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, 2017

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.)**
2910 Seventh Street, Berkeley, California 94710	**(510) 204-7200**
(Address of principal executive offices, including zip code)	**(Telephone Number)**

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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	☐	(Do not check if a smaller reporting company)	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 of 1934). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	**Outstanding at May 5, 2017**
Common Stock, $0.0075 par value	**7,585,656**

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, 2017 (unaudited)	December 31, 2016 (Note 1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 20,045	$ 25,742
Trade and other receivables, net	1,343	566
Prepaid expenses and other current assets	264	852
Total current assets	21,652	27,160
Property and equipment, net	396	1,036
Other assets	481	481
Total assets	$ 22,529	$ 28,677
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 4,176	$ 5,689
Accrued and other liabilities	2,173	4,215
Accrued restructuring costs	1,793	3,594
Deferred revenue – current	1,381	899
Interest bearing obligations – current	12,544	17,855
Accrued interest on interest bearing obligations – current	178	254
Total current liabilities	22,245	32,506
Deferred revenue – non-current	17,408	18,000
Interest bearing obligations – non-current	14,085	25,312
Other liabilities – non-current	—	69
Total liabilities	53,738	75,887
Commitments and Contingencies (Note 10)		
Stockholders' deficit:		
Preferred stock, $0.05 par value, 1,000,000 shares authorized, 5,003 and 0 shares issued and outstanding as of March 31, 2017 and December 31, 2016, respectively	—	—
Common stock, $0.0075 par value, 277,333,332 shares authorized, 7,585,629 and 6,114,145 shares issued and outstanding at March 31, 2017 and December 31, 2016, respectively	57	46
Additional paid-in capital	1,173,104	1,146,357
Accumulated deficit	(1,204,370)	(1,193,613)
Total stockholders' deficit	(31,209)	(47,210)
Total liabilities and stockholders' deficit	$ 22,529	$ 28,677

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

(Note 1) The condensed consolidated balance sheet as of December 31, 2016 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, 2016.

XOMA CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(unaudited)

(in thousands, except per share amounts)

	Three Months Ended March 31,	
	2017	**2016**
Revenues:		
License and collaborative fees	$ 150	$ 2,491
Contract and other	110	1,471
Total revenues	260	3,962
Operating expenses:		
Research and development	3,993	13,610
General and administrative	5,167	4,305
Restructuring	2,020	36
Total operating expenses	11,180	17,951
Loss from operations	(10,920)	(13,989)
Other income (expense):		
Interest expense	(609)	(1,002)
Other income (expense), net	1,329	(306)
Revaluation of contingent warrant liabilities	—	6,932
Loss on extinguishment of debt	(515)	—
Net loss	(10,715)	(8,365)
Deemed dividend on convertible preferred stock	(5,603)	—
Net loss available to common stockholders	$ (16,318)	$ (8,365)
Basic and diluted net loss per share available to common stockholders	$ (2.37)	$ (1.40)
Weighted average shares used in computing basic and diluted net loss per share available to common stockholders	6,887	5,978
Other comprehensive loss:		
Net loss	$ (10,715)	$ (8,365)
Net unrealized loss on marketable securities	—	(42)
Total comprehensive loss	$ (10,715)	$ (8,407)

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,	
	2017	**2016**
Cash flows used in operating activities:		
Net loss	$ (10,715)	$ (8,365)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	147	215
Common stock contribution to 401(k)	506	785
Stock-based compensation expense	1,000	2,306
Revaluation of contingent warrant liabilities	—	(6,932)
Amortization of debt issuance costs, debt discount and final payment fee on debt	286	354
Loss on extinguishment of debt	515	—
Gain on sale of equipment	(1,314)	—
Unrealized loss on foreign currency exchange	261	559
Other	55	(2)
Changes in assets and liabilities:		
Trade and other receivables, net	33	2,092
Prepaid expenses and other current assets	345	415
Accounts payable and accrued liabilities	(3,480)	(4,580)
Accrued restructuring costs	(1,801)	(321)
Accrued interest on interest bearing obligations	(76)	(6)
Deferred revenue	(110)	(2,306)
Other liabilities	—	(500)
Net cash used in operating activities	(14,348)	(16,286)
Cash flows from investing activities:		
Proceeds from sale of equipment	813	—
Purchase of property and equipment	—	(31)
Net cash provided by (used in) investing activities	813	(31)
Cash flows from financing activities:		
Proceeds from issuance of common and preferred stock, net of issuance costs	25,452	—
Principal payments ─ debt	(16,380)	(3,271)
Payment of final fee related to loan extinguishment	(1,150)	—
Principal payments ─ capital lease	(51)	(28)
Net cash provided by (used in) financing activities	7,871	(3,299)
Effect of exchange rate changes on cash	(33)	2
Net decrease in cash and cash equivalents	(5,697)	(19,614)
Cash and cash equivalents at the beginning of the period	25,742	65,767
Cash and cash equivalents at the end of the period	$ 20,045	$ 46,153
Supplemental Cash Flow Information:		
Cash paid for interest	$ 396	$ 646
Non-cash investing and financing activities:		
Other receivables related to the sale of equipment	$ 811	$ —

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

1. Description of Business

XOMA Corporation (referred to as "XOMA" or the "Company"), a Delaware corporation, has a long history of discovering and developing innovative therapeutics derived from its unique platform of antibody technologies. The Company has typically sought to license these therapeutic assets to licensees who take on the responsibilities of later stage development, approval and commercialization. In addition, XOMA has licensed antibody technologies on a non-exclusive basis to other companies who desire to access this platform for their own discovery efforts. In 2016, XOMA dedicated its research and development efforts to advancing its portfolio of product candidates that have the potential to treat a variety of endocrine diseases, including advancing the development of X358 for the treatment of congenital hyperinsulinism and hypoglycemia in hyperinsulinemic patients following bariatric surgery. XOMA's strategy has evolved and its current focus is on developing or acquiring revenue generating assets and coupling them with a lean corporate infrastructure. As XOMA's business model is based on the objective of out-licensing assets to other pharmaceutical companies for them to commercialize and market any resultant products, the Company expects that a significant portion of any future revenue will be based on payments it may receive from its licensees.

Going Concern

The Company has incurred operating losses since its inception resulting in an accumulated deficit of $1.2 billion, has a working capital deficiency of $0.6 million and $26.6 million in total outstanding debt at March 31, 2017. Management expects operating losses and negative cash flows to continue for the foreseeable future and, as a result, the Company will require additional capital to fund its operations and execute its business plan. As of March 31, 2017, the Company had $20.0 million in cash and cash equivalents, which is available to fund future operations. Taking into account the repayment of its outstanding debt classified within current liabilities on the Company's condensed consolidated balance sheet as of March 31, 2017, without the receipt of additional funds from license and collaboration agreements or additional equity or debt financing, it will only be able to fund its operations and make scheduled loan payments into January 2018. Therefore, the Company determined there is substantial doubt about its ability to continue as a going concern. The analysis used to determine the Company's ability to continue as a going concern does not include cash sources outside of XOMA's direct control that management expects to be available within the next twelve months.

The Company may not be able to obtain sufficient additional funding through monetizing certain of its existing assets, entering into new license agreements, issuing additional equity or debt instruments or any other means, and if it is able to do so, they may not be on satisfactory terms. The Company's ability to raise additional capital in the equity and debt markets, should the Company choose to do so, is dependent on a number of factors, including, but not limited to, the market demand for the Company's common stock, which itself is subject to a number of pharmaceutical development and business risks and uncertainties, as well as the uncertainty that the Company would be able to raise such additional capital at a price or on terms that are favorable to the Company. Consistent with the actions the Company has taken in the past, including the restructuring in December 2016 and February 2017, it will take steps intended to enable the continued operation of the business which may include out-licensing or sale of assets and reducing other expenditures that are within the Company's control. These reductions in expenditures may have a material adverse impact on the Company's ability to achieve certain of its planned objectives. Even if the Company is able to source additional funding, it may be forced to significantly further reduce its operations if its business prospects do not improve. If the Company is unable to source additional funding, it may be forced to shut down operations altogether. These condensed consolidated financial statements have been prepared on a going concern basis and do not include any adjustments to the amounts and classification of assets and liabilities that may be necessary in the event the Company can no longer continue as a going concern.

Reverse Stock Split

In October 2016, the Company's stockholders voted at a special meeting of stock holders to approve a series of alternate amendments to the Company's Amended Certificate of Incorporation to effect a reverse stock split of the Company's issued and outstanding common stock. The Company's Board of Directors then approved a specific ratio of 1-for-20. The par value per share of the Company's common stock remained at $0.0075. The financial statements have been retroactively adjusted to reflect the reverse stock split for all periods presented.

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 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, 2016, filed with the U.S. Securities and Exchange Commission ("SEC") on March 16, 2017.

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, debt amendments, research and development expense, long-lived assets, restructuring liabilities, legal contingencies, 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 the Company's accrual for clinical trial expenses. 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 bills using NIH provisional rates and thus is subject to future audits at the discretion of NIAID's contracting office. These audits can result in an adjustment to revenue previously reported which potentially could be significant. In March 2016, the Company effected the novation of its remaining active contract with NIAID to Nanotherapeutics, Inc. ("Nanotherapeutics") (see Note 6). The billings made prior to the effective date of the novation of such contract are still subject to future audits, which may result in significant adjustments to reported revenues. The Company's accrual for clinical trials is based on estimates of the services received and efforts expended under contracts with clinical trial centers and clinical research organizations.

Revenue Recognition

Revenue is recognized when the four basic criteria of revenue recognition are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the fee is fixed or determinable; and (4) collectability is reasonably assured. The determination of criteria (2) is based on management's judgments regarding whether a continuing performance obligation exists. The determination of criteria (3) and (4) are based on management's judgments regarding the nature of the fee charged for products or services delivered and the collectability of those fees. Allowances are established for estimated uncollectible amounts, if any.

The Company recognizes revenue from its license and collaboration arrangements, contract services, and royalties. Revenue arrangements with multiple elements are divided into separate units of accounting if certain criteria are met, including whether the delivered element has stand-alone value to the customer and whether there is objective and reliable evidence of the fair value of the undelivered items. Each deliverable in the arrangement is evaluated to determine whether it meets the criteria to be accounted for as a separate unit of accounting or whether it should be combined with other deliverables. In order to account for the multiple-element arrangements, the Company identifies the deliverables included within the arrangement and evaluates which deliverables represent separate units of accounting. Analyzing the arrangement to identify deliverables requires the use of judgment, and each deliverable may be an obligation to deliver services, a right or license to use an asset, or another performance obligation. The consideration received is allocated among the separate units of accounting based on their respective fair values and the applicable revenue recognition criteria are applied to each of the separate units. Advance payments received in excess of amounts earned are classified as deferred revenue until earned.

License and Collaborative Fees

Revenue from non-refundable license, technology access or other payments under license and collaborative agreements where the Company has a continuing obligation to perform is recognized as revenue over the estimated period of the continuing performance obligation. The Company estimates the performance period at the inception of the arrangement and reevaluates it each reporting period. Management makes its best estimate of the period over which it expects to fulfill the performance obligations, which may include clinical development activities. Given the uncertainties of research and development collaborations, significant judgment is required to determine the duration of the performance period. This reevaluation may shorten or lengthen the period over which the remaining revenue is recognized. Changes to these estimates are recorded on a prospective basis.

License and collaboration agreements with certain third parties also provide for contingent payments to be paid to the Company based solely upon the performance of the partner. For such contingent payments, revenue is recognized upon completion of the milestone event, once confirmation is received from the third party, provided that collection is reasonably assured and the other revenue recognition criteria have been satisfied. Milestone payments that are not substantive or that require a continuing performance obligation on the part of the Company are recognized over the expected period of the continuing performance obligation. Amounts received in advance are recorded as deferred revenue until the related milestone is completed.

Payment related to an option to purchase the Company's commercialization rights is considered substantive if, at the inception of the arrangement, the Company is at risk as to whether the collaboration partner will choose to exercise the option. Factors that the Company considers in evaluating whether an option is substantive include the overall objective of the arrangement, the benefit the collaborator might obtain from the arrangement without exercising the option, the cost to exercise the option and the likelihood that the option will be exercised. For arrangements under which an option is considered substantive, the Company does not consider the item underlying the option to be a deliverable at the inception of the arrangement and the associated option fees are not included in allocable arrangement consideration, assuming the option is not priced at a significant and incremental discount. Conversely, for arrangements under which an option is not considered substantive or if an option is priced at a significant and incremental discount, the Company would consider the item underlying the option to be a deliverable at the inception of the arrangement and a corresponding amount would be included in allocable arrangement consideration.

Contract and Other Revenues

Contract revenue for research and development involves the Company providing research and development services to collaborative parties or others. Cost reimbursement revenue under collaborative agreements is recorded as contract and other revenues and is recognized as the related research and development costs are incurred, as provided for under the terms of these agreements. Revenue for certain contracts is accounted for by a proportional performance, or output-based, method where performance is based on estimated progress toward elements defined in the contract. The amount of contract revenue and related costs recognized in each accounting period are based on management's estimates of the proportional performance during the period. Adjustments to estimates based on actual performance are recognized on a prospective basis and do not result in reversal of revenue should the estimate to complete be extended.

