protection certificates or their equivalents, and patent term extensions with respect to the XOMA Patents in the Zydus Territory, the Zydus Patents in the XOMA Territory and the Collaboration Patents throughout the world, where applicable. Zydus shall file for such extensions in the Zydus Territory at Zydus' sole cost and expense. XOMA shall file for such extensions in the XOMA Territory at XOMA's sole cost and expense.

9.5 Infringement of Third Party Rights.

(a) Each Party shall promptly notify the other in writing of any allegation by a Third Party that the manufacture, Development, importation, use, marketing or sale of any Product (including the XOMA Antibody or Zydus IL-2 therein) in either Territory infringes or may infringe the intellectual property rights of a Third Party.

(b) If a Third Party asserts that any of its Patents or other rights are infringed by the manufacture, Commercialization or Development by a Party or its Affiliates or Sublicensees of any Product (including the XOMA Antibody or Zydus IL-2 therein) in a Party's Territory, then such Party shall have the right but not the obligation to defend against any such assertions at its sole cost and expense. In the event that such Party elects not to defend against such Third Party claims within [*] days of learning of same, the other Party shall have the right, but not the obligation, to defend against such action. In any event, the Party not controlling such defense shall cooperate fully and shall provide full access to documents, information and witnesses as reasonably requested by the Party defending such action. The Party defending the action will reimburse all out of pocket costs incurred in connection with such requested cooperation. Notwithstanding the foregoing, the Parties' rights and obligations under this Section 9.5, including payment obligations, will be subject to the terms of Article 11.

9.6 Patent Defense. If (i) a XOMA Patent becomes the subject of any proceeding commenced by a Third Party in the Zydus Territory, (ii) a Zydus Patent becomes the subject of any proceeding commenced by a Third Party in either Territory, or (iii) a Collaboration Patent becomes the subject of any proceeding commenced by a Third Party in either Territory, in each of case (i), (ii) and (iii), in connection with an opposition, action for declaratory judgment, nullity action, invalidation action or other post-issuance attack upon the validity, title, or enforceability thereof (except insofar as such action is a counterclaim to or defense of, or accompanies a defense of, an action for infringement against a Third Party under Section 9.3, in which case the provisions of Section 9.3 shall govern), the Parties shall promptly confer to determine whether to defend against such action in accordance with the following:

(a) XOMA Patents. XOMA shall have the right, but not the obligation, to control the defense against such action with respect to a XOMA Patent in the Zydus Territory at its sole expense. XOMA shall have [*] days after the first conference under this Section 9.6 to notify Zydus of its decision to exercise its rights to control the defense of such XOMA Patent in the Zydus Territory in such proceeding commenced by a Third Party. If XOMA does not notify Zydus during such [*] day period that it is exercising such rights, then Zydus shall have the right, but not the obligation, to assume the control of such defense by written notice to XOMA. Notwithstanding the foregoing, if such Third Party challenges the validity of any XOMA Patent that is sublicensed to Zydus pursuant to the [*] Agreement, and such proceeding is a result of action or conduct of Zydus, Zydus shall have the obligation, to provide, at its own expense, a reasonable defense of the challenged XOMA Patents with counsel reasonably acceptable to [*]. The controlling Party shall periodically inform the other Party of all material steps (including the status and progress) with regard to such defense. The controlling Party shall permit the other Party to participate in the proceeding to the extent permissible under Applicable Laws, and to be represented by its own counsel in such proceeding, at the non-controlling Party's expense.

(b) Zydus Patents. Zydus shall have the first right, but not the obligation, to control the defense against such action with respect to the Zydus Patents in the Territory at its sole expense. Zydus shall have a period of [*] days after the first conference under this Section 9.6 to notify XOMA of its decision to exercise its rights to control the defense of such Patent in such proceeding commenced by a Third Party. If Zydus does not notify XOMA during such [*] day period that it is exercising such rights, then XOMA shall have the right, but not the obligation, to assume the control of such defense by written notice to Zydus. The controlling Party shall periodically inform the other Party of all material steps (including the status and progress) with regard to such defense and such other Party shall have the right to participate and be represented in any such action by its own counsel at its own expense. The controlling Party shall permit the non-controlling Party to participate in the proceeding to the extent permissible under Applicable Laws, and to be represented by its own counsel in such proceeding, at the non-controlling Party's expense.

(c) Collaboration Patents. Each Party shall have the first right, but not the obligation, to control the defense against such action with respect to the Collaboration Patents in its respective Territory at its sole expense. Each Party shall have a period of [*] days after the first conference under this Section 9.6 to notify the other Party of its decision to exercise its rights to control the defense of such Patent in its respective Territory in such proceeding commenced by a Third Party. If such Party does not notify the other Party during such [*] day period that it is

exercising such rights with respect to such Party's Territory, then such other Party shall have the right, but not the obligation, to assume the control of such defense by written notice to such Party. The controlling Party shall periodically inform the other Party of all material steps (including the status and progress) with regard to such defense and such other Party shall have the right to participate and be represented in any such action by its own counsel at its own expense. The controlling Party shall permit the non-controlling Party to participate in the proceeding to the extent permissible under Applicable Laws, and to be represented by its own counsel in such proceeding, at the non-controlling Party's expense.

9.7 Consent for Settlement. Neither Party shall unilaterally enter into any settlement or compromise of any action or proceeding under this Article 9 that would in any manner alter, diminish, or be in derogation of the other Party's rights under this Agreement or in the Patents Controlled by such other Party that are licensed to such Party hereunder without the prior written consent of such other Party, which shall not be unreasonably withheld.

9.8 Patents Licensed From Third Parties. Each Party's rights under this Article 9 with respect to the prosecution, enforcement and defense of any Patent that is licensed from a Third Party and sublicensed to a Party under this Agreement shall be subject to the rights retained by such Third Party under such agreement.

9.9 Patent Marking. Zydus shall mark or cause to be marked the Products made, imported, used, offered for sale or sold pursuant to this Agreement with such references to the XOMA Patents as are required by the Applicable Laws of the countries in the Zydus Territory in which such Products are made, imported, used, offered for sale or sold.

10. Representations and Warranties

10.1 Mutual Representations and Warranties. Each Party represents and warrants to the other Party that, as of the Effective Date: (a) it is duly organized and validly existing under the laws of its jurisdiction of incorporation or formation, and has full corporate or other power and authority to enter into this Agreement and to carry out the provisions hereof; (b) it is duly authorized to execute and deliver this Agreement and to perform its obligations hereunder, and the person or persons executing this Agreement on its behalf has been duly authorized to do so by all requisite corporate action; (c) this Agreement is legally binding upon it, enforceable in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally and by general principles of equity (regardless of whether enforcement is sought in a proceeding at law or in equity); (d) the execution, delivery and performance of this Agreement by such Party does not conflict with any agreement, instrument or understanding, oral or written, to which it is a party or by which it may be bound, nor violate any law or regulation of any court, governmental body or administrative or other agency having jurisdiction over it, except in the case of this clause (d) where the violation or conflict would not have a material adverse effect on such Party's ability to consummate the transactions contemplated hereby; and (e) it has the right to grant the licenses granted by it under this Agreement.