Up-front fees associated with contract revenue are recorded as license and collaborative fees and are recognized in the same manner as the final deliverable, which is generally ratably over the period of the continuing performance obligation. Given the uncertainties of research and development collaborations, significant judgment is required to determine the duration of the arrangement.

Royalty revenue and royalty receivables are recorded in the periods these royalty amounts are earned, if estimable and collectability is reasonably assured. The royalty revenue and receivables recorded in these instances are based upon communication with the Company's licensees, historical information and forecasted sales trends.

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 stream and recognizes such deferred revenue as contract and other revenue over the life of the underlying license agreement. The Company recognizes this revenue under the "units-of-revenue" method. Under this 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.

Research and Development Expenses

The Company expenses research and development costs as incurred. Research and development expenses consist of direct costs such as salaries and related personnel costs, and material and supply costs, and research-related allocated overhead costs, such as facilities costs. In addition, research and development expenses include costs related to clinical trials. From time to time, research and development expenses may include up-front fees and milestones paid to collaborative partners for the purchase of rights to in-process research and development. Such amounts are expensed as incurred.

The Company's accrual for clinical trials is based on estimates of the services received and efforts expended under contracts with clinical trial centers and clinical research organizations. The Company may terminate these contracts upon written notice and is generally only liable for actual effort expended by the organizations to the date of termination, although in certain instances the Company may be further responsible for termination fees and penalties. The Company makes estimates of its accrued expenses as of each balance sheet date based on the facts and circumstances known to the Company at that time. Expenses resulting from clinical trials are recorded when incurred, based in part on estimates as to the status of the various trials.

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 valuation of restricted stock units ("RSUs") is determined at the date of grant using the Company's closing stock price.

In January 2017, the Company adopted Accounting Standards Update ("ASU") No. 2016-09,*Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting,* ("ASU 2016-09"). ASU 2016-09 is aimed at the simplification of several aspects of the accounting for employee share-based payment transactions, including accounting for forfeitures, income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Pursuant to the adoption of ASU 2016-09, the Company has made an election to record forfeitures when they occur. Previously, stock-based compensation was based on the number of awards expected to vest after considering estimated forfeitures. The change in accounting principle with regards to forfeitures was adopted using a modified retrospective approach, and no prior periods were restated as a result of this change in accounting principle. The adoption of ASU 2016-09 did not have a material impact on the Company's accumulated deficit and additional paid-in-capital as of January 1, 2017.

Restructuring and Impairment Charges

Restructuring costs are primarily comprised of severance costs related to workforce reductions, contract termination costs and asset impairments. The Company recognizes restructuring charges when the liability has been incurred, except for employee termination benefits that are incurred over time. Generally, employee termination benefits (i.e., severance costs) are accrued at the date management has committed to a plan of termination and employees have been notified of their termination dates and expected severance payments. Key assumptions in determining the restructuring costs include the terms and payments that may be negotiated to terminate certain contractual obligations and the timing of employees leaving the Company. Other costs, including contract termination costs, are recorded when the arrangement is terminated. Asset impairment charges have been, and will be, recognized when management has concluded that the assets have been impaired.

Warrants

The Company has issued warrants to purchase shares of its common stock in connection with financing activities. The Company accounted for some of these warrants as a liability at fair value and others as equity at fair value. The fair value of the outstanding warrants was estimated using the Black-Scholes Model. The Black-Scholes Model required inputs such as the expected term of the warrants, expected volatility and risk-free interest rate. These inputs were subjective and required significant analysis and judgment to develop. For the estimate of the expected term, the Company used the full remaining contractual term of the warrant. The Company determined the expected volatility assumption in the Black-Scholes Model based on historical stock price volatility observed on the Company's underlying stock. The assumptions associated with contingent warrant liabilities were reviewed each reporting period and changes in the estimated fair value of these contingent warrant liabilities were recognized in revaluation of contingent warrant liabilities within the consolidated statements of comprehensive loss.

Net Loss per Share Available to Common Stockholders

Basic net loss per share available to common stockholders is based on the weighted average number of shares of common stock outstanding during the period. Net loss available to common stockholders consists of net loss, as adjusted for the convertible preferred stock deemed dividends related to the beneficial conversion feature on this instrument at issuance. Diluted net loss per share available 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, certain stock options, RSUs, and warrants for common stock. The calculation of diluted loss per share available 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 the warrants and the presumed exercise of such securities are dilutive to earnings (loss) per share available to common stockholders for the period, adjustments to net loss used in the calculation are required to remove the change in fair value of the warrants for the period. Likewise, adjustments to the denominator are required to reflect the related dilutive shares.

Concentration of Risk

Cash equivalents and receivables are financial instruments, which potentially subject the Company to concentrations of credit risk, as well as liquidity risk for certain cash equivalents, such as money market funds. The Company has not encountered any such liquidity issues during 2017.

The Company has not experienced any significant credit losses and does not generally require collateral on receivables. For the three months ended March 31, 2017, two customers represented 58% and 42% of total revenues. For the three months ended March 31, 2016, three customers represented 38%, 27%, and 23% of total revenues. As of March 31, 2017, two customers represented 81% and 14% of the accounts receivable balance. As of December 31, 2016, one customer represented 85% of the accounts receivable balance.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued guidance codified in Accounting Standards Codification ("ASC") 606, *Revenue Recognition — Revenue from Contracts with Customers*, which amends the guidance in ASC 605, *Revenue Recognition*. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued an accounting update to defer the effective date by one year for public entities such that it is now applicable for annual and interim periods beginning after December 15, 2017. Early adoption is permitted for periods beginning after December 15, 2016. ASC 606 also permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the modified retrospective method). The Company is required to adopt the standard on January 1, 2018. A decision regarding the adoption method has not been finalized at this time. The Company's final determination will depend on a number of factors such as the significance of the impact of the new standard on the Company's financial results.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-2 is aimed at making leasing activities more transparent and comparable, and requires substantially all leases be recognized by lessees on their balance sheet as a right-of-use asset and corresponding lease liability, including leases currently accounted for as operating leases. ASU 2016-2 is effective for the Company's interim and annual reporting periods during the year ending December 31, 2019, and all annual and interim reporting periods thereafter. Early adoption is permitted. The Company is evaluating the impact of the adoption of the standard on its consolidated financial statements.

3. Condensed Consolidated Financial Statements Detail

Cash and Cash Equivalents

As of March 31, 2017, cash and cash equivalents consisted of demand deposits of $2.9million and money market funds of $17.2 million with maturities of less than 90 days at the date of purchase. As of December 31, 2016, cash and cash equivalents consisted of demand deposits of $21.5 million and money market funds of $4.2 million with maturities of less than 90 days at the date of purchase.

Property and Equipment, net

Property and equipment, net consisted of the following (in thousands):

	March 31, 2017	December 31, 2016
Equipment and furniture	$ 2,691	$ 14,023
Leasehold improvements	554	554
	3,245	14,577
Less: Accumulated depreciation and amortization	(2,849)	(13,541)
Property and equipment, net	$ 396	$ 1,036

During the three months ended March 31, 2017, the Company completed the sale of equipment located in one of its leased facilities for total proceeds of $1.6 million. Of the $1.6 million, $0.8 million is included in other receivables as of March 31, 2017. The carrying value of the equipment sold was $0.3 million. Accordingly, the Company recorded a gain of $1.3 million on the sale of equipment in the other income (expense), net line of the condensed consolidated statement of comprehensive loss.

Accrued and Other Liabilities

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

	March 31, 2017	December 31, 2016
Accrued payroll and other benefits	$ 123	$ 1,582
Accrued clinical trial costs	394	743
Accrued incentive compensation	203	—
Accrued legal and accounting fees	670	385
Other	783	1,505
Total	$ 2,173	$ 4,215

Net Loss Per Share Available to Common Stockholders

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

	Three Months Ended March 31,	
	2017	2016
Numerator		
Net loss	$ (10,715)	$ (8,365)
Deemed dividend on convertible preferred stock	(5,603)	—
Net loss available to common stockholders, basic and diluted	$ (16,318)	$ (8,365)
Denominator		
Weighted average shares outstanding used for basic and diluted net loss per share available to common stockholders	6,887	5,978

Potentially dilutive securities are excluded from the calculation of diluted net loss 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 per share available to common stockholders (in thousands):

	Three Months Ended March 31,	
	2017	2016
Convertible preferred stock (as converted)	2,446	—
Common stock options and RSUs	653	535
Warrants for common stock	381	911
Total	3,480	1,446

4. Collaborative, Licensing and Other Arrangements

Servier

In December 2010, the Company entered into a license and collaboration agreement ("Collaboration Agreement") with Les Laboratories Servier ("Servier"), to jointly develop and commercialize gevokizumab in multiple indications. Under the terms of the agreement, Servier had worldwide rights to cardiovascular disease and diabetes indications and had rights outside the United States and Japan to all other indications, including non-infectious intermediate, posterior or pan-uveitis, Behçet's disease uveitis, pyoderma gangrenosum, and other inflammatory and oncology indications. Under the Collaboration Agreement, Servier funded all activities to advance the global clinical development and future commercialization of gevokizumab in cardiovascular-related diseases and diabetes. Also, Servier funded the first $50.0 million of gevokizumab global clinical development and chemistry, manufacturing and controls expenses related to the three pivotal clinical trials under the EYEGUARD program. All remaining expenses related to these three pivotal clinical trials were shared equally between Servier and the Company. On September 28, 2015, Servier notified XOMA of its intention to terminate the Collaboration Agreement, as amended in January 2015, and return the gevokizumab rights to XOMA. The termination, which became effective on March 25, 2016, did not result in a change to the maturity date of the Company's loan with Servier (see Note 8). As the Company was no longer required to provide services to Servier under the Collaboration Agreement, the Company recognized all remaining deferred revenue of $0.6 million from the date of notification to March 25, 2016.

For the three months ended March 31, 2017 and 2016, the Company recorded revenue of zero and $0.3 million, respectively, from this Collaboration Agreement.

NIAID

In October 2011, the Company announced that NIAID had awarded the Company a new contract under Contract No. HHSN272201100031C (the "NIAID Contract") for up to $28.0 million over five years to develop broad-spectrum antitoxins for the treatment of human botulism poisoning. The contract work was being performed on a cost-plus-fixed-fee basis over the life of the contract and the Company was recognizing revenue under the arrangement as the services were performed on a proportional-performance basis.

In March 2016, the Company effected a novation of the NIAID Contract to Nanotherapeutics. The novation was effected upon obtaining government approval to transfer the NIAID Contract to Nanotherapeutics pursuant to the asset purchase agreement executed in November 2015 (see Note 6). The Company recognized revenue of zero and $1.1 million under this contract for the three months ended March 31, 2017 and 2016, respectively.

Pfizer

In August 2005, the Company entered into a license agreement with Wyeth (subsequently acquired by Pfizer, Inc. ("Pfizer")) for non-exclusive, worldwide rights for certain of XOMA's patented bacterial cell expression technology for vaccine manufacturing. Under the terms of this agreement, the Company received a milestone payment in November 2012 relating to TRUMENBA®, a meningococcal group B vaccine marketed by Pfizer. The Company received a fraction of a percentage of sales of TRUMENBA as royalties. The Company's right to royalties expires on a country-by-country basis upon the expiration of the last-to-expire licensed patent. As discussed below under Sale of Future Revenue Streams, the Company sold its right to receive milestones and royalties on future sales of products to HealthCare Royalty Partners II, L.P. ("HCRP") in connection with the Royalty Interest Acquisition Agreement entered into in December 2016.

Sale of Future Revenue Streams

On December 21, 2016, the Company entered into two Royalty Interest Acquisition Agreements (together, the "Acquisition Agreements") with HCRP. Under the first Acquisition 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 (now 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 are met in 2017, 2018 and 2019. Under the second Acquisition Agreement, the Company sold all rights to 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 deferred revenue, to be recognized as contract and other revenue 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 a litigation or 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 deferred revenue. The Company allocated the total proceeds between the two Acquisition Agreements based on the relative fair value of expected payments to be made to HCRP under the license agreements. The deferred revenue is being recognized as contract and other 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. The Company recognized $0.1 million as contract and other revenue under these arrangements during the three months ended March 31, 2017. As of March 31, 2017, the current and non-current portion of the remaining deferred revenue was $0.5 million and $17.4 million, respectively. As of December 31, 2016, the Company classified the $18.0 million as non-current deferred revenue.

5. 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 and cash equivalents, trade receivables 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, 2017 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Money market funds (1)	$ 17,175	$ —	$ —	$ 17,175

	Fair Value Measurements at December 31, 2016 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Money market funds (1)	$ 4,161	$ —	$ —	$ 4,161

(1) Included in cash and cash equivalents

During the three-month period ended March 31, 2017, there were no transfers between Level 1, Level 2, or Level 3 assets or liabilities reported at fair value on a recurring basis and the valuation techniques used did not change compared to the Company's established practice.

The estimated fair value of the Company's outstanding interest-bearing obligations 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 interest-bearing obligations at March 31, 2017, and December 31, 2016, are as follows (in thousands):

	March 31, 2017		December 31, 2016	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Hercules term loan	$ —	$ —	$ 16,850	$ 16,453
Novartis note	14,085	13,892	14,086	13,836
Servier loan	12,544	12,541	12,231	12,242
Total	$ 26,629	$ 26,433	$ 43,167	$ 42,531

6. Disposition

On November 4, 2015, XOMA and Nanotherapeutics entered into an asset purchase agreement under which Nanotherapeutics agreed to acquire XOMA's biodefense business and related assets (including, subject to government approval, certain contracts with the U.S. government), and to assume certain liabilities of XOMA. As part of the transaction, the parties entered into an intellectual property license agreement (the "Nanotherapeutics License Agreement"), under which XOMA agreed to license to Nanotherapeutics certain intellectual property rights related to the purchased assets. Under the Nanotherapeutics License Agreement, the Company is eligible to receive contingent consideration up to a maximum of $4.5 million in cash and 23,008 shares of common stock of Nanotherapeutics, based upon Nanotherapeutics achieving certain specified future operational objectives. In addition, the Company is eligible to receive 15% royalties on net sales of any future Nanotherapeutics products covered by or involving the related patents or know-how.

On March 17, 2016, the Company effected a novation of the NIAID Contract to Nanotherapeutics. On March 23, 2016, the Company completed the transfer of the NIAID Contract and certain related third-party service contracts and materials, and the grant of exclusive and non-exclusive licenses for certain of its patents and general know-how to Nanotherapeutics. The Company believes that the NIAID Contract and certain related third-party service contracts and materials related to the biodefense program transferred to Nanotherapeutics include a sufficient number of key inputs and processes necessary to generate output from a market participant's perspective. Accordingly, the Company has determined that such assets qualify as a business. The transaction had no impact on the Company's consolidated financial statements as of, and for the year ended, December 31, 2016.

In February 2017, the Company executed an Amendment and Restatement to both the asset purchase agreement and Nanotherapeutics License Agreement primarily to (i) remove Nanotherapeutics' obligation to issue 23,008 shares to the Company of its common stock under the asset purchase agreement, and (ii) revise the payment schedule related to the timing of the $4.5 million cash payments due to the Company under the Nanotherapeutics License Agreement. Of the $4.5 million, $3.0 million is contingent upon Nanotherapeutics achieving certain specified future operating objectives. As of March 31, 2017, based on the payment terms pursuant to the amended Nanotherapeutics License Agreement, the Company was entitled to receive $1.6 million. Of the $1.6 million, the Company received $150,000 in March 2017, which was recognized as other income in the condensed consolidated statement of comprehensive loss. As the amended Nanotherapeutics License Agreement involves extended payment terms, the remaining $1.5 million, due in quarterly installments through September 2018 will be recognized as other income as the payments are received.

7. Restructuring Charges

On December 19, 2016, the Board of Directors approved a restructuring of its business based on its decision to focus the Company's efforts on clinical development, with an initial focus on the X358 clinical programs. The restructuring included a reduction-in-force in which the Company terminated 57 employees (the "2016 Restructuring"). In addition, effective December 21, 2016, the Company's Chief Executive Officer retired from his position. In early 2017, the Company further revised its strategy to prioritize out-licensing activities and further curtail research and development spending (the "2017 Restructuring"), and the Company expects to eliminate five additional employees with an effective termination date of June 30, 2017.

During the three months ended March 31, 2017, the Company recorded charges of $0.5 million and $1.5 million related to severance, other termination benefits and outplacement services in connection with the workforce reductions resulting from the 2017 Restructuring and 2016 Restructuring, respectively. In the first quarter of 2017, the Company paid a total of $3.8 million associated with the 2017 Restructuring and 2016 Restructuring activities. Of the remaining accrued restructuring of $1.8 million, the Company expects to pay $1.0 million in the second quarter of 2017 and the remaining $0.8 million related to executive severance will continue to be paid through March 2018.

The following table summarizes the accrued restructuring costs on the condensed consolidated balance sheet as of March 31, 2017 (in thousands):

	Employee Severance and Other Benefits
Balance at December 31, 2016	$ 3,594
Restructuring charges	2,020
Cash payments	(3,821)
Balance at March 31, 2017	$ 1,793

8. Long-Term Debt

Novartis Note

In May 2005, the Company executed a secured note agreement (the "Note Agreement") with Novartis AG ("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 3.32% at March 31, 2017 and 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. Pursuant to the terms of the arrangement as restructured in November 2008, the Company did not make any additional borrowings under the Novartis note.

In June 2015, the Company and Novartis Vaccines and Diagnostics, Inc. ("NVDI") agreed to extend the maturity date of the Note Agreement from June 21, 2015, to September 30, 2015 (the "June 2015 Extension Letter"). On September 30, 2015, concurrent with the execution of a license agreement with Novartis International Pharmaceutical Ltd., XOMA and NVDI executed an amendment to the June 2015 Extension Letter (the "Secured Note Amendment") under which the parties further extended the maturity date of the June 2015 Extension Letter 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. All other terms of the original Note Agreement remain unchanged.

As of March 31, 2017 and December 31, 2016, the outstanding principal balance under this Secured Note Amendment was $14.1 million and $14.1 million, respectively, and was included in interest bearing obligations – non-current in the accompanying consolidated balance sheets.

Servier Loan Agreement

In December 2010, in connection with the Collaboration Agreement entered into with Servier, the Company executed a loan agreement with Servier (the "Servier Loan Agreement"), which provided for an advance of up to €15.0 million. The loan was fully funded in January 2011, with the proceeds converting to approximately $19.5 million. The loan is secured by an interest in XOMA's intellectual property rights to gevokizumab and its use in indications worldwide, excluding certain rights in the U.S. and Japan. Interest is calculated at a floating rate based on a Euro Inter-Bank Offered Rate ("EURIBOR") and subject to a cap. The interest rate is reset semi-annually in January and July of each year. Interest for the six-month period from mid-July 2016 through mid-January 2017 was reset to 1.81%. Interest for the six-month period from mid-January 2017 through mid-July 2017 was reset to 1.77%. Interest is payable semi-annually.

On January 9, 2015, Servier and the Company entered into Amendment No. 2 ("Loan Amendment") to the Servier Loan Agreement initially entered into on December 30, 2010 and subsequently amended by a Consent, Transfer, Assumption and Amendment Agreement entered into as of August 12, 2013. The Loan Amendment extended the maturity date of the loan from January 13, 2016 to three tranches of principal to be repaid as follows: €3.0 million on January 15, 2016, €5.0 million on January 15, 2017, and €7.0 million on January 15, 2018. All other terms of the Servier Loan Agreement remained unchanged. The loan will be immediately due and payable upon certain customary events of default. In January 2016, the Company made payments of €3.0 million in principal and €0.2 million in accrued interest to Servier.

In January 2017, the Company entered into Amendment No. 3 to the Servier Loan Agreement. Amendment No. 3 extended the maturity date of the portion of the loan equal to €5.0 million due on January 15, 2017 to July 15, 2017. The other terms of the loan remained unchanged. The Company determined that Amendment No. 3 resulted in a debt modification. As a result, the loan will continue to be accounted for using the effective interest method, with a new effective interest rate based on revised cash flows calculated on a prospective basis upon the execution of the Amendment No. 3.

Upon initial issuance, the loan had a stated interest rate lower than the market rate based on comparable loans held by similar companies, which represents additional value to the Company. The Company recorded this additional value as a discount to the carrying value of the loan amount, at its fair value of $8.9 million. The fair value of this discount, which was determined using a discounted cash flow model, represents the differential between the stated terms and rates of the loan, and market rates. Based on the association of the loan with the Collaboration Agreement, the Company recorded the offset to this discount as deferred revenue.

The loan discount was amortized to interest expense under the effective interest method over the remaining life of the loan. The loan discount balance at the time of the Loan Amendment was $1.9 million, which was being amortized over the remaining term of the Loan Amendment. The loan discount balance at the time of Amendment No. 3 was $0.4 million, which is being amortized over the remaining term of the loan. The Company recorded non-cash interest expense resulting from the amortization of the loan discount of $0.1 million and $0.2 million, for the three months ended March 31, 2017 and 2016, respectively. At March 31, 2017 and December 31, 2016, the net carrying value of the loan was $12.5 million and $12.2 million, respectively. For the three months ended March 31, 2017 and 2016, the Company recorded unrealized foreign exchange gains of $6,000 and $38,000, respectively, related to the re-measurement of the loan discount.

The outstanding principal balance under this loan was $12.8 million and $12.6 million, using a euro to US dollar exchange rate of 1.068 and 1.052, as of March 31, 2017 and December 31, 2016, respectively. The Company recorded unrealized foreign exchange losses of $0.2 million and $0.5 million for the three months ended March 31, 2017 and 2016, respectively, related to the re-measurement of the loan.

Hercules Term Loan

On February 27, 2015, the Company entered into a Loan and Security Agreement with Hercules Technology Growth Capital, Inc. (the "Hercules Term Loan"). The Hercules Term Loan had a variable interest rate that was the greater of either (i) 9.40% plus the prime rate as reported from time to time in The Wall Street Journal minus 7.25%, or (ii) 9.40%. The payments under the Hercules Term Loan were interest only until June 1, 2016. The interest-only period was followed by equal monthly payments of principal and interest amortized over a 30-month schedule through the scheduled maturity date of September 1, 2018. As security for its obligations under the Hercules Term Loan, the Company granted a security interest in substantially all of its existing and after-acquired assets, excluding its intellectual property assets.

The Hercules Term Loan included customary affirmative and restrictive covenants, but did not include any financial maintenance covenants, and also included standard events of default, including payment defaults. Upon the occurrence of an event of default, a default interest rate of an additional 5% may have been applied to the outstanding loan balances, and Hercules may have declared all outstanding obligations immediately due and payable and taken such other actions as set forth in the Hercules Term Loan.

The Company incurred debt issuance costs of $0.5 million in connection with theHercules Term Loan. The Company was required to pay a final payment fee equal to $1.2 million on the maturity date, or such earlier date as the term loan was paid in full. The debt issuance costs and final payment fee were being amortized and accreted, respectively, to interest expense over the term of the loan using the effective interest method. The Company recorded non-cash interest expense resulting from the amortization of the debt issuance costs and accretion of the final payment of $0.2 million and $0.2 million for the three months ended March 31, 2017 and 2016, respectively.

As of December 31, 2016, the outstanding principal balance of the Hercules Term Loan was $17.5 million, and the net carrying value was $16.9 million.

On March 21, 2017, the Hercules Term Loan was paid in full and the Company was not required to pay the 1% prepayment charge due pursuant to the terms of the loan. A loss on extinguishment of $0.5 million from the payoff of the Hercules Term Loan was recognized in the condensed consolidated statement of comprehensive loss during the three months ended March 31, 2017.

In connection with the Hercules Term Loan, the Company issued unregistered warrants that entitle Hercules to purchase up to an aggregate of 9,063 unregistered shares of XOMA common stock at an exercise price equal to $66.20 per share. These warrants were exercisable immediately and have a five-year term expiring in February 2020. The Company allocated the aggregate proceeds of the Hercules Term Loan between the warrants and the debt obligation. The estimated fair value of the warrants issued to Hercules of $0.5 million was determined using the Black-Scholes Model and was recorded as a discount to the debt obligation. The debt discount was being amortized over the term of the loan using the effective interest method. The warrants are classified in stockholders' deficit on the condensed consolidated balance sheets. As of March 31, 2017, all of these warrants were outstanding.

Payments of Interest Bearing Obligations

Aggregate future principal and discounts of the Company's total interest bearing obligations as of March 31, 2017, are as follows (in thousands):

Nine months ending December 31, 2017	$ 5,454
Year ending December 31, 2018	7,545
Year ending December 31, 2019	—
Year ending December 31, 2020	15,980
	28,979
Less: interest, discount and issuance cost	(2,350)
	26,629
Less: interest bearing obligations – current	(12,544)
Interest bearing obligations – non-current	$ 14,085

Interest Expense

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

	Three Months Ended March 31,	
	2017	2016
Hercules term loan	$ 311	$ 672
Servier loan	177	226
Novartis note	117	97
Other	4	7
Total interest expense	$ 609	$ 1,002

9. Common Stock Warrants

As of March 31, 2017 and December 31, 2016, the following common stock warrants were outstanding:

Issuance Date	Expiration Date	Balance Sheet Classification	Exercise Price per Share	March 31, 2017	December 31, 2016
March 2012	March 2017	Contingent warrant liability	$ 35.20	—	479,277
September 2012	September 2017	Stockholders' deficit	$ 70.80	1,967	1,967
February 2015	February 2020	Stockholders' deficit	$ 66.20	9,063	9,063
February 2016	February 2021	Stockholders' deficit	$ 15.40	8,249	8,249
				19,279	498,556

In March 2012, in connection with an underwritten offering, the Company issued five-year warrants to purchase 741,729 shares of the Company's common stock at an exercise price of $35.20 per share. These warrants contained provisions that were contingent on the occurrence of a change in control, which could conditionally obligate the Company to repurchase the warrants for cash in an amount equal to their estimated fair value using the Black-Scholes Model on the date of such change in control. Due to these provisions, the Company accounted for the warrants issued in March 2012 as a liability at estimated fair value. In addition, the estimated fair value of the liability related to the warrants was revalued at each reporting period until the earlier of the exercise of the warrants, at which time the liability would be reclassified to stockholders' equity at its then estimated fair value, or expiration of the warrants. In March 2017, all of these warrants expired unexercised.