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10.2 Additional XOMA Representations and Warranties. XOMA represents and warrants to Zydus that, as of the Effective Date:

(a) Neither XOMA nor any of its Affiliates has received any written notice from a Third Party that the Development of any XOMA Antibody conducted by XOMA or any of its Affiliates prior to the Effective Date has infringed any Patents of any Third Party;

(b) Neither XOMA nor any of its Affiliates has granted any right to any Third Party under the XOMA Technology or its interest in the Collaboration Technology that would conflict with the rights granted to Zydus hereunder;

(c) To the best of XOMA's and its Affiliates' knowledge, no claim or action has been brought or, to XOMA's or its Affiliates' actual knowledge, threatened in writing, by any Third Party alleging that the XOMA Patents are invalid or unenforceable, and no XOMA Patent is the subject of any interference, opposition, cancellation or other protest proceeding;

(d) To the best of XOMA's and its Affiliates' knowledge, the use by Zydus of XOMA Technology as contemplated hereunder will not infringe any Third Party rights;

(e) To the best of XOMA's and its Affiliates' knowledge, no Third Party in the Zydus Territory is infringing or misappropriating, or has infringed or misappropriated, the XOMA Technology; and

(f) To the best of XOMA's and its Affiliates' knowledge, neither it nor any of its Affiliates is debarred or disqualified under the U.S. Federal Food, Drug and Cosmetic Act, as may be amended, or comparable laws in any country or jurisdiction other than the U.S., and, to its actual knowledge, it does not employ or use the services of any person who is debarred or disqualified.

10.3 Additional Zydus Representations and Warranties. Zydus represents and warrants to XOMA that, as of the Effective Date:

(a) Neither Zydus nor any of its Affiliates has received any written notice from a Third Party that the Development of any Zydus IL-2 conducted by Zydus or any of its Affiliates prior to the Effective Date has infringed any Patents of any Third Party;

(b) Neither Zydus nor any of its Affiliates has granted any right to any Third Party under the Zydus Technology or its interest in the Collaboration Technology that would conflict with the rights granted to XOMA hereunder;

(c) To the best of Zydus' and its Affiliates' knowledge, no claim or action has been brought or, to Zydus' or its Affiliates' actual knowledge, threatened in writing, by any Third Party alleging that the Zydus Patents are invalid or unenforceable, and no Zydus Patent is the subject of any interference, opposition, cancellation or other protest proceeding;

(d) To the best of Zydus' and its Affiliates' knowledge, no Third Party in the XOMA Territory is infringing or misappropriating, or has infringed or misappropriated, the Zydus Technology;

(e) To the best of Zydus' and its Affiliates' knowledge, the use by XOMA of Zydus Technology as contemplated hereunder will not infringe any Third Party rights;

(f) To the best of Zydus' and its Affiliates' knowledge, neither it nor any of its Affiliates is debarred or disqualified under the U.S. Federal Food, Drug and Cosmetic Act, as may be amended, or comparable laws in any country or jurisdiction other than the U.S., and, to its actual knowledge, it does not employ or use the services of any person who is debarred or disqualified; and

(g) Zydus has the financial resources sufficient to Develop the Products in accordance with the Development Plan in existence as of the Effective Date.

10.4 Mutual Covenants.

(a) No Conflict. Neither XOMA nor any of its Affiliates will, during the Term, grant any right to any Third Party under the XOMA Technology or its interest in the Collaboration Technology that would conflict with the rights granted to Zydus hereunder. Neither Zydus nor any of its Affiliates will, during the Term, grant any right to any Third Party under the Zydus Technology or its interest in the Collaboration Technology that would conflict with the rights granted to XOMA hereunder.

(b) Employees, Consultants and Contractors. Each Party covenants that it has obtained or will obtain written agreements from each of its employees, consultants and contractors who perform Development activities pursuant to this Agreement, which agreements will obligate such persons to obligations of confidentiality and non-use and to assign Inventions in a manner consistent with the provisions of this Agreement.

(c) Debarment. Each Party represents, warrants and covenants to the other Party that it is not debarred or disqualified under the U.S. Federal Food, Drug and Cosmetic Act, as may be amended, or comparable laws in any country or jurisdiction other than the U.S., and it does not, and will not during the Term, employ or use the services of any person who is debarred or disqualified, in connection with activities relating to any XOMA Antibody or Product. In the event that either Party becomes aware of the debarment or disqualification or threatened debarment or disqualification of any person providing services to such Party, including the Party itself or its Affiliates or Sublicensees, that directly or indirectly relate to activities contemplated by this Agreement, such Party shall immediately notify the other Party in writing and such Party shall cease employing, contracting with, or retaining any such person to perform any such services.

(d) Anti-Corruption.

(i) In the performance of its obligations under this Agreement, each Party shall comply and shall cause its and its Affiliates' and Sublicensees' employees and contractors to comply with all Applicable Laws, including applicable Anti-Corruption Laws.

(ii) Each Party and its and its Affiliates' and Sublicensees' employees and contractors shall not, in connection with the performance of their respective obligations under this Agreement, directly or indirectly through Third Parties, pay, promise or offer to pay, or authorize the payment of, any money or give any promise or offer to give, or authorize the giving

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of, anything of value to a Public Official or Entity or other person for purposes of obtaining or retaining business for or with, or directing business to, any person, including, without limitation, either Party.

(iii) Each Party and its Affiliates and Sublicensees, and their respective employees and contractors, in connection with the performance of their respective obligations under this Agreement, shall not cause the other Party or its Affiliates or their respective directors, officers, employees or agents to be in violation of the FCPA, Export Control Laws, or any other Applicable Laws, including applicable Anti-Corruption Laws, or otherwise cause any reputational harm to such other Party.

(iv) Each Party shall promptly notify the other Party if it has any information or suspicion that there may be a violation of the FCPA, Export Control Laws, or any other Applicable Laws, including applicable Anti-Corruption Laws, in connection with the performance of this Agreement or the Development, manufacture or Commercialization of any Product in such Party's Territory.

(v) In connection with the performance of its obligations under this Agreement, each Party shall comply and shall cause its and its Affiliates' employees and contractors to comply with such Party's own anti-corruption and anti-bribery policy, a copy of which will be provided to the other Party upon request.

(vi) Each Party will have the right, upon reasonable prior written notice and during the other Party's regular business hours, to audit such other Party's books and records in the event that a suspected violation of any of the covenants in this Section 10.5(d) has occurred.

(vii) In the event that a Party has violated or has been suspected of violating any of the covenants in this Section 10.4(d), the other Party will cause its and its Affiliates' personnel or others working under its direction or control to undergo periodic anti-corruption law compliance training.

(viii) Each Party will, at the other Party's request, annually certify to such other Party in writing its compliance with the covenants in this Section 10.4(d).

(ix) Each Party shall have the right to suspend or terminate this Agreement in its entirety by written notice if there is a credible finding of a Governmental Authority, after a reasonable investigation, that the other Party, in connection with its performance under this Agreement, has violated the FCPA or any other applicable Anti-Corruption Laws.