10. Legal Proceedings, Commitments and Contingencies

Collaborative Agreements, Royalties and Milestone Payments

The Company has committed to make potential future "milestone" payments 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. Because it is uncertain if and when these milestones will be achieved, such contingencies, aggregating up to $15.5 million (assuming one product per contract meets all milestones events) have not been recorded on the accompanying 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.

Legal Proceedings

On July 24, 2015, a purported securities class action lawsuit was filed in the United States District Court for the Northern District of California, captioned*Markette v. XOMA Corp., et al.* (Case No. 3:15-cv-3425) against the Company, its Chief Executive Officer and its Chief Medical Officer. The complaint asserts that all defendants violated Section 10(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and SEC Rule 10b-5, by making materially false or misleading statements regarding the Company's EYEGUARD-B study between November 6, 2014 and July 21, 2015. The plaintiff also alleges that Messrs. Varian and Rubin violated Section 20(a) of the Exchange Act. The plaintiff seeks class certification, an award of unspecified compensatory damages, an award of reasonable costs and expenses, including attorneys' fees, and other further relief as the Court may deem just and proper. On May 13, 2016, the Court appointed a lead plaintiff and lead counsel. The lead plaintiff filed an amended complaint on July 8, 2016 asserting the same claims and adding a former director as a defendant. On September 2, 2016, defendants filed a motion to dismiss with prejudice the amended complaint. Plaintiff filed his opposition to the motion to dismiss on October 7, 2016. Defendants filed a reply on October 21, 2016. The judge in the case has advised that he will rule on the motion based on those pleadings, but has not yet issued a ruling. Based on a review of allegations, the Company believes that the plaintiff's allegations are without merit, and intends to vigorously defend against the claims. Currently, the Company does not believe that the outcome of this matter will have a material adverse effect on its business or financial condition, although an unfavorable outcome could have a material adverse effect on its results of operations for the period in which such a loss is recognized. The Company cannot reasonably estimate the possible loss or range of loss that may arise from this lawsuit.

On October 1, 2015, a stockholder purporting to act on the behalf of the Company, filed a derivative lawsuit in the Superior Court of California for the County of Alameda, purportedly asserting claims on behalf of the Company against certain of officers and the members of Board of Directors of the Company, captioned *Silva v. Scannon, et al.* (Case No. RG15787990). The lawsuit asserts claims for breach of fiduciary duty, corporate waste and unjust enrichment based on the dissemination of allegedly false and misleading statements related to the Company's EYEGUARD-B study. The plaintiff is seeking unspecified monetary damages and other relief, including reforms and improvements to the Company's corporate governance and internal procedures. This action is currently stayed pending further developments in the securities class action. Management believes the allegations have no merit and intends to vigorously defend against the claims. Currently, the Company does not believe that the outcome of this matter will have a material adverse effect on its business or financial condition, although an unfavorable outcome could have a material adverse effect on its results of operations for the period in which such a loss is recognized. The Company cannot reasonably estimate the possible loss or range of loss that may arise from this lawsuit.

On November 16 and November 25, 2015, two derivative lawsuits were filed purportedly on the Company's behalf in the United States District Court for the Northern District of California, captioned *Fieser v. Van Ness, et al.* (Case No. 4:15-CV-05236-HSG) and *Csoka v. Varian, et al.* (Case No. 3:15-cv-05429-SI), against certain of the Company's officers and the members of its Board of Directors. The lawsuits assert claims for breach of fiduciary duty and other violations of law based on the dissemination of allegedly false and misleading statements related to the Company's EYEGUARD-B study. Plaintiffs seek unspecified monetary damages and other relief including reforms and improvements to the Company's corporate governance and internal procedures. Both actions are currently stayed pending further developments in the securities class action. Management believes the allegations have no merit and intends to vigorously defend against the claims. Currently, the Company does not believe that the outcome of this matter will have a material adverse effect on its business or financial condition, although an unfavorable outcome could have a material adverse effect on its results of operations for the period in which such a loss is recognized. The Company cannot reasonably estimate the possible loss or range of loss that may arise from this lawsuit.

11. Stock-based Compensation

The Company grants 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

The stock options generally vest monthly over four 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, 2017 and 2016, was estimated based on the following weighted average assumptions:

	Three Months Ended March 31,	
	2017	2016
Dividend yield	0 %	0 %
Expected volatility	100 %	106 %
Risk-free interest rate	1.95 %	1.27 %
Expected term	5.6 years	5.6 years

Stock option activity for the three months ended March 31, 2017, was as follows:

	Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2017	568,292	$ 77.70		
Granted	15,222	4.67		
Forfeited, expired or cancelled	(23,813)	140.84		
Outstanding at March 31, 2017	559,701	$ 73.03	6.92	$ 363
Exercisable at March 31, 2017	317,119	$ 119.38	4.99	$ 3

In February 2017, the Board of Directors approved a grant of 1,018,000 stock options to members of the board, executives, and non-executive employees, subject to approval by the Company's stockholders of an increase in the available shares under the Amended and Restated 2010 Long Term Incentive and Stock Award Plan at the 2017 Annual Meeting of Stockholders.

Restricted Stock Units

RSUs generally vest annually over three years for employees and one year for directors. RSUs 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 valuation of RSUs is determined at the date of grant using the closing stock price.

RSU activity for the three months ended March 31, 2017, is summarized below:

	Number of Shares	Weighted-Average Grant-Date Fair Value
Unvested at January 1, 2017	91,228	$ 39.82
Granted	11,799	$ 4.67
Vested	(53,300)	$ 37.88
Forfeited	(15,040)	$ 42.49
Unvested at March 31, 2017	34,687	$ 29.69

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 comprehensive loss (in thousands):

	Three Months Ended March 31,	
	2017	2016
Research and development	$ 441	$ 1,137
General and administrative	559	1,169
Total stock-based compensation expense	$ 1,000	$ 2,306

12. Capital Stock

Biotechnology Value Fund Financing

In February 2017, the Company sold 1,200,000 shares of its common stock and 5,003 shares of Series X convertible preferred stock directly to Biotechnology Value Fund, L.P. and certain of its affiliates ("BVF") in a registered direct offering, for aggregate net cash proceeds of $24.9 million.

BVF purchased the shares of common stock from the Company at a price of $4.03 per share, the closing stock price on the date of purchase. Each share of Series X convertible preferred stock has a stated value of $4,030 per share and is convertible into 1,000 shares of registered common stock based on a conversion price of $4.03 per share of common stock. The total number of shares of common stock issued upon conversion of all issued Series X convertible preferred stock will be 5,003,000 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 is initially set at 19.99% of the total common stock then issued and outstanding immediately following the conversion of such shares. As of March 31, 2017, BVF owned approximately 19.8% of the Company's total outstanding shares, and if all of the Series X convertible preferred shares were converted, BVF would own 51.7% of the Company's total outstanding common shares. As of March 31, 2017, none of the preferred stock has been converted into shares of the Company's common stock.

The designations, preferences, rights and limitations of the convertible preferred shares are set forth in a Certificate of Designation of Preferences, Rights and Limitations of Series X convertible preferred stock filed with the Delaware Secretary of State. Shares of Series X 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 Series X convertible preferred stock will be required to amend the terms of the Series X preferred stock and to approve certain corporate actions. In the event of the Company's liquidation, dissolution or winding up, holders of Series X convertible preferred stock will participate, on a pro-rata basis, with any distribution of proceeds to holders of common stock. Holders of Series X convertible preferred stock are entitled to receive dividends on shares of Series X 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 or other junior securities.

The Company evaluated the Series X convertible preferred stock for liability or equity classification under the applicable accounting guidance, anddetermined that equity treatment was appropriate because the Series X convertible preferred stock did not meet the definition of the liability instruments defined thereunder for convertible instruments. Specifically, the Series X 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 Series X convertible preferred stock would be recorded as permanent equity, not temporary equity, based on the relevant guidance 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 redemption features within the Series X convertible preferred stock in accordance with the accounting guidance for derivatives. Based on this assessment, the Company determined that the conversion option is clearly and closely related to the equity host, and thus, bifurcation is not required. The contingent redemption feature was determined to not be clearly and closely related to the equity-like host; however, it met the criteria as a scope exception for derivative accounting. Therefore, the contingent redemption feature was also not bifurcated from the Series X convertible preferred stock.

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.

ATM Agreements

On November 12, 2015, the Company entered into an At Market Issuance Sales Agreement (the "2015 ATM Agreement") with Cowen and Company, LLC ("Cowen"), under which the Company may offer and sell from time to time at its sole discretion shares of its common stock through Cowen as its sales agent, in an aggregate amount not to exceed $75 million. Cowen 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, including without limitation sales made directly on The NASDAQ Global Market, on any other existing trading market for the Company's common stock or to or through a market maker. Cowen also may sell the shares in privately negotiated transactions, subject to the Company's prior approval. The Company will pay Cowen a commission equal to 3% of the gross proceeds of the sales price of all shares sold through it as sales agent under the 2015 ATM Agreement. For the three months ended March 31, 2017, the Company sold a total of 110,252 shares of common stock under the ATM Agreement for aggregate gross proceeds of $0.6 million. Total offering costs of $0.2 million were offset against the proceeds upon sale of common stock.

13. Subsequent Events

On April 20, 2017, the Company received notice from Novo Nordisk A/S regarding the termination of its Exclusive License Agreement with the Company (the "License Agreement") due to strategic and business reasons. The termination of the License Agreement will be effective 90 days from April 20, 2017 in accordance with Section 10.2 of the License Agreement. There was no financial impact resulting from the termination of the License Agreement with Novo Nordisk A/S.

On March 22, 2017, the Company received a notice from the Listing Qualifications Staff of The NASDAQ Stock Market LLC (the "Staff") that the Company was not in compliance with the $50 million in total assets and total revenue standard for continued listing on the NASDAQ Global Market under NASDAQ's Listing Rule 5450(b)(3)(A) and that the Company also did not comply with either of the two alternative standards of Listing Rule 5450(b), the equity standard and the market value standard. On May 2, 2017, the Staff informed the Company that, following ten consecutive business days where the market value of the Company's listed securities were $50 million or greater, the Company was in compliance with the NASDAQ Listing Rule 5450(b)(2)(A) and will continue to be listed on the NASDAQ Global Market.

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: the sufficiency of our cash resources, our future operating expenses, our future losses, our future expenditures for research and development, the implications of interim or final results of our clinical trials, the progress of our research programs, including clinical testing, the extent to which our issued and pending patents may protect our products and technology, our ability to identify new product candidates, the potential of such product candidates to lead to the development of commercial products, our anticipated timing for initiation or completion of our clinical trials for any of our product candidates, our ability to receive potential milestone or royalty payments under collaboration agreements and the timing of receipt of those payments, the timing and adequacy of cost-cutting measures, and our ability to defend against claims that have been made in litigation. These statements are based on assumptions that may not prove accurate. Actual results could differ materially from those anticipated due to certain risks inherent in the biotechnology industry and for companies engaged in the development of new products in a regulated market. Among other things: our product candidates are still being developed, and we will require substantial funds to continue development which may not be available; we may not realize the expected benefits of our cost-saving initiatives; we may not be successful in entering into out-license agreements for our product candidates; we have received negative results from certain of our clinical trials, and we face uncertain results of other clinical trials of our product candidates; if our therapeutic product candidates do not receive regulatory approval, neither our third-party licensees, our contract manufacturers nor we will 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; we may not obtain orphan drug exclusivity or we may not receive the full benefit of orphan drug exclusivity even if we obtain such exclusivity; 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, 2016.

Overview

XOMA Corporation ("XOMA"), a Delaware corporation, has a long history of discovering and developing innovative therapeutics derived from its unique platform of antibody technologies. We have typically sought to license these therapeutic assets to our licensees who take on the responsibilities of later stage development, approval and commercialization. In addition, we have licensed our antibody technologies on a non-exclusive basis to other companies who desire to access this platform for their own discovery efforts.

In 2016, we dedicated our research and development efforts to advancing our portfolio of product candidates that have the potential to treat a variety of endocrine diseases, including advancing the development of X358 for the treatment of congenital hyperinsulinism ("CHI") and hypoglycemia in hyperinsulinemic patients post-bariatric surgery ("PBS"). Our strategy has evolved and our current focus is todevelop or acquire revenue-generating assets and couple the revenue with a lean corporate infrastructure to create a sustainably profitable business, with the goal to generate meaningful value for our stockholders. Since our business model isbased on the objective of out-licensing our assets to other pharmaceutical companies for them to commercialize and market any resultant products, we expectthat a significant portion of any future revenue will be based on payments we may receive from our licensees.

Recent Business Developments

Equity Financing

In February 2017, we sold 1,200,000 shares of our common stock and 5,003 shares of Series X convertible preferred stock directly to Biotechnology Value Fund, L.P. and certain of its affiliates ("BVF") in a registered direct offering, for aggregate net proceeds of $24.9 million. BVF purchased the shares of our common stock at a price of $4.03 per share, the closing stock price on the date of purchase. Each share of Series X convertible preferred stock has a stated value of $4,030 per share and is convertible into 1,000 shares of registered common stock based on a conversion price of $4.03 per share of common stock. The total number of shares of common stock issued upon conversion of all issued Series X convertible preferred stock will be 5,003,000 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 is initially set at 19.99% of the total common stock then issued and outstanding immediately following the conversion of such shares.

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 we recorded a deemed dividend. We 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.

Hercules Term Loan

On March 21, 2017, we paid off our outstanding principal balance, final payment fee and accrued interest amounts totaling $6.5 million under our loan and security agreement with Hercules Technology Growth Capital, Inc. ("Hercules").

Servier Loan Amendment

In January 2017, we entered into Amendment No. 3 to the loan agreement with Les Laboratories Servier ("Servier Loan"). Amendment No. 3 extended the maturity date of the portion of the loan equal to €5.0 million due on January 15, 2017 to July 15, 2017. The other terms of the loan remained unchanged.

Asset Purchase Agreement and License Agreement with Nanotherapeutics, Inc.

In February 2017, we executed an Amendment and Restatement to both the asset purchase agreement and license agreement with Nanotherapeutics, Inc. ("Nanotherapeutics") primarily to (i) remove the obligation to issue 23,008 shares of common stock of Nanotherapeutics under the asset purchase agreement, and (ii) revise the payment schedule related to the timing of the $4.5 million cash payments due to us under the license agreement. Of the $4.5 million, $3.0 million is contingent upon Nanotherapeutics achieving certain specified future operating objectives. In March 2017, we received $150,000, which was recognized as other income in the condensed consolidated statement of comprehensive loss. As the amended Nanotherapeutics license agreement involves extended payment terms, the remaining $1.5 million due in quarterly installments through September 2018 will be recognized as other income as the payments are received.

Termination of Novo Nordisk A/S License Agreement

On April 20, 2017, the Company received notice from Novo Nordisk A/S regarding the termination of its Exclusive License Agreement with the Company (the "License Agreement") due to strategic and business reasons. The termination of the License Agreement will be effective 90 days from April 20, 2017 in accordance with Section 10.2 of the License Agreement.

Certain Factors Important to Understanding Our Financial Condition and Results of Operations

We have historically specialized in the discovery and development of innovative antibody-based therapeutics. In 2016, we dedicated our research and development efforts to advancing our portfolio of product candidates that have the potential to treat a variety of endocrine diseases, including advancing the development of X358 in congenital hyperinsulinism ("CHI") and hypoglycemia in hyperinsulinemic patients post-bariatric surgery ("PBS"). We have recently refined our business strategy to prioritize out-licensing of our internally developed product candidates while reducing further internal expenditures for research and development. Our long-term prospects depend upon our ability, and the ability of our partners, to successfully commercialize new therapeutics. Our financial performance is driven by many factors and is subject to the risks set forth in Part II, Item 1A - Risk Factors.

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, research and development expense, contingent warrant liabilities, and stock-based compensation to be critical policies. There have been no significant changes in our critical accounting policies during the three months ended March 31, 2017, as compared with those previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016, filed with the SEC on March 16, 2017.

Results of Operations

Revenues

Total revenues for the three months ended March 31, 2017 and 2016, were as follows (in thousands):

	Three Months Ended March 31,		Increase
	2017	2016	(Decrease)
License and collaborative fees	$ 150	$ 2,491	$ (2,341)
Contract and other	110	1,471	(1,361)
Total revenues	$ 260	$ 3,962	$ (3,702)

License and Collaborative Fees

License and collaborative fees include fees and milestone payments related to the out-licensing of our product candidates and technologies. The decrease in license and collaborative fee revenue for the three months ended March 31, 2017, as compared to the same period of 2016, was due to a $1.5 million license fee recognized in March 2016, for which there was not a comparable license fee recognized in 2017, and a $0.6 million decrease in revenue related to the collaboration agreement with Servier, which was terminated in March 2016.

Contract and Other Revenues

Contract and other revenues include agreements where we provided contracted research and development services to our contract and collaboration partners, including Servier and NIAID. Contract and other revenues also include royalties. The following table shows the activity in contract and other revenues for the three months ended March 31, 2017 and 2016 (in thousands):

	Three Months Ended March 31,		Increase
	2017	2016	(Decrease)
NIAID	$ —	$ 1,058	$ (1,058)
Servier	—	307	$ (307)
Royalties and other revenue	110	106	4
Total contract and other revenues	$ 110	$ 1,471	$ (1,361)

Our revenue from NIAID decreased for the three months ended March 31, 2017 due to the novation of our NIAID contract to Nanotherapeutics in March 2016. The decrease in revenue from Servier for the three months ended March 31, 2017 was due to the discontinuation of the gevokizumab studies under our collaboration agreement with Servier in the third quarter of 2015 and the termination of the collaboration agreement with Servier in March 2016. The royalty revenue for the three months ended March 31, 2017 relates to the amortization of the deferred revenue from the sale of royalty interests in December 2016 under the Acquisition Agreements.

The generation of future revenues related to licenses, milestones, and royalties is dependent on our ability to attract new licensees to our antibody technologies, and the achievement of milestones or product sales by our existing licensees. Due to the termination of our collaboration agreement with Servier and the novation of our contract with NIAID to Nanotherapeutics in March 2016, we do not anticipate significant future contract revenues.

Research and Development Expenses

Research and development expenses were $4.0 million for the three months ended March 31, 2017, compared with $13.6 million for the same period in 2016. The decrease of $9.6 million for the three months ended March 31, 2017, as compared to the same period of 2016, was primarily due to a decrease of $3.5 million in salaries and related expenses, $3.2 million in clinical trial costs, and a decrease of $1.7 million in external manufacturing activities.

Salaries and related personnel costs are a significant component of research and development expenses. We recorded $1.0 million in research and development salaries and employee-related expenses for the three months ended March 31, 2017, as compared with $4.5 million for the same period in 2016. The decrease of $3.5 million for the three months ended March 31, 2017 was primarily due to a $2.8 million decrease in salaries and related personnel costs, primarily due to the restructuring activities initiated in December 2016 and the resulting decrease in headcount, and a $0.7 million decrease in stock-based compensation, which is a non-cash expense.

As our strategy has changed, so has our research and development spending activity. For the first three months of 2016, approximately 36% of our research and development expense spending related to collaborative and contract arrangements with Servier and NIAID with the remaining 64% relating to our internal projects; whereas 100% of our research and development spending for the first three months of 2017 related to our internal projects.

For the three months ended March 31, 2017, X358, for which we incurred the largest amount of expenses, accounted for between 70% and 80% of our total research and development expenses and a second program, X213, accounted for between 10% and 20% of our total research and development expenses. Each of our remaining development programs accounted for less than 10% of our total research and development expenses for the three months ended March 31, 2017. For the three months ended March 31, 2016, gevokizumab, X358 and our endocrine research-stage programs each accounted for between 20% and 30% of our total research and development expenses. All remaining development programs accounted for less than 10% of our total research and development expenses for the three months ended March 31, 2016.

We expect our research and development spending during the remainder of 2017 will be reduced as compared with 2016 levels due to our 2016 restructuring activities and further research and development reductions planned for 2017.

General and Administrative Expenses

General and administrative expenses include salaries and related personnel costs, facilities costs and professional fees. General and administrative expenses were $5.2 million for the three months ended March 31, 2017, compared with $4.3 million for the same period in 2016. The increase of $0.9 million for the three months ended March 31, 2017 was due primarily to increases of $0.9 million in consulting services, $0.9 million in allocation of facilities and information technology costs due to a greater proportion of general and administrative personnel after our restructuring activities, and $0.4 million in legal and accounting costs, partially offset by a $1.3 million decrease in salaries and related personnel costs due to fewer employees resulting from our 2016 restructuring activities.

We expect our general and administrative expenses during the remainder of 2017 to be reduced as compared with 2016 levels due to our 2016 and 2017 restructuring activities.

Restructuring Charges

On December 21, 2016, we announced a restructuring of our business based on our decision to focus our efforts on clinical development, with an initial focus on the X358 clinical programs. The restructuring included a reduction-in-force in which we terminated 57 employees, which was implemented in December 2016 (the "2016 Restructuring"). In early 2017, we further revised our strategy to prioritize out-licensing activities and further curtail research and development spending and we expect to eliminate an additional five employees with an effective termination date of June 30, 2017 (the "2017 Restructuring").

During the three months ended March 31, 2017, we recorded a charge of $1.5 million related to severance, other termination benefits and outplacement services for the 2016 Restructuring and $0.5 million related to the 2017 Restructuring.

Other Income (Expense)

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, 2017 and 2016 (in thousands):

	Three Months Ended March 31,		Increase
	2017	2016	(Decrease)
Hercules term loan	$ 311	$ 672	$ (361)
Servier loan	177	226	(49)
Novartis note	117	97	20
Other	4	7	(3)
Total interest expense	$ 609	$ 1,002	$ (393)

Interest expense related to the Hercules term loan decreased by $0.4 million during the three months ended March 31, 2017, compared to the same period in 2016 due to the monthly payments of principal starting from July 2016. In addition, we made a special prepayment of $10.0 million under the Hercules term loan in January 2017 and paid off the remaining balance of the debt in March 2017.

We expect interest expense during the remainder of 2017 to decrease as compared with 2016 due to the expected decrease in the principal balance of the Servier loan and the March 2017 payoff of the Hercules loan.

Other Income (Expense), Net

Other income (expense), net primarily consisted of unrealized (losses) gains. The following table shows the activity in other income (expense), net for the three months ended March 31, 2017 and 2016 (in thousands):

	Three Months Ended March 31,		Increase
	2017	2016	(Decrease)
Other income (expense), net			
Unrealized foreign exchange losses	$ (261)	$ (559)	$ 298
Sublease income	28	226	(198)
Gain on sale of equipment	1,314	—	1,314
Other	248	27	221
Total other income (expense), net	$ 1,329	$ (306)	$ 1,635

Unrealized foreign exchange losses for the three months ended March 31, 2017 and 2016 primarily relate to the re-measurement of the Servier loan. The gain on sale of equipment of $1.3 million for the three months ended March 31, 2017 is related to the sale of equipment located in one of our leased facilities. Other income includes $150,000 received from Nanotherapeutics pursuant to the amended Nanotherapeutics license agreement.

Revaluation of Contingent Warrant Liabilities

We have issued warrants that contained provisions that were contingent on the occurrence of a change in control, which could conditionally obligate us to repurchase the warrants for cash in an amount equal to their estimated fair value using the Black-Scholes Model on the date of such change in control. Due to these provisions, we accounted for the warrants issued as a liability at estimated fair value. In addition, the estimated liability related to the warrants was revalued at each reporting period until the earlier of the exercise of the warrants, at which time the liability would be reclassified to stockholders' equity, or expiration of the warrants.

We revalued the March 2012 warrants at March 31, 2016 and recorded a $4.0 million decrease in the estimated fair value as a gain on the revaluation of contingent warrant liabilities line of our condensed consolidated statement of comprehensive loss for the three months ended March 31, 2016. As of March 31, 2017, all of these warrants had expired unexercised.

We revalued the December 2014 warrants at March 31, 2016 and recorded a $2.9 million decrease in the estimated fair value as a gain on the revaluation of contingent warrant liabilities line of our condensed consolidated statement of comprehensive loss for the three months ended March 31, 2016. As of December 31, 2016, all of these warrants had expired unexercised.

Loss on Extinguishment of Debt

On March 21, 2017, we paid off our outstanding principal balance, final payment fee and accrued interest totaling $6.5 million under our loan and security agreement with Hercules and we were not required to pay the 1% prepayment charge pursuant to the terms of the loan. We recognized a loss on extinguishment of $0.5 million from the payoff of the term loan.

Liquidity and Capital Resources

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

	March 31, 2017	December 31, 2016	Change
Cash and cash equivalents	$ 20,045	$ 25,742	$ (5,697)
Working capital (deficit)	$ (593)	$ (5,346)	$ 4,753

	Three Months Ended March 31,		
	2017	2016	Change
Net cash used in operating activities	$ (14,348)	$ (16,286)	$ 1,938
Net cash provided by (used in) investing activities	813	(31)	844
Net cash provided by (used in) financing activities	7,871	(3,299)	11,170
Effect of exchange rate changes on cash	(33)	2	(35)
Net decrease in cash and cash equivalents	$ (5,697)	$ (19,614)	$ 13,917

Cash Used In Operating Activities

The decrease in net cash used in operating activities for the three months ended March 31, 2017, as compared with the same period in 2016, was primarily due to decreased research and development spending related to manufacturing costs and clinical trial costs during the three months ended March 31, 2017 primarily due to the termination of the collaboration agreement with Servier in March 2016 and decreased clinical trial costs associated with the termination of the gevokizumab PG global Phase 3 program in March 2016.