10.5 Disclaimer. Except as expressly set forth in this Agreement, THE TECHNOLOGY AND INTELLECTUAL PROPERTY RIGHTS PROVIDED BY EACH PARTY HEREUNDER ARE PROVIDED "AS IS" AND EACH PARTY EXPRESSLY DISCLAIMS ANY AND ALL WARRANTIES OF ANY KIND, EXPRESS OR IMPLIED, INCLUDING THE WARRANTIES OF DESIGN, MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, NONINFRINGEMENT OF THE INTELLECTUAL PROPERTY RIGHTS OF THIRD PARTIES, OR ARISING FROM A COURSE OF DEALING, USAGE OR TRADE PRACTICES, IN ALL CASES WITH RESPECT THERETO. Without limiting the foregoing, neither Party represents or warrants the success of any study or test conducted pursuant

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to this Agreement or the safety or usefulness for any purpose of the technology it provides hereunder or any XOMA Antibody, Zydus IL-2 or Product.

11. Indemnification

11.1 Indemnification by XOMA. XOMA hereby agrees to defend, indemnify and hold harmless Zydus and its Affiliates and their respective directors, officers, employees and agents (each, a "**Zydus Indemnitee**") from and against any and all liabilities, expenses and losses, including reasonable legal expenses and attorneys' fees (collectively, "**Losses**"), to which any Zydus Indemnitee may become subject as a result of any claim, demand, action or other proceeding by any Third Party to the extent such Losses arise out of: (a) the Development, manufacture, use, handling, storage, sale, disposition or other Commercialization of any Product (including any XOMA Antibody or Zydus IL-2 contained therein) by XOMA or its Affiliates or Sublicensees; (b) the negligence or willful misconduct of any XOMA Indemnitee; or (c) the breach by XOMA of any warranty, representation, covenant or agreement made by XOMA in this Agreement; except, in each case, to the extent such Losses arise out of the negligence or willful misconduct of any Zydus Indemnitee or the breach by Zydus of any warranty, representation, covenant or agreement made by Zydus in this Agreement.

11.2 Indemnification by Zydus. Zydus hereby agrees to defend, indemnify and hold harmless XOMA and its Affiliates and their respective directors, officers, employees and agents (each, a "**XOMA Indemnitee**") from and against any and all Losses to which any XOMA Indemnitee may become subject as a result of any claim, demand, action or other proceeding by any Third Party to the extent such Losses arise out of: (a) the Development, manufacture, use, handling, storage, sale, disposition or other Commercialization of any Product (including any XOMA Antibody or Zydus IL-2 contained therein) by Zydus or its Affiliates or Sublicensees; (b) the negligence or willful misconduct of any Zydus Indemnitee, or (c) the breach by Zydus of any warranty, representation, covenant or agreement made by Zydus in this Agreement; except, in each case, to the extent such Losses arise out of the negligence or willful misconduct of any XOMA Indemnitee or the breach by XOMA of any warranty, representation, covenant or agreement made by XOMA in this Agreement.

11.3 Procedure. A party that intends to claim indemnification under this Article 11 (the "**Indemnitee**") shall promptly notify the indemnifying Party (the "**Indemnitor**") in writing of any Third Party claim, demand, action or other proceeding (each, a "**Claim**") in respect of which the Indemnitee intends to claim such indemnification, and the Indemnitor shall have sole control of the defense or settlement thereof. The Indemnitee may participate at its expense in the Indemnitor's defense of and settlement negotiations for any Claim with counsel of the Indemnitee's own selection. The indemnity arrangement in this Article 11 shall not apply to amounts paid in settlement of any action with respect to a Claim, if such settlement is effected without the consent of the Indemnitor, which consent shall not be withheld or delayed unreasonably. The failure to deliver written notice to the Indemnitor within a reasonable time after the commencement of any action with respect to a Third Party Claim shall only relieve the Indemnitor of its indemnification obligations under this Article 11 if and to the extent the Indemnitor is actually prejudiced thereby. The Indemnitee shall cooperate fully with the Indemnitor and its legal representatives in the investigation of any action with respect to a Claim covered by this indemnification.

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11.4 Insurance. Each Party, at its own expense, shall maintain product liability and other appropriate insurance (or self-insure) in an amount consistent with sound business practice and reasonable in light of its obligations under this Agreement during the Term. Each Party shall provide a certificate of insurance (or evidence of self-insurance) evidencing such coverage to the other Party upon request. The Parties agree that such insurance shall not be construed to create a limit of either Party's liability with respect to its indemnification obligations under this Article 11 or other obligations under this Agreement.

12. Confidentiality

12.1 Confidential Information. Except to the extent expressly authorized by this Agreement or otherwise agreed in writing by the Parties, during the Term and for [*] years thereafter, the Receiving Party shall keep confidential and shall not publish or otherwise disclose and shall not use for any purpose other than as expressly provided for in this Agreement any of the Disclosing Party's Confidential Information. The Receiving Party may use the Disclosing Party's Confidential Information only to the extent required to accomplish the purposes of this Agreement, including exercising its rights or performing its obligations. The Receiving Party will use at least the same standard of care as it uses to protect proprietary or confidential information of its own (but no less than reasonable care) to ensure that its and its Affiliates' employees, agents, consultants, contractors and other representatives do not disclose or make any unauthorized use of the Disclosing Party's Confidential Information. The Receiving Party shall ensure that any of its and its Affiliates' employees, agents, consultants, contractors and other representatives that have access to any of the Disclosing Party's Confidential Information are bound by legally enforceable obligations of confidentiality and non-use with respect to such Confidential Information consistent with the obligations of this Article 12. The Receiving Party will promptly notify the Disclosing Party upon discovery of any unauthorized use or disclosure of the Disclosing Party's Confidential Information.

12.2 Exceptions. The obligations of confidentiality and restriction on use under Section 12.1 will not apply to any information that the Receiving Party can prove by competent evidence: (a) is now, or hereafter becomes, through no breach by the Receiving Party of this Agreement or the Confidentiality Agreement, generally known or available to the public; (b) was known by the Receiving Party at the time of receiving such information, other than by previous disclosure by or on behalf of the Disclosing Party; (c) is hereafter furnished to the Receiving Party without restriction by a Third Party who has no obligation of confidentiality or limitations on use with respect thereto, as a matter of right; or (d) is independently discovered or developed by or on behalf of the Receiving Party without the use of Confidential Information belonging to the Disclosing Party .

12.3 Authorized Disclosure.

(a) Each Party may disclose Confidential Information belonging to the other Party as expressly permitted by this Agreement or if and to the extent such disclosure is reasonably necessary in the following instances:

(i) filing, prosecuting, or maintaining Patents as permitted by this Agreement;

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(ii) Regulatory Filings for Products that such Party has a license or right to Develop or Commercialize hereunder in a given country or jurisdiction;

(iii) prosecuting or defending litigation as permitted by this Agreement;

(iv) complying with applicable court orders or governmental regulations; and

(v) disclosure to its and its Affiliates' and Sublicensees' employees, consultants, contractors and agents, in each case on a need-to-know basis in connection with the Development, manufacture and Commercialization of Products (including the XOMA Antibodies and Zydus IL-2s therein) in accordance with the terms of this Agreement under written or other legally enforceable obligations of confidentiality and non-use at least as stringent as those herein; and

(vi) disclosure to potential and actual investors, acquirors, licensees and other financial or commercial partners solely for the purpose of evaluating or carrying out an actual or potential investment, acquisition or collaboration, in each case under written obligations of confidentiality and non-use at least as stringent as those herein (provided that the term of such obligations may be for shorter period as consistent with custom and commercial reasonableness).

(b) In addition, the Receiving Party shall have the right to disclose the Disclosing Party Confidential Information in connection with its obligations to its licensor under any Third Party License or the [*] Agreement, and Zydus acknowledges that XOMA is required to provide [*] with a copy of this Agreement and any amendments hereto pursuant to the terms of the [*] Agreement.

(c) In the event a Receiving Party is required to make a disclosure of the Disclosing Party's Confidential Information pursuant to Section 12.3(a)(iii) or (iv), it will, except where impracticable, give reasonable advance notice to the Disclosing Party of such disclosure and use efforts to secure confidential treatment of such Confidential Information at least as diligent as the Receiving Party would use to protect its own Confidential Information, but in no event less than reasonable efforts. In any event, the Parties agree to take all reasonable action to avoid disclosure of Confidential Information hereunder. Any information disclosed pursuant to Section 12.3(a)(iii) or (iv) shall remain Confidential Information and subject to the restrictions set forth in this Agreement, including the foregoing provisions of this Article 12.

12.4 Publications.

(a) Prior to a Party's (the "**Submitting Party**") public disclosure or submission for publication of a proposed publication describing the results of any scientific or clinical activity relating to a Product (including the XOMA Antibody or Zydus IL-2 contained therein), the Submitting Party shall send the other Party (the "**Responding Party**") a copy of the proposed disclosure or publication to be submitted and shall allow the Responding Party a reasonable time period (but no less than [*] Business Days, or [*] Business Days for an abstract, from the date of the Responding Party's receipt) for the Responding Party (i) to determine whether the proposed disclosure or publication contains subject matter for which patent protection should be sought

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(prior to such disclosure or publication) for the purpose of protecting an invention, (ii) to determine whether the proposed publication contains the Confidential Information of the Responding Party, and (iii) to provide the Submitting Party with its reasonable comments to such proposed publication, which the Submitting Party shall consider in good faith. Following the expiration of the applicable time period for review, the Submitting Party shall be free to submit such proposed publication for publication or otherwise disclose to the public such scientific or clinical results, subject to the procedures set forth in subsection (b) below.

(b) If the Responding Party believes that the subject matter of the proposed publication or other disclosure contains Confidential Information or a patentable invention of the Responding Party (or to which the Responding Party has a license hereunder), then prior to the expiration of the applicable time period for review, the Responding Party shall notify the Submitting Party in writing of its determination that such proposed publication or other disclosure, as applicable, contains such information or subject matter for which patent protection should be sought. Upon receipt of such written notice from the Responding Party, the Submitting Party shall remove any of the Responding Party's Confidential Information identified by the Responding Party and, if the Responding Party has identified a patentable invention, shall delay public disclosure of such information or submission of the proposed publication for an additional period of [*] days (or such other time period mutually agreed by the Parties in writing) to permit preparation and filing of a patent application on the disclosed subject matter.

12.5 Publicity; Public Disclosures. The Parties agree to issue a press release, either as a joint release or as individual company releases on a mutually agreed date as promptly as practicable following the Effective Date, in each case substantially in the form(s) agreed by the Parties. With respect to subsequent press releases relating to this Agreement or activities hereunder, each Party agrees to consult with the other Party reasonably and in good faith with respect to the text and timing of such press releases, and to obtain the other Party's written consent, prior to the issuance thereof; provided that a Party may not unreasonably withhold, condition or delay consent to such releases, and that either Party may issue such press releases or make such disclosures to securities exchanges or other applicable agencies as it determines, based on advice of counsel, are reasonably necessary to comply with laws or regulations or for appropriate market disclosure. Each Party shall provide the other Party with advance notice of legally required disclosures to the extent practicable. The Parties will consult with each other on the provisions of this Agreement to be redacted in any public filings made by a Party as required by Applicable Laws; provided that each Party shall have the right to make any such filing as it reasonably determines necessary under Applicable Laws. In addition, following the initial joint press release announcing this Agreement, either Party shall be free to disclose, without the other Party's prior written consent, the existence of this Agreement, the identity of the other Party and those terms of the Agreement which have already been publicly disclosed in accordance herewith.

12.6 Prior Confidentiality Agreements. As of the Effective Date, the terms of this Article 12 shall supersede any prior non-disclosure, secrecy or confidentiality agreement between the Parties (or their Affiliates) relating to the subject of this Agreement, including the Confidentiality Agreement, provided that the foregoing shall not release a Party for any liability accruing under any such agreement prior to the Effective Date. Any information disclosed pursuant to any such prior agreement shall be deemed Confidential Information for purposes of this Agreement.

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12.7 Equitable Relief. Given the nature of the Confidential Information and the competitive damage that a Party would suffer upon unauthorized disclosure, use or transfer of its Confidential Information to any Third Party, the Parties agree that monetary damages may not be a sufficient remedy for any breach of this Article 12. In addition to all other remedies, a Party shall be entitled to seek specific performance and injunctive and other equitable relief as a remedy for any breach or threatened breach of this Article 12.

13. Term and Termination

13.1 Term. This Agreement shall commence on the Effective Date and, unless terminated earlier as provided in this Article 13 or by mutual written agreement of the Parties, shall continue on a Product-by-Product basis until the expiration of all payment obligations by either Party with respect to such Product under Article 7 (the "**Term**"). Following the fulfillment of all of a Party's payment obligations under Article 7 with respect to a Product, such Party's licenses under Section 2.1 or 2.3, as applicable, shall become non-exclusive, perpetual, irrevocable and fully paid-up with respect to such Product.

13.2 Mutual Termination. The Parties may agree in writing at any time to mutually terminate this Agreement if [*].

13.3 Termination for Cause.

(a) Material Breach. Each Party shall have the right to terminate this Agreement in its entirety upon written notice to the other Party if such other Party materially breaches this Agreement and has not cured such breach within [*] days ([*] days with respect to any payment breach) after notice of such breach from the non-breaching Party.

(b) Bankruptcy. Each Party shall have the right to terminate this Agreement in its entirety upon written notice to the other Party if such other Party makes a general assignment for the benefit of creditors, files an insolvency petition in bankruptcy, petitions for or acquiesces in writing in the appointment of any receiver, trustee or similar officer to liquidate or conserve its business or any substantial part of its assets, commences under the laws of any jurisdiction any proceeding involving its insolvency, bankruptcy, adjustment of debt, dissolution, liquidation or any other similar proceeding for the release of financially distressed debtors or becomes a party to any proceeding or action of the type described above and such proceeding is not dismissed within [*] days after the commencement thereof.