Cash Provided by (Used In) Investing Activities

Net cash provided by investing activities for the three months ended March 31, 2017 of $0.8 million was due to the proceeds from the sale of equipment. Net cash used in investing activities for the same period in 2016 of $31,000 was related to the purchase of equipment.

Cash Provided by (Used in) Financing Activities

Net cash provided by financing activities for the three months ended March 31, 2017 of $7.9 million was primarily related to the sale of preferred stock and common stock to BVF for total net proceeds of $24.9 million. This increase was partially offset by the payoff of our outstanding loan with Hercules of $17.5 million.

Net cash used in financing activities for the three months ended March 31, 2016 of $3.3 million was primarily related to the principal payment of the Servier Loan.

Interest Bearing Obligations

Aggregate future principal, final payment fees and discounts of our total interest bearing obligations as of March 31, 2017 are as follows (in thousands):

Nine months ending December 31, 2017	$ 5,454
Year ending December 31, 2018	7,545
Year ending December 31, 2019	—
Year ending December 31, 2020	15,980
	28,979
Less: interest, discount and issuance cost	(2,350)
	26,629
Less: interest bearing obligations – current	(12,544)
Interest bearing obligations – non-current	$ 14,085

See *Note 8: Long-Term Debt* to the accompanying condensed consolidated financial statements for discussion of our debt obligations.

* * *

We have incurred significant operating losses since our inception and have an accumulated deficit of $1.2 billion as of March 31, 2017. Management expects operating losses and negative cash flows to continue for the foreseeable future. As of March 31, 2017, we had cash and cash equivalents of $20.0 million, which is available to fund future operations. Taking into account the repayment of our outstanding debt classified within current liabilities on our condensed consolidated balance sheet as ofMarch 31, 2017, without the receipt of additional funds from license and collaboration agreements or additional equity or debt financing, we willonly be able to find our operations and make scheduled loan payments into January 2018. We may not be able to obtain sufficient additional funding by entering into new license agreements, issuing additional equity or debt instruments or any other means, and if we are able to do so, they may not be on satisfactory terms. The analysis used to determine our ability to continue as a going concern does not include cash sources outside of our direct control that we expect to be available to us in within the next twelve months, such as a $10.0 million milestone expected under one of our existing license agreements.

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 the market demand for our common stock or debt, which itself is subject to a number of pharmaceutical development and business risks and uncertainties, as well as the uncertainty that we would be able to raise such additional capital at a price or on terms that are favorable to us. Therefore, we determined there is substantial doubt about our ability to continue as a going concern. Consistent with the actions we have taken in the past, we will take steps intended to enable the continued operation of the business which may include out-licensing or sale of assets and reducing other expenditures that are within our control. These reductions in expenditures may have a material adverse impact on our ability to achieve certain of our planned objectives. Even if we are able to source additional funding, we may be forced to significantly further reduce our operations if our business prospects do not improve. If we are unable to source additional funding, we may be forced to shut down operations altogether.

Changes in Contractual Obligations

Our future contractual obligations were reported in our Annual Report on Form 10-K for the year ended December 31, 2016, as filed with the SEC. There have been no material changes from the contractual obligations previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016.

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

Interest Rate Risk

We are exposed to market risks in the ordinary course of our business. These risks primarily include risk related to interest rate sensitivities. Our market risks related to interest rate sensitivities at March 31, 2017, have not changed materially from those discussed in Item 7A of our Form 10-K for the year ended December 31, 2016 filed with the SEC.

Foreign Currency Risk

We hold debt and incur expenses denominated in foreign currencies. The amount of debt owed or expenses incurred will be impacted by fluctuations in these foreign currencies. When the U.S. Dollar weakens against foreign currencies, the U.S. Dollar value of the foreign-currency denominated debt and expense increases, and when the U.S. Dollar strengthens against these currencies, the U.S. dollar value of the foreign-currency denominated debt and expense decreases. Consequently, changes in exchange rates will affect the amount we are required to repay on our €12.0 million loan from Servier and may affect our results of operations. We estimate that a hypothetical 0.01 change in the Euro to USD exchange rate could increase or decrease our unrealized gains or losses by approximately $0.1 million.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Controls and Procedures

We have established disclosure controls and procedures, as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended. 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

Although we have had substantial reductions in headcount, 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.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On July 24, 2015, a purported securities class action lawsuit was filed in the United States District Court for the Northern District of California captioned *Markette v. XOMA Corp., et al.* (Case No. 3:15-cv-3425-HSG) against us, our Chief Executive Officer and our Chief Medical Officer. The complaint asserts that all defendants violated Section 10(b) the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and SEC Rule 10b-5, by making materially false or misleading statements regarding our EYEGUARD-B study between November 6, 2014 and July 21, 2015. The plaintiff also alleges that Messrs. Varian and Rubin violated Section 20(a) of the Exchange Act. The plaintiff seeks class certification, an award of unspecified compensatory damages, an award of reasonable costs and expenses, including attorneys' fees, and other further relief as the Court may deem just and proper. On May 13, 2016, the Court appointed a lead plaintiff and lead counsel. The lead plaintiff filed an amended complaint on July 8, 2016 asserting the same claims and adding a former director as a defendant. On September 2, 2016, defendants filed a motion to dismiss with prejudice the amended complaint. Plaintiff filed his opposition to the motion to dismiss on October 7, 2016. Defendants filed a reply in support of their motion to dismiss on October 21, 2016. The judge in the case has advised that he will rule on the motion based on those pleadings, but has not yet issued a ruling. Based on a review of the allegations, we believe that the plaintiff's allegations are without merit, and intends to vigorously defend against the claims.

On October 1, 2015, a stockholder purporting to act on our behalf, filed a derivative lawsuit in the Superior Court of California for the County of Alameda, purportedly asserting claims on behalf of us against certain of our officers and the members of our Board of Directors, captioned *Silva v. Scannon, et al.* (Case No. RG15787990). The lawsuit asserts claims for breach of fiduciary duty, corporate waste and unjust enrichment based on the dissemination of allegedly false and misleading statements related to our EYEGUARD-B study. The plaintiff is seeking unspecified monetary damages and other relief, including reforms and improvements to our corporate governance and internal procedures. This action is currently stayed pending further developments in the securities class action. Management believes the allegations have no merit and intends to vigorously defend against the claims.

On November 16, and November 25, 2015, two derivative lawsuits were filed purportedly on our behalf in the United States District Court for the Northern District of California, captioned *Fieser v. Van Ness, et al.* (Case No. 4:15-CV-05236-HSG) and *Csoka v. Varian, et al.* (Case No. 3:15-cv-05429-SI), against certain of our officers and the members of our Board of Directors. The lawsuits assert claims for breach of fiduciary duty and other violations of law based on the dissemination of allegedly false and misleading statements related to our EYEGUARD-B study. Plaintiffs seek unspecified monetary damages and other relief including reforms and improvements to our corporate governance and internal procedures. Both actions are currently stayed pending further developments in the securities class action. Management believes the allegations have no merit and intends to vigorously defend against the claims.

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, 2016.

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 a long history of product development, and as a result have experienced significant losses. As of March 31, 2017, we had an accumulated deficit of $1.2 billion.

For the three months ended March 31, 2017 and 2016, we had net losses of $10.7 million and $8.4 million, respectively.

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.

We have devoted most of our financial resources to research and development, including our non-clinical development activities and clinical trials. To date, we have financed our operations primarily through the sale of equity securities and debt, and collaboration and licensing arrangements. Our total debt currently exceeds our total cash and cash equivalents. The size of our future net losses will depend, in part, on the rate of future expenditures and our ability to generate revenues. We expect to continue to incur substantial expenses as we continue our development and licensing activities for our product candidates. If our product candidates are not successfully developed or commercialized by our licensees, or if revenues are insufficient following marketing 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 ability to license our 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 our product candidates, which may not materialize or prove to be successful.

Because our product candidates are still being developed, we will require substantial funds to continue; we cannot be certain that funds will be available, and if they are not available, we may be forced to delay, reduce, or eliminate our product development programs or to take actions that could adversely affect an investment in our common stock and we may not be able to continue operations.

We may need to commit substantial funds to continue development of our product candidates, and we may not be able to obtain sufficient funds on acceptable terms, or at all. Any additional debt financing or additional equity that we raise may contain terms that are not favorable to our stockholders or us. If we raise additional funds through collaboration and 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 collaboration arrangement for a product candidate at an earlier stage of development or for a lesser amount than we might otherwise choose.

Additional funds may not be available when we need them on terms that are acceptable to us, or at all. If adequate funds are not available on a timely basis, we may:

- terminate or delay clinical trials for one or more of our product candidates; reduce or eliminate certain product development efforts; or
- further reduce our capital or operating expenditures; or
- curtail our spending on protecting our intellectual property.

We finance our operations primarily through our multiple revenue streams resulting from discovery and development collaborations, the licensing of our antibody technologies, debt and through sales of our common stock.

Based on our cash and cash equivalents of $20.0 million at March 31, 2017 and taking into consideration our anticipated spending levels and schedule debt payments, without the receipt of funds from new license agreements or milestone payments based on development achievements of our licensees, we will be unable to fund our operations through the next 12 months following the issuances of our consolidated financial statements. Based on our current projections, we expect our current cash and cash equivalents will only be sufficient to fund our operations and pay scheduled debt payments into January of 2018. Therefore, we determined there is substantial doubt regarding our ability to continue as a going concern within one year from the date the consolidated financial statements are issued. Our independent registered public accounting firm included in its auditor's report on our consolidated financial statements for the year ended December 31, 2016, a "going concern" explanatory paragraph, meaning that we have recurring losses from operations and negative cash flows from operations that raise substantial doubt regarding our ability to continue as a going concern. We may not be able to obtain sufficient additional funding through monetizing certain of our existing assets, entering into new license agreements, issuing additional equity or debt instruments or any other means, and if we are able to do so, they may not be on satisfactory terms. Consistent with the actions we have taken in the past, we will take steps intended to enable the continued operation of the business which may include out-licensing or sale of assets and reducing other expenditures that are within our control. These reductions in expenditures may have a material adverse impact on our ability to achieve certain of our planned objectives. Progress or setbacks by potentially competing products also may affect our ability to raise new funding on acceptable terms.

We do not know when or whether:

- operations will generate meaningful funds;
- additional agreements for product development funding can be reached;
- we will be able to repay our current debt or negotiate new debt arrangements
- strategic alliances can be negotiated; or
- adequate additional financing will be available for us to finance our own development on acceptable terms, or at all.

If adequate funds are not available, we will be required to delay, reduce the scope of, or eliminate one or more of our product development programs and further reduce costs. Even if we are able to source additional funding, we may be forced to significantly reduce our operations if our business prospects do not improve. If we are unable to source additional funding, we may be forced to shut down operations altogether.

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

Reducing costs is a key element of our current business strategy. On August 21, 2015, in connection with our efforts to lower operating expenses and preserve capital while continuing to focus on our product pipeline, we implemented a workforce reduction, which led to the termination of 52 employees during the second half of 2015. On December 19, 2016, our Board of Directors approved a restructuring of our business based on the decision to focus our efforts on clinical development, with an initial focus on the X358 clinical programs. The restructuring included a reduction-in-force in which we terminated 57 employees (the "2016 Restructuring"). In early 2017, we further revised our strategy to prioritize out-licensing activities and further curtail research and development spending (the "2017 Restructuring"), and we expect to eliminate five additional employees with an effective termination date of June 30, 2017.

During the three months ended March 31, 2017, we recorded an aggregate restructuring charge of approximately $1.5 million related to severance, other termination benefits and outplacement services in connection with the workforce reduction for the 2016 Restructuring and $0.5 million for the 2017 Restructuring. During the year ended December 31, 2016, we recorded charges of $4.6 million related to severance, other termination benefits and outplacement services in connection with the workforce reduction resulting from the 2016 Restructuring.

If we experience excessive unanticipated inefficiencies or incremental costs in connection with restructuring activities, such as unanticipated inefficiencies caused by reducing headcount, we may be unable to meaningfully realize cost savings and we may incur expenses in excess of what we anticipate. Either 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 the Development and Commercialization of our Current and Future Product Candidates

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 some of our product candidates in order to provide for potential payments, funding and/or royalties on future product sales. The out-license agreements may also 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 drug 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 royalty fees when anticipated, it may adversely affect our liquidity and we may be forced to curtail or delay development of our product candidates, which in turn may harm our business.

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

Our 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 Food and Drug Administration ("FDA") regulates pharmaceutical products under the Federal Food, Drug, and Cosmetic Act and other laws, including, in the case of biologics, the Public Health Service Act. At the present time, we believe all of our product candidates will be regulated by the FDA as biologics.

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.