(c) Competitive Change of Control. XOMA and Zydus shall each have the right to terminate this Agreement in accordance with Section 2.8.

(d) Termination for Safety or Technical Infeasibility. During the ROFN Period, Zydus shall have the right to terminate this Agreement upon [*] days prior written notice to XOMA if [*] that (i) based upon [*], or upon [*] that the Product caused or are likely to cause a fatal, life-threatening, or other serious adverse event that [*] preclude continued Development or Commercialization of the Product; (ii) technical issues relating to [*] the Product exist that [*] and that preclude continued Development or Commercialization of the Product or if [*] set forth in [*]. In such event, [*] to Develop or Commercialize the [*] and [*] to Develop or Commercialize the [*].

13.4 Termination at Will by Zydus. Following expiration of the ROFN Period, Zydus shall have the right to terminate this Agreement (i) prior to the First Commercial Sale in the Zydus Territory, upon 90 days prior written notice to XOMA and (ii) following the First Commercial Sale in the Zydus Territory, upon 180 days prior written notice to XOMA. If Zydus exercises its right to terminate pursuant to this Section, it shall continue to perform its responsibilities hereunder up until the date of termination, except as otherwise agreed in writing by XOMA.

13.5 Termination for Patent Challenge.

(a) XOMA shall have the right to terminate this Agreement in its entirety upon written notice to the other Party if Zydus or any of its Affiliates or Sublicensees directly, or indirectly through any Third Party, commences any interference or opposition proceeding with respect to, challenges the validity or enforceability of, or opposes any extension of or the grant of a supplementary protection certificate with respect to, any XOMA Patent.

(b) Zydus shall have the right to terminate this Agreement in its entirety upon written notice to the other Party if XOMA or any of its Affiliates or Sublicensees directly, or indirectly through any Third Party, commences any interference or opposition proceeding with respect to, challenges the validity or enforceability of, or opposes any extension of or the grant of a supplementary protection certificate with respect to, any Zydus Patent.

13.6 Effects of Termination.

(a) Any Termination. Upon any termination (but not expiration) of this Agreement, all rights and licenses granted hereunder (other than as set forth in this Section 13.6) shall terminate.

(b) Certain Terminations. If this Agreement is terminated for any reason [*] other than [*] or [*], or if this Agreement is terminated by [*], then the following shall apply:

(i) Regulatory Filings. Zydus shall: (A) to the extent not previously provided to XOMA, deliver to XOMA true, correct and complete copies of all Regulatory Filings (including Regulatory Approvals) for the Products in the Zydus Territory, and provide to XOMA all Zydus Know-How related to the Products (including the XOMA Antibodies and Zydus IL-2 therein) not previously disclosed to XOMA; and (B) hereby does, effective upon such termination, transfer and assign (and shall cause to be transferred or assigned) to XOMA or its designee (or to the extent not so assignable, take all reasonable actions to make available to XOMA or its designee the benefits of) all Regulatory Filings (including Regulatory Approvals) for the Products in the Zydus Territory, whether held in the name of Zydus or its Affiliate or Sublicensee; and (C) take such other actions and execute such other instruments, assignments and documents as may be necessary to effect, evidence, register and record the transfer, assignment or other conveyance of rights under this subsection (i) to XOMA.

(ii) Collaboration Technology. Zydus hereby assigns, and shall cause its Affiliates and Sublicensees (A) to assign, to XOMA, effective upon such termination, all of its and their respective right, title and interest in and to the Collaboration Technology (including all Data generated by or on behalf of Zydus or its Affiliates), which shall thereafter be deemed to be solely XOMA's Confidential Information; and (B) take such other actions and execute such other

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instruments, assignments and documents as may be necessary to effect, evidence, register and record the transfer, assignment or other conveyance of rights under this subsection (ii) to XOMA.

(iii) Zydus Technology. Zydus hereby grants to XOMA, effective upon the effective date of such termination, a non-exclusive, perpetual, irrevocable, fully paid-up, worldwide license, with the right to sublicense through multiple tiers of sublicensees, under the Zydus Technology to Develop, use, make, have made, sell, offer for sale and import Products in the Field. For clarity, the foregoing license includes the rights to make and have made XOMA Antibodies solely for purposes of Development and Commercialization of Products in the Field, but excludes the rights to make and have made Zydus IL-2.

(iv) Wind-Down. Zydus shall, as directed by XOMA, either wind-down any ongoing Development activities of Zydus and its Affiliates and Sublicensees with respect to any Product in the Zydus Territory in an orderly fashion or promptly transfer such Development activities to XOMA or its designee, in compliance with all Applicable Laws and at Zydus' cost. If XOMA directs Zydus to transition any such ongoing Development activities to XOMA or its designee, the Parties will develop a transition plan setting forth each Party's activities to ensure the orderly transfer of such Development activities.

(v) Transition Assistance. Zydus shall provide reasonable consultation and assistance to XOMA in connection with the transfer and transition to XOMA of all Collaboration Know-How and, at XOMA's request, all then-existing commercial arrangements relating specifically to the Products that Zydus is able, using reasonable efforts, to transfer or transition to XOMA, in each case, to the extent reasonably necessary or useful for XOMA to continue Developing, manufacturing, or Commercializing the Products in the Zydus Territory. The foregoing shall include transferring, upon request of XOMA, any agreements with Third Party suppliers or vendors that specifically cover the supply or sale of any Product (or XOMA Antibody or Zydus IL-2 therein) for the Zydus Territory; provided that if any such contract between Zydus and a Third Party is not assignable to XOMA (whether by such contract's terms or because such contract does not relate specifically to any Product) but is otherwise reasonably necessary or useful for XOMA to commence Developing, manufacturing or Commercializing Products in the Zydus Territory, or if Zydus or its Affiliate manufactures any Product (or XOMA Antibody or Zydus IL-2 therein) itself (and thus there is no contract to assign), then Zydus shall reasonably cooperate with XOMA to negotiate for the continuation of services or supply from such entity, or Zydus shall supply such XOMA Antibody or Product, as applicable, to XOMA for a reasonable period (not to exceed [*] months) until XOMA establishes an alternate, validated source of such services or supply of finished, packaged, labeled Product for the Zydus Territory. XOMA shall pay Zydus for such supply from Zydus at a price equal to [*]. Zydus shall provide such assistance at no cost to XOMA.

(vi) Remaining Inventories. XOMA shall have the right to purchase from Zydus any or all of the inventory of Products (or XOMA Antibody or Zydus IL-2 therein) held by Zydus or its Affiliates as of the effective date of termination, at a price equal to [*]. XOMA shall notify Zydus within [*] days after the effective date of termination whether it elects to exercise such rights.

(vii) Termination [*] due to [*]. If this Agreement is terminated [*] due to [*], then [*] grants to [*], effective upon the effective date of such termination, [*] license, [*], under the [*] to [*]. For clarity, the foregoing license includes the rights to [*] solely for purposes of [*].

(c) Termination [*]. If this Agreement is terminated for any reason following the ROFN Termination, other than [*], then the following shall apply:

(i) Definitions. As used in this subsection (c), "**Terminating Party**" means the Party that has terminated this Agreement pursuant to [*], and "**Non-Terminating Party**" means the other Party.

(ii) Regulatory Filings. The Non-Terminating Party hereby grants, effective upon such termination, an irrevocable right of reference (and shall cause to such right of reference to be granted) to the Terminating Party or its designee all Regulatory Filings (including Regulatory Approvals) for the Products, whether held in the name of the Non-Terminating Party or its Affiliate or Sublicensee, for Products in the Terminating Party's Territory. The Non-Terminating Party shall take such other actions and execute such other instruments, assignments and documents as may be necessary to effect, evidence, register and record the conveyance of rights under this subsection (ii) to the Terminating Party.

(iii) Technology Licenses. The Non-Terminating Party hereby grants to the Terminating Party, effective upon the effective date of such termination, a non-exclusive, perpetual, irrevocable, fully paid-up, worldwide license, with the right to sublicense through multiple tiers of sublicensees, under (A) the Zydus Technology (if Zydus is the Non-Terminating Party) or the XOMA Technology (if XOMA is the Non-Terminating Party) and (B) the Non-Terminating Party's interest in the Collaboration Technology, in each case to Develop, use, make, have made, sell, offer for sale and import Products in the Field. For clarity, the foregoing license includes the rights to make and have made XOMA Antibodies and Zydus IL-2 solely for purposes of Development and Commercialization of Products in the Field.

13.7 Confidential Information. Upon expiration or termination of this Agreement, except to the extent that a Party obtains or retains the right to use the other Party's Confidential Information, each Party shall promptly return to the other Party, or delete or destroy, all relevant records and materials in such Party's possession or control containing Confidential Information of the other Party; provided that such Party may keep one (1) copy of such materials for archival purposes only subject to continuing confidentiality obligations.

13.8 Survival. Expiration or termination of this Agreement shall not relieve the Parties of any obligation or right accruing prior to such expiration or termination. Except as set forth below or elsewhere in this Agreement, the obligations and rights of the Parties under the following provisions of this Agreement shall survive expiration or termination of this Agreement: Sections 2.2 (2nd to last sentence only), 2.5(a), 2.6(b), 4.8, 8.1(a)(solely with respect to Product sales occurring prior to the effective date of termination), 8.1(b) (solely with respect to Out-Licensing Revenue incurred prior to the effective date of termination), 8.2, 8.3, 8.4, 8.5, 9.1, 13.6, 13.7, 13.8, 13.9 and 13.10, and Articles 11, 12, 14 and 15.

13.9 Exercise of Right to Terminate. The use by either Party hereto of a termination right provided for under this Agreement shall not give rise to the payment of damages or any other form of compensation or relief to the other Party with respect thereto ; provided, however, that termination of this Agreement shall not preclude either Party from claiming any other damages, compensation or relief that it may be entitled to upon such termination. For clarity, in the event of a Party's material breach of this Agreement, the other Party may elect to retain this Agreement in full force and effect and seek such remedies for such Party's breach as are available at law or equity.

13.10 Rights in Bankruptcy. All rights and licenses granted under or pursuant to this Agreement by one Party to the other Party are, and will otherwise be deemed to be, for purposes of Section 365(n) of the U.S. Bankruptcy Code or comparable provision of applicable bankruptcy or insolvency laws, licenses of right to "intellectual property" as defined under Section 101 of the U.S. Bankruptcy Code or comparable provision of applicable bankruptcy or insolvency laws. The Parties agree that a Party that is a licensee of such rights under this Agreement will retain and may fully exercise all of its rights and elections under the U.S. Bankruptcy Code or comparable provision of applicable bankruptcy or insolvency laws. The Parties further agree that, in the event of the commencement of a bankruptcy proceeding by or against a Party to this Agreement under the U.S. Bankruptcy Code or comparable provision of applicable bankruptcy or insolvency laws, the other Party will be entitled to a complete duplicate of (or complete access to, as appropriate) any such intellectual property and all embodiments of such intellectual property, and same, if not already in its possession, will be promptly delivered to it (a) upon any such commencement of a bankruptcy or insolvency proceeding upon its written request therefor, unless the bankrupt Party elects to continue to perform all of its obligations under this Agreement, or (b) if not delivered under (a) above, following the rejection of this Agreement by or on behalf of the bankrupt Party upon written request therefor by the other Party.

14. Dispute Resolution

14.1 Objective. The Parties recognize that disputes as to matters arising under or relating to this Agreement or either Party's rights and obligations hereunder may arise from time to time. It is the objective of the Parties to establish procedures to facilitate the resolution of such disputes in an expedient manner by mutual cooperation and without resort to litigation. To accomplish this objective, the Parties agree to follow the procedures set forth in this Article 14 to resolve any such dispute if and when it arises.

14.2 Resolution by Executive Officers. Except as otherwise provided in Section 3.2, and subject to Sections 14.4 and 14.5, if an unresolved dispute as to matters arising out of or in connection with this Agreement or either Party's rights and obligations hereunder arises (a "**Dispute**"), either Party may refer such dispute to the Executive Officers, who shall meet in person or by telephone or videoconference within thirty (30) days after such referral to attempt in good faith to resolve such dispute. If such matter cannot be resolved by discussion of the Executive Officers within such thirty (30)-day period, or such other time period as the Parties may agree in writing, such dispute shall be resolved in accordance with Section 14.3.

14.3 Arbitration. If the Executive Officers are not able to resolve a Dispute referred to them under Section 14.2 (other than a Dispute of the JSC pursuant to Section 3.2(e), which shall

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be subject to Section 3.2(e)) within such thirty (30) day period, and subject to Sections 14.4 and 14.5, such Dispute shall be resolved through binding arbitration, which arbitration may be initiated by either Party at any time after the conclusion of such period, on the following basis:

(a) The seat, or legal place, of arbitration shall be [*]. The language of the arbitration shall be English. The governing law of such arbitration shall be as set forth in Section 15.1.

(b) Such arbitration shall be conducted under the Rules of Arbitration of the [*] by one or more arbitrators appointed in accordance with the said Rules. Evidence shall be take in accordance with the [*] as current on the date of commencement of the arbitration.

(c) Judgment upon the award rendered by such arbitrators shall be final and binding on the Parties and may be entered by any court or forum having jurisdiction. The Parties undertake to carry out any award without delay.

(d) Either Party may apply to the arbitrators for interim injunctive relief until the arbitration award is rendered or the controversy is otherwise resolved.

(e) The arbitrators shall have no authority to award punitive or any other type of damages not measured by a Party's compensatory damages, except to the extent arising from a Party's gross negligence, intentional misconduct or breach of confidentiality.

(f) Each Party shall bear its own costs and expenses and attorneys' fees and an equal share of the arbitrators' and any administrative fees of arbitration, unless otherwise determined by the arbitrators.