Based on regulatory restrictions, X358 clinical testing is currently limited to studies in adultsin the U.S, and patients 12 and over in continental Europe. We submitted a proposal to the United Kingdom's Medicines and Healthcare Products Regulatory Agency ("MHRA") to initiate a multi-dose Phase 2 clinical study of X358 in children two years and older diagnosed with congenital hyperinsulinism ("CHI"). The MHRA approved the protocol in principal, and the study is now in review at the local ethics committees. We anticipate the site to be ready for first dosing in the UK in the second quarter of 2017. We cannot assure you that our proposed protocols for such testing will be approved, or that U.S. and foreign health authorities will not issue a clinical hold with respect to these or any of our other clinical trials in the future.

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. FDA regulations and policies permit applicants to request accelerated approval or priority review pathways for products intended to treat certain serious or life-threatening illnesses in certain circumstances. If granted by the FDA, these pathways can provide a shortened timeline to commercialize the product, although the shortened timeline is often accompanied by additional post-market requirements. Although we may pursue the FDA's accelerated approval or priority review programs, we cannot guarantee the FDA will permit us to utilize these pathways or the FDA's review of our application will not be delayed. Moreover, even if the FDA agrees to an accelerated approval or priority review of any of our applications, we ultimately may not be able to obtain approval of our application 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 we could encounter problems that cause us to abandon clinical trials or 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 each submitted product application may cause delays in the approval or rejection of an application. State regulations may also affect our proposed products.

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 or 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 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. As we accumulate additional clinical data, we and our licensees will submit it to the FDA and other regulatory agencies, as appropriate, and such data may have a material impact on the approval process.

We have received negative results from certain of our clinical trials, and we face uncertain results of other clinical trials of our product candidates.

Drug development has inherent risk, and we are required to demonstrate through adequate and well-controlled clinical trials that our product candidates are effective, with a favorable benefit-risk profile for use in their target profiles before we can seek regulatory approvals for their commercial use. It is possible we or our licensees may never receive regulatory approval for any of our 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.

In March 2014, we reported that despite early positive results in our gevokizumab proof-of-concept study in patients with erosive osteoarthritis of the hand ("EOA") and elevated C-reactive protein, the top-line data at Day 168 in that study, as well as data at Day 84 in patients with EOA and non-elevated CRP, were not positive. In July 2015, we announced that Servier's EYEGUARD-B Phase 3 study of gevokizumab in patients with Behçet's disease uveitis did not meet its primary endpoint. In addition, neither EYEGUARD-A nor EYEGUARD-C produced positive results. In March 2016, we decided to close our Phase 3 studies of gevokizumab in pyoderma gangrenosum ("PG"). A preliminary review of the available data did not show a clear signal of activity in PG.

Our 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 future filings will be delayed;
- our preclinical and clinical studies will be successful;
- we 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;
- we will be able to provide necessary data;
- results of future clinical trials will justify further development; or
- we ultimately will achieve regulatory approval for our product candidates.

The timing of the commencement, continuation and completion of clinical trials 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, engaging 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, if we license our product candidates to others to fund and conduct clinical trials, we may have limited control over how quickly and efficiently such licenses 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, we and our licensees conduct clinical trials in foreign countries, which may subject us 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 to risks associated with foreign currency transactions to make contract payments denominated in the foreign currency where the trial is being conducted.

All of our product candidates are prone to the risks of failure inherent in drug development. Preclinical studies may not yield results that satisfactorily support the filing of an Investigational New Drug application (“IND”) (or a foreign equivalent) with respect to our product candidates. Even if these applications would be or have been filed with respect to our product candidates, the results of preclinical studies do not necessarily predict the results of clinical trials. Similarly, early stage clinical trials may not predict the results of later-stage clinical trials, including the safety and efficacy profiles of any particular product candidates. For example, the Phase 3 EYEGUARD-B trial of gevokizumab failed to achieve success on its primary endpoint measures.

In addition, there can be no assurance the design of our or our licensees’ clinical trials will be focused on appropriate indications, patient populations, dosing regimens or other variables that will result in obtaining the desired efficacy data to support regulatory approval to commercialize the drug. Moreover, FDA officials or foreign regulatory agency officials may question the integrity of our data or otherwise subject our or our licensees’ clinical trials to additional scrutiny when the clinical trials are conducted by principal investigators who serve, or previously served, as scientific advisors or consultants to us and receive cash compensation in connection with such services. Preclinical and clinical data can also be interpreted in different ways. Accordingly, FDA officials or officials from foreign regulatory authorities could interpret the data differently than we or our collaboration or development partners do, which could delay, limit or prevent regulatory approval.

Administering any of our product candidates may produce undesirable side effects, also known as adverse effects. Toxicities and adverse effects that we have observed in preclinical studies for some compounds in a particular research and development program may occur in preclinical studies or clinical trials of other compounds from the same program. Such toxicities or adverse effects could delay or prevent the filing of an IND (or a foreign equivalent) with respect to such product candidates or cause us to cease clinical trials with respect to any drug candidate. In clinical trials, administering any of our product candidates to humans may produce adverse effects. These adverse effects could interrupt, delay or halt clinical trials of our product candidates and could result in the FDA or other regulatory authorities denying approval of our product candidates for any or all targeted indications. The FDA, other regulatory authorities, our development partners or we may suspend or terminate clinical trials at any time. Even if one or more of our product candidates were approved for sale, the occurrence of even a limited number of toxicities or adverse effects when used in large populations may cause the FDA or other regulatory authorities to impose restrictions on, or stop, the further marketing of such drugs. Indications of potential adverse effects or toxicities that may occur in clinical trials and that we believe are not significant during the course of such clinical trials may actually turn out later to constitute serious adverse effects or toxicities when a drug has been used in large populations or for extended periods of time. Any failure or significant delay in completing preclinical studies or clinical trials for our product candidates, or in receiving and maintaining regulatory approval for the sale of any drugs resulting from our product candidates, may severely harm our reputation and business.

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

Developments by others may render our 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 own 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 may not be able to track development of competitive products, particularly at the early stages.

Positive or negative developments in connection with a potentially competing product may have an adverse impact on our ability to raise additional funding on acceptable terms. For example, if another product is perceived to have a competitive advantage, or another product's failure is perceived to increase the likelihood that our product will fail, then investors may choose not to invest in us on terms we would accept or at all.

The examples below pertain to competitive events in the market, but are not intended to be representative of all existing competitive events.

We are developing X358, a fully human negative allosteric modulating insulin receptor antibody, as a novel treatment for non-drug-induced, endogenous hyperinsulinemic hypoglycemia (low blood glucose caused by excessive insulin produced by the body) disorders including CHI and hypoglycemia post gastric bypass. Certain other companies are developing products based on improved versions of glucagon, a hormone naturally secreted by the pancreas that counteracts the effects of insulin by raising blood glucose levels.

- Eiger Biopharmaceuticals is developing exendin (9-39), a glucagon-like peptide 1 (GLP-1) antagonist, for the treatment of hypoglycemic episodes following gastric bypass surgery, as well as for CHI patients. FDA has granted orphan drug designation for exendin (9-39) for the treatment of congenital hyperinsulinenic hypoglycemia and other causes of hyperinsulinemic hypoglycemia in adults and children.

- Eli Lilly and Company and Locemia Solutions are in phase 3 testing of an intranasal glucagon treatment for severe hypoglycemia in people with diabetes treated with insulin.

- S-cubed Limited is developing a synthetic form of glucagon. It is expected to be given under the skin using a special infusion pump. EMA has granted orphan drug designation for S-cubed glucagon for the treatment of CHI patients.

- Xeris Pharmaceuticals is developing a soluble glucagon. The FDA and EMA have granted orphan drug designation for Xeris' soluble glucagon for the prevention of severe, persistent hypoglycemia in patients with CHI.

- Zealand Pharma A/S has a glucagon analog in late-stage development.

Our product candidates are monoclonal antibodies and are differentiated due to our expertise in the allosteric modulation of cellular receptors. Our product candidates currently are delivered by intravenous administration. We are developing subcutaneous versions to allow for at-home administration or administration in a physician's office, thereby reducing the potential that our targeted patient populations increase the demand on over-burdened infusion centers. However, physicians and patients may prefer daily oral dosing of potential competitor products to a longer-acting monoclonal antibody, which will impact the commercial value of X358.

We or our licensees may be unable to price our products effectively or obtain adequate reimbursement for sales of our products, which would prevent our products from becoming profitable.

If we or 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 us to sell our products on a competitive basis. In both the United States and elsewhere, sales of medical products and treatments are dependent, in part, on the availability of reimbursement to the patient from third-party payors, such as government and private insurance plans. Third-party payors are increasingly challenging the prices charged for pharmaceutical products and services. Our business is affected by the efforts of government and third-party payors to contain or reduce the cost of 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 business.

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, we or 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 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 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 collaboration and development 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 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, products, or services, and our competitors could commercialize our technologies, which could result in a decrease in our sales and market share that would harm our business and operating results. Specifically, the patent position of biotechnology companies generally is highly uncertain and involves complex legal and factual questions. The legal standards governing the validity of biotechnology patents are in transition, and current defenses as to issued biotechnology patents may not be adequate in the future. Accordingly, there is uncertainty as to:

- whether any pending or future patent applications held by us will result in an issued patent, or whether issued patents will provide meaningful protection against competitors or competitive technologies;
- whether competitors will be able to design around our patents or develop and obtain patent protection for technologies, designs or methods that are more effective than those covered by our patents and patent applications; or
- the extent to which our 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 us from using technology that is essential to our business.

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

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

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

We may be required to engage in litigation or other proceedings to protect our intellectual property. The cost to us of this litigation, even if resolved in our favor, could be substantial. Such litigation also could divert management's attention and resources. If this litigation is resolved against us, our patents may be declared invalid, and we could be held liable for significant damages.

In addition, we may be subject to claims that we 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, thus preventing us from using these products, processes or services and adversely affecting our revenue.

Risks Related to Government Regulation

We may not obtain orphan drug exclusivity, or we may not receive the full benefit of orphan drug exclusivity even if we obtain such exclusivity.

The FDA has awarded orphan drug status for X358 for the treatment of CHI. Under the Orphan Drug Act, the first company to receive FDA approval for a drug for the designated orphan drug indication will obtain seven years of marketing exclusivity, during which time the FDA may not approve another company's application for the same drug for the same orphan indication unless the FDA concludes that the later drug is safer, more effective or makes a major contribution to patient care. In June 2016, the EMA granted Orphan Drug Designation to X358 for the treatment of CHI.

Even though we have obtained orphan drug designation for certain product candidates for certain indications and even if we obtain orphan drug designation for our future product candidates or for other indications, due to the uncertainties associated with developing pharmaceutical products, we or our licensees may not be the first to obtain marketing approval of our product candidates for any particular orphan indication, or we or our licensees may not obtain approval for an indication for which we have obtained orphan drug designation. Further, even if we or our licensees obtain orphan drug exclusivity for a product, that exclusivity may not protect the product effectively from competition because different drugs can be approved for the same indication. Orphan drug designation neither shortens the development time or regulatory review time of a drug, nor gives the drug any advantage in the regulatory review or approval process.

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 we or our licensees receive regulatory approval for our product candidates, we or our licensees will be subject to ongoing regulatory oversight and review by the FDA and other regulatory entities. The FDA, the 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.

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 bewithdrawn by the FDA, the EMA or another regulatory agency or such a product may be withdrawn voluntarily by us 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 or our licensees' ability to sell our products, if approved, profitably. Among policy makers and payers 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.

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, reduced product utilization and adversely affect our business and results of operations. Moreover, certain politicians have announced plans to regulate the prices of pharmaceutical products. We cannot know what form any such 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 us from being able to generate revenue, attain profitability, 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 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 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 persons from knowingly and willfully soliciting, offering, receiving or providing remuneration, directly or indirectly, in exchange for or to induce either the referral of an individual, or the furnishing or arranging for a good or service for which payment may be made under a federal healthcare program, such as the Medicare and Medicaid programs. 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. Penalties for violations of the federal Anti-Kickback Statute include criminal penalties and civil sanctions such as fines, penalties, imprisonment and possible exclusion from Medicare, Medicaid and other federal healthcare programs.

The federal False Claims Act prohibits persons 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. 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 individuals, commonly known as "whistleblowers," 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 a False Claims Act action. When an entity is determined to have violated the False Claims Act, it may be required to pay up to three times the actual damages sustained by the government, plus civil penalties for each separate false claim. Various states also have enacted laws modeled after the federal False Claims Act.

The Federal Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), created new federal criminal statutes that prohibit executing a scheme to defraud any healthcare benefit program and making false statements relating to healthcare matters. The health care fraud statute prohibits knowingly and willfully executing a scheme to defraud any health care benefit program, including private payors. The statute prohibits knowingly and willfully 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 impose certain requirements relating to the privacy, security and transmission of individually identifiable health information. We take our obligation to maintain our compliance with these various laws and regulations seriously.

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 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, or otherwise restrict payments that may be made to healthcare providers and other potential referral sources, and to report information related to payments and other transfers of value to physicians and other healthcare providers; and state laws governing the privacy and security of health information in certain circumstances, many of which 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, 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 may be subject to penalties, including civil and criminal penalties, damages, fines, exclusion from government healthcare reimbursement programs and the curtailment or restructuring of our operations, any of which could have a material adverse effect on our business and results of operations.

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:

- 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.

Risks Related to Our Reliance on Third Parties

We and 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 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 product candidates, our development programs may be delayed.

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

Our financial resources and our marketing experience and expertise are limited. Consequently, our ability to develop products successfully depends, to a large extent, upon securing the financial resources and marketing capabilities of third parties. For example, we have licensed our bacterial cell expression technology, a set of enabling technologies used to discover and screen, as well as develop and manufacture, recombinant antibodies and other proteins for commercial purposes, to over 60 companies.

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. These audits can result in an adjustment to revenue previously reported, which potentially could be significant.

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

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

In December of 2015, we completed the sale of our manufacturing facility to Agenus and we are now completely reliant on third parties to produce material for preclinical work, clinical trials, and commercial product. Our licensees may similarly rely on third party manufacturers.

These 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 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 us or our licensees, or may discontinue their business before the time required by us to successfully produce clinical and commercial supplies of our 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 product candidates or any failure of our contractors to maintain compliance with the applicable regulations and standards could increase costs, cause us to reduce revenue, make us or 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 product candidates, or cause any of our 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 license 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 the owners of the patent rights underlying the technologies that we license do not properly maintain or enforce those patents, our competitive position and business prospects could be harmed. They may determine not to pursue litigation against other companies that are infringing these patents, or they may pursue such litigation less aggressively than we would. 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 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.

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

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 the market price of our common stock will not decline below its present market price or 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, 2017, through May 5, 2017, the share price of our common stock has ranged from a high of $8.13 to a low of $3.96. Factors contributing to such volatility include:

- results of preclinical studies and clinical trials;
- information relating to the safety or efficacy of products or product candidates;
- developments regarding regulatory filings;
- our funding requirements and the terms of our financing arrangements;
- technological innovations or new indications for our therapeutic products and product candidates;
- introduction of new products or technologies by us or our competitors;
- sales and estimated or forecasted sales of products for which we receive royalties, if any;
- government regulations;
- developments in patent or other proprietary rights;
- quarterly variations in our results of operations and those of our competitors;
- failure to meet any guidance that we have previously provided regarding our anticipated results;
- changes in earnings estimates or recommendations by securities analysts;
- failure to meet securities analysts' estimates;
- our involvement in litigation and developments relating to such litigation;
- the number of shares issued and outstanding;
- the number of shares trading on an average trading day;
- announcements regarding other participants in the biotechnology and pharmaceutical industries; and
- market speculation regarding any of the above.

***If we fail to meet continued listing standards of NASDAQ, our common stock may be delisted, which could have a material adverse effect on the liquidity of our common stock. **

Our common stock is currently traded on the Nasdaq Global Market. The NASDAQ Stock Market LLC ("NASDAQ") has requirements that a company must meet in order to remain listed on NASDAQ.

We have in the past temporarily fallen out of compliance with NASDAQ listing standards and there can be no assurance that we will continue to meet NASDAQ listing requirements in the future.

We received a letter from the Listing Qualifications Staff of The NASDAQ Stock Market LLC (the "Staff") on March 22, 2017, providing notification that we no longer comply with the $50 million in total assets and total revenue standard for continued listing on The Nasdaq Global Market under NASDAQ's Listing Rule 5450(b)(3)(A) and that we also do not comply with either of the two alternative standards of Listing Rule 5450(b), the equity standard and the market value standard.

On May 2, 2017, following ten consecutive business days where the market value of our listed securities was $50 million or greater, we regained compliance with NASDAQ Listing Rule 5450(b)(2)(A).

If future events cause our common stock to be delisted, the liquidity of our common stock would be adversely affected and the market price of our common stock could decrease.

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

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, including under our At Market Issuance Sales Agreement ("ATM") with Cowen and Company, LLC, 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 a manner we determine from time to time. 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.

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 were issued and outstanding as of May 5, 2017. Each share of Series X is convertible into 1,000 shares of registered common stock based on a conversion price of $4.03 per share of common stock. The total number of shares of common stock issued upon conversion of all issued Series X convertible preferred stock will be 5,003,000 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 is initially set at 19.99% of our total common stock then issued and outstanding immediately following the conversion of such shares. In addition, we are authorized to issue, generally without stockholder approval, up to 277,333,332 shares of common stock, of which 7,585,656 were issued and outstanding as of May 5, 2017. If we issue additional equity securities, the price of our common stock may be materially and adversely affected.

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 debt securities, including under our ATM with Cowen and Company, LLC, which would result in dilution to our stockholders and 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 Securities and Exchange Commission ("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, would 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.

We are subject to foreign currency exchange rate risks.

We are subject to foreign currency exchange rate risks because substantially all of our revenues and operating expenses are paid in U.S. Dollars, but we incur certain expenses, as well as interest and principal obligations with respect to our loan from Servier in Euros. To the extent the U.S. Dollar declines in value against the Euro, the effective cost of servicing our Euro-denominated debt will be higher. Changes in the exchange rate result in foreign currency gains or losses. There can be no assurance foreign currency fluctuations will not have a material adverse effect on our business, financial condition, liquidity or results of operations.

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.

Section 382 of the U.S. Internal Revenue Code of 1986, as amended, generally limits 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 (“IRS”) 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. As of December 31, 2016, 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. On February 16, 2017, we completed an equity financing for net proceeds of $24.9 million which have triggered an additional ownership change under Section 382 that could significantly impact the availability of the Company’s tax attributes against future income. We are analyzing the effects of the ownership change triggered by the February 2017 financing.

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

The loss of key personnel, including our Chief Executive Officer or Chief Financial Officer, could delay or prevent achieving our objectives.

Our product development and business efforts could be affected adversely by the loss of one or more key members of our staff, particularly 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 company with limited resources, we may not be able to attract and retain qualified personnel.

Our success in developing marketable products and achieving a competitive position will depend, in part, on our ability to attract and retain qualified scientific and management personnel, particularly in areas requiring specific technical, scientific or medical expertise. After a series of restructuring activities during 2016 and 2017, we had 18 employees as of May 5 2017, of which 3 are expected to terminate employment on June 30, 2017 as part of our 2016 Restructuring and 5 are expected to terminate employment on June 30, 2017 as part of our 2017 Restructuring actions. We may require additional experienced executive, accounting, research and development, 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 are located, may impair our ability to attract and retain employees in the future. If we do not succeed in attracting new personnel and retaining and motivating existing personnel, our operations may suffer and we may be unable to implement our current initiatives or grow effectively.

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

Our principal operations are located in Northern California, including our corporate headquarters in Berkeley, California. This location is in an area of seismic activity near active earthquake faults. Any earthquake, 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 cyber−attacks, 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 cyber−attack 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 cyber-attacks 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, cyber-attacks 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. Cyber-attacks 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. Cyber-attacks 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.

We and certain of our officers and directors have been named as defendants in shareholder lawsuits. These 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.

On July 24, 2015, a purported securities class action lawsuit was filed in the United States District Court for the Northern District of California, captioned *Markette v. XOMA Corp., et al.* (Case No. 3:15-cv-3425) naming as defendants us and certain of our officers. The complaint asserts that all defendants violated Section 10(b) of the Exchange Act and SEC Rule 10b-5, by making materially false or misleading statements regarding our EYEGUARD-B study between November 6, 2014 and July 21, 2015. The plaintiff also alleges that Messrs. Varian and Rubin violated Section 20(a) of the Exchange Act. The plaintiff seeks class certification, an award of unspecified compensatory damages, an award of reasonable costs and expenses, including attorneys' fees, and other further relief as the Court may deem just and proper. On May 13, 2016, the Court appointed a lead plaintiff and lead counsel. The lead plaintiff filed an amended complaint on July 8, 2016 asserting the same claims and adding a former director as a defendant. On September 2, 2016, defendants filed a motion to dismiss with prejudice the amended complaint. Plaintiff filed his opposition to the motion to dismiss on October 7, 2016. Defendants filed a reply in support of their motion to dismiss on October 21, 2016. The judge in the case has advised that he will rule on the motion based on those pleadings, but has not yet issued a ruling. Based on a review of the allegations, management believes that the plaintiff's allegations are without merit, and intends to vigorously defend against the claims. Currently, we do not believe that the outcome of this matter will have a material adverse effect on our business or financial condition, although an unfavorable outcome could have a material adverse effect on our results of operations for the period in which such a loss is recognized. We cannot reasonably estimate the possible loss or range of loss that may arise from this lawsuit.

On October 1, 2015, a stockholder purporting to act on our behalf, filed a derivative lawsuit in the Superior Court of California for the County of Alameda, purportedly asserting claims on behalf of us against certain of our officers and the members of our Board of Directors, captioned *Silva v. Scannon, et al.* (Case No. RG15787990). The lawsuit asserts claims for breach of fiduciary duty, corporate waste and unjust enrichment based on the dissemination of allegedly false and misleading statements related to our EYEGUARD-B study. The plaintiff is seeking unspecified monetary damages and other relief, including reforms and improvements to our corporate governance and internal procedures. This action is currently stayed pending further developments in the securities class action. Management believes the allegations have no merit and intends to vigorously defend against the claims.

On November 16, and November 25, 2015, two derivative lawsuits were filed purportedly on our behalf in the United States District Court for the Northern District of California, captioned *Fieser v. Van Ness, et al.* (Case No. 4:15-CV-05236-HSG) and *Csoka v. Varian, et al.* (Case No. 3:15-cv-05429-SI), against certain of our officers and the members of our Board of Directors. The lawsuits assert claims for breach of fiduciary duty and other violations of law based on the dissemination of allegedly false and misleading statements related to the our EYEGUARD-B study. Plaintiffs seek unspecified monetary damages and other relief including reforms and improvements to our corporate governance and internal procedures. Both actions are currently stayed pending further developments in the securities class action. Management believes the allegations have no merit and intends to vigorously defend against the claims.

It is possible that additional suits will be filed, or allegations received from stockholders, with respect to these same or other matters and also naming us and/or our officers and directors as defendants. These and any other related lawsuits are subject to inherent uncertainties, and the actual defense and disposition costs will depend upon many unknown factors. The outcome of these lawsuits are 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. We currently are not able to estimate the possible cost to us from these lawsuits, as they are currently at an early stage, and we cannot be certain how long it may take to resolve these matters or the possible amount of any damages that we may be required to pay. We have not established any reserve for any potential liability relating to 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 the 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 the currently pending litigation and 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.

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

See Index to Exhibits at the end of this Report, which is incorporated by reference here. The Exhibits listed in the accompanying Index to Exhibits are filed as part of this report.

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 9, 2017

By: /s/ JAMES R. NEAL

James R. Neal

Chief Executive Officer (principal executive officer) and Director

Date: May 9, 2017

By: /s/ THOMAS BURNS

Thomas Burns

Senior Vice President, Finance and Chief Financial Officer

(principal financial and principal accounting officer)

EXHIBIT INDEX

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	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, and 3.4				
4.2	Specimen of Common Stock Certificate	8-K	000-14710	4.1	01/03/2012
4.3	Form of Series X Preferred Stock Certificate	8-K	000-14710	4.1	02/16/2017
4.4	Form of Warrant (September 2012 Warrants)	8-K	000-14710	4.10	10/03/2012
4.5	Registration rights Agreement dated June 12, 2014, by and among XOMA Corporation, 667, L.P., Baker Brothers Life Sciences, L.P., and 14159. L.P.	8-K	000-14710	4.1	06/12/2014
4.6	Form of Warrant (February 2015 Warrants)	10-Q	000-14710	4.10	05/07/2015
4.7	Form of Warrant (February 2016 Warrant)	10-Q	000-14710	4.9	05/04/2016
4.8	Warrant Agreement, by and between XOMA Corporation and Hercules Technology III, L.P., dated February 27, 2015	10-Q	000-14710	4.9	05/04/2016
10.1	Subscription Agreement, dated February 10, 2017	424(b)(5)	333-201882	Annex A	02/13/2017
10.2	Amendment No. 3, effective January 17, 2017, to the Loan Agreement, effective December 30, 2010, by and among XOMA (US) LLC, Les Laboratoires Servier and Institut de Recherches Servier	10-K	000-14710	10.65	03/16/2017
10.3	Amendment of Section 6.10(a) and (b), dated March 8, 2017, to Royalty Interest Acquisition Agreements dated December 20, 2016, by and between XOMA Corporation and HealthCare Royalty Partners II, L.P.	10-K	000-14710	10.64	03/16/2017
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)				

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

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+ Filed herewith

(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.

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) and 15d-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 officer 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 the registrant's board of directors (or persons performing the equivalent functions):

   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 9, 2017

/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) and 15d-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 officer 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 the registrant's board of directors (or persons performing the equivalent functions):

   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 9, 2017

/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, 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 period ended March 31, 2017, to which this Certification is attached as Exhibit 32.1 (the "Periodic Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and

2. The information contained in the Periodic Report 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 9th day of May 2017.

/s/ James R. Neal

James R. Neal
Chief Executive Officer

/s/ THOMAS BURNS

Thomas Burns
Senior Vice President, Finance, and Chief Financial Officer

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.