(g) The existence and content of the arbitral proceedings and any rulings or award shall be kept confidential except (a) to the extent that disclosure may be required of a Party to fulfill a legal duty, protect or pursue a legal right, or enforce an award in bona fide legal proceedings before a state court or other judicial authority, or (b) with the written consent of the Parties. Notwithstanding anything to the contrary, either Party may disclose matters relating to the arbitration or the arbitral proceedings where necessary for the preparation or presentation of a claim or defense in such arbitration.

(h) In no event shall an arbitration be initiated after the date when commencement of a legal or equitable proceeding based on the dispute, controversy, or claim would be barred by the applicable statute of limitations.

14.4 Exigent Relief. Notwithstanding the foregoing, either Party may, without waiving any remedy under this Agreement, at any time seek from any court having jurisdiction any injunctive or provisional relief necessary to protect the rights or property of such Party.

14.5 Patent and Trademark Dispute Resolution. Notwithstanding the foregoing, any dispute, controversy, or claim relating to the scope, validity, enforceability, or infringement of any patent rights covering the manufacture, use, or sale of any Product or of any trademark rights relating to any Product, XOMA Antibody or Zydus IL-2 shall be submitted to a court of competent

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jurisdiction in the country or jurisdiction in which such patent or trademark rights were granted or arose.

15. General Provisions

15.1 Governing Law. This Agreement, and all questions regarding the existence, validity, interpretation, breach or performance of this Agreement, shall be governed by, and construed and enforced in accordance with, the laws of [*], without reference to its conflicts of law principles. The United Nations Conventions on Contracts for the International Sale of Goods shall not be applicable to this Agreement.

15.2 Entire Agreement; Modification. This Agreement is both a final expression of the Parties' agreement and a complete and exclusive statement with respect to all of its terms. This Agreement supersedes all prior and contemporaneous agreements and communications, whether oral, written or otherwise, concerning any and all matters contained herein. This Agreement may only be modified or supplemented in a writing expressly stated for such purpose and signed by the Parties.

15.3 Relationship Between the Parties. The Parties' relationship, as established by this Agreement, is solely that of independent contractors. This Agreement does not create any partnership, joint venture or similar business relationship between the Parties. Neither Party is a legal representative of the other Party, and neither Party can assume or create any obligation, representation, warranty or guarantee, express or implied, on behalf of the other Party for any purpose whatsoever.

15.4 Non-Waiver. The failure of a Party to insist upon strict performance of any provision of this Agreement or to exercise any right arising out of this Agreement shall neither impair that provision or right nor constitute a waiver of that provision or right, in whole or in part, in that instance or in any other instance. Any waiver by a Party of a particular provision or right shall be in writing, shall be as to a particular matter and, if applicable, for a particular period of time and shall be signed by such Party.

15.5 Assignment. Except as expressly provided hereunder, neither this Agreement nor any rights or obligations hereunder may be assigned or otherwise transferred by either Party without the prior written consent of the other Party (which consent shall not be unreasonably withheld); provided, however, that a Party may assign or otherwise transfer this Agreement in its entirety and its rights and obligations hereunder without such other Party's consent and subject to Section 2.8: (a) in connection with the transfer or sale of all or substantially all of the business or assets of the assigning Party relating to this Agreement to a Third Party, whether by merger, consolidation, divesture, restructure, sale of stock, sale of assets or otherwise; provided that in the event of any such transaction (whether this Agreement is actually assigned or is assumed by such Third Party by operation of law (e.g., in the context of a reverse triangular merger)), intellectual property rights of Third Party to such transaction and its Affiliates existing immediately prior to the transaction, or created after the closing of such transaction without use of any intellectual property licensed to the assigning Party hereunder, shall not be included in the intellectual property licensed hereunder; or (b) to an Affiliate. The rights and obligations of the Parties under this Agreement shall be binding upon and inure to the benefit of the successors and permitted assigns

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of the Parties, and the name of a Party appearing herein will be deemed to include the name of such Party's successors and permitted assigns to the extent necessary to carry out the intent of this Section. Any assignment not in accordance with this Section 15.5 shall be null and void.

15.6 Severability. If, for any reason, any part of this Agreement is adjudicated invalid, unenforceable or illegal by a court of competent jurisdiction, such adjudication shall not, to the extent feasible, affect or impair, in whole or in part, the validity, enforceability, or legality of any remaining portions of this Agreement. All remaining portions shall remain in full force and effect as if the original Agreement had been executed without the invalidated, unenforceable or illegal part.

15.7 Notices. Any notice to be given under this Agreement must be in writing and delivered either in person, by air mail (postage prepaid) requiring return receipt, by overnight courier, or by facsimile confirmed thereafter by any of the foregoing, to the Party to be notified at its address(es) given below, or at any address such Party may designate by prior written notice to the other in accordance with this Section 15.7. Notice shall be deemed sufficiently given for all purposes upon the earliest of: (i) the date of actual receipt; (ii) if air mailed, five (5) days after the date of postmark; (iii) if delivered by overnight courier, the next day the overnight courier regularly makes deliveries or (iv) if sent by facsimile, the date of confirmation of receipt if during the recipient's normal business hours, otherwise the next Business Day.

If to Zydus, notices must be addressed to:

Cadila Healthcare Limited
Zydus Corporate Park, Scheme No. 63,
Survey No. 536, Khoraj (Gandhinagar),
Nr. Vaishnodevi Circle,
Sarkhej-Gandhinagar Highway,
Ahmedabad-382481, Gujarat, India
Attention: [*]
Email: [*]
with a copy to:

Legal Department

If to XOMA, notices must be addressed to:

XOMA (US) LLC
2200 Powell Street, Suite 310
Emeryville, California, USA 94608
Attention: CEO
Copy to: Legal Department

15.8 Force Majeure. Each Party shall be excused from liability for the failure or delay in performance of any obligation under this Agreement (other than failure to make payment when due) by reason of any event beyond such Party's reasonable control, including Acts of God, fire, flood, explosion, earthquake, pandemic flu, or other natural forces, war, civil unrest, acts of

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terrorism, accident, destruction or other casualty, any lack or failure of transportation facilities, any lack or failure of supply of raw materials, or any other event similar to those enumerated above. Such excuse from liability shall be effective only to the extent and duration of the event(s) causing the failure or delay in performance and provided that the Party has not caused such event(s) to occur. Notice of a Party's failure or delay in performance due to force majeure must be given to the other Party within ten (10) days after its occurrence. All delivery dates under this Agreement that have been affected by force majeure shall be tolled for the duration of such force majeure. In no event shall any Party be required to prevent or settle any labor disturbance or dispute.

15.9 Limitation of Liability. EXCEPT FOR LIABILITY FOR BREACH OF ARTICLE 12, NEITHER PARTY SHALL BE ENTITLED TO RECOVER FROM THE OTHER PARTY ANY SPECIAL, INCIDENTAL, CONSEQUENTIAL OR PUNITIVE DAMAGES IN CONNECTION WITH THIS AGREEMENT OR ANY LICENSES GRANTED HEREUNDER; *provided, however,* that this Section 15.9 shall not be construed to limit either Party's indemnification obligations under Article 11.

15.10 Interpretation. The headings of clauses contained in this Agreement preceding the text of the sections, subsections and paragraphs hereof are inserted solely for convenience and ease of reference only and shall not constitute any part of this Agreement, or have any effect on its interpretation or construction. All references in this Agreement to the singular shall include the plural where applicable. Unless otherwise specified, references in this Agreement to any Article shall include all Sections, subsections and paragraphs in such Article, references to any Section shall include all subsections and paragraphs in such Section, and references in this Agreement to any subsection shall include all paragraphs in such subsection. The word "including" and similar words means including without limitation. The word "or" means "and/or" unless the context dictates otherwise because the subject of the conjunction are mutually exclusive. The words "herein," "hereof" and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Section or other subdivision. All references to days in this Agreement mean calendar days, unless otherwise specified. Ambiguities and uncertainties in this Agreement, if any, shall not be interpreted against either Party, irrespective of which Party may be deemed to have caused the ambiguity or uncertainty to exist. This Agreement has been prepared in the English language and the English language shall control its interpretation. In addition, all notices required or permitted to be given hereunder, and all written, electronic, oral or other communications between the Parties regarding this Agreement shall be in the English language.

15.11 Counterparts; Electronic or Facsimile Signatures. This Agreement may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument. This Agreement may be executed and delivered electronically or by facsimile or pdf and upon such delivery such electronic, facsimile or .pdf signature will be deemed to have the same effect as if the original signature had been delivered to the other Party.

[SIGNATURE PAGE FOLLOWS]

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In Witness Whereof, the Parties have caused this **Collaboration and License Agreement** to be executed and entered into by their duly authorized representatives as of the Effective Date.

XOMA (US) LLC	**Cadila Healthcare Limited**
By: /s/ JIM NEAL	By: /s/ NITIN PAREKH /s/ MUKUND THAKKAR
Name: Jim Neal	Name: Nitin Parekh Mukund Thakkar
Title: Chief Executive Officer	Title: Chief Financial Officer SVP-Legal

EXHIBIT A

Development Plan

[*]

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EXHIBIT B

mAb19, Back-Ups and Follow-Ons

[*]

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EXHIBIT C

Zydus IL-2

[*]

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EXHIBIT D

Specific Diligence Obligations

Milestone	**Completion Date (time from Effective Date)**	**[*]**
[*]	[*]	☯✉☸

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EXHIBIT E

XOMA Antibodies and XOMA Know-How to be Transferred

[*]

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Exhibit 10.2

AMENDMENT NO. 3 TO THE LICENSE AGREEMENT

THIS AMENDMENT NO. 3 (this "***Amendment***") to that certain License Agreement dated as of December 6, 2017, by and between XOMA (US) LLC, a Delaware limited liability company ("***XOMA***"), having an address of 2200 Powell Street, Suite 310, Emeryville, CA 94608 and Rezolute, Inc. (formerly known as AntriaBio, Inc.), a Delaware corporation ("***Rezolute***"), having an address of 201 Redwood Shores Parkway, Redwood City, CA 94065, as amended by Amendment No. 1 dated March 30, 2018, and further amended by Amendment No. 2 dated January 7, 2019 (collectively, the "***License Agreement***"), is entered into by and between XOMA and Rezolute effective as of March 31, 2020 (the "***Effective Date***"). Each of XOMA and Rezolute may be referred to herein as a "Party", or jointly as the "Parties". Terms used but not otherwise defined herein shall have the meanings ascribed to them in the License Agreement.

WHEREAS, the Parties desire to amend the License Agreement to revise certain provisions of the License Agreement related to the consideration to be paid to XOMA;

NOW, THEREFORE, in consideration of the foregoing premises and the mutual covenants herein contained and other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

Section 1. Amendment. The following section of the License Agreement is hereby amended as follows:

(a) Section 4.6 of the License Agreement is hereby amended to read in its entirety as follows:

4.6 Additional Payments. Rezolute shall pay XOMA a total of $2,608,950; provided, however, in that event that Rezolute completes a Qualified Financing at any time between the date hereof and the date of the final payment set forth below, Rezolute shall pay all amounts outstanding below within fifteen (15) days following the closing of the Qualified Financing:

Cash Payment #:	Cash Payment Amount	Time of Payment
1	$400,000	March 31, 2020
2	$400,000	No later than June 30, 2020

3	$400,000	No later than September 30, 2020
4	$400,000	No later than December 31, 2020
5	$400,000	No later than March 31, 2021
6	$400,000	No later than June 30, 2021
7	$208,950	No later September 30, 2021
	TOTAL: $2,608,950	

(b) The following new language is added to the end of Section 2.2 of the License Agreement:

> Rezolute will provide XOMA with a quarterly cash forecast with sufficient detail to allow XOMA to assess the collectability of the above payments for quarterly accounting purposes. This quarterly reporting obligation shall continue until the above amounts are paid in full, with such reports to be delivered within 3 business days of the end of each calendar quarter.

Section 2. Effect of Amendment. Except as expressly provided for herein, all terms and conditions of the License Agreement shall remain in full force and effect.

Section 3. Governing Law. The validity, construction and interpretation of this Amendment and any determination of the performance which it requires shall be governed by and construed in accordance with the laws of the State of California without any reference to any rules of conflicts of laws.

Section 4. Counterparts. This Amendment may be executed in counterparts, each of which shall be deemed an original, but all of which together shall be deemed to be one and the same Amendment. A signed copy of this Amendment delivered by facsimile, e-mail or other means of electronic transmission shall be deemed to have the same legal effect as delivery of an original signed copy of this Amendment.

REZOLUTE

By: /s/ NEVAN ELAM

Name: Nevan Elam

Title: CEO

XOMA

By: /s/ JIM NEAL

Name: Jim Neal

Title: CEO

Exhibit 31.1

Certification

I, James R. Neal, certify that:

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

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: May 5, 2020

/s/ JAMES R. NEAL
James R. Neal
Chief Executive Officer

Exhibit 31.2

Certification

I, Thomas Burns, certify that:

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

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: May 5, 2020

/s/ THOMAS BURNS

Thomas Burns

Senior Vice President, Finance and Chief Financial Officer

Exhibit 32.1

CERTIFICATION

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), James R. Neal, Chief Executive Officer of XOMA Corporation (the "Company"), and Thomas Burns, Senior Vice President, Finance and Chief Financial Officer of the Company, each hereby certifies that, to the best of his or her knowledge:

1. The Company's Quarterly Report on Form 10-Q for the three months ended March 31, 2020, to which this Certification is attached as Exhibit 32.1, fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and
2. The information contained in Exhibit 32.1 fairly presents, in all material respects, the financial condition and results of operations of the Company.

IN WITNESS WHEREOF, the undersigned have set their hands hereto as of the 5th day of May, 2020

/s/ JAMES R. NEAL
James R. Neal
Chief Executive Officer

/s/ THOMAS BURNS
Thomas Burns
Senior Vice President, Finance and Chief Financial Officer

3. This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of XOMA Corporation under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